

# Virginia529 Annual Report

For the period ended on June 30, 2015





# COMMONWEALTH of VIRGINIA

VIRGINIA COLLEGE SAVINGS PLAN  
9001 Arboretum Parkway, North Chesterfield, VA 23236

Mary G. Morris  
Chief Executive Officer

(804) 371-0766

## LETTER OF TRANSMITTAL

October 15, 2015

Board of the Virginia College Savings Plan  
9001 Arboretum Parkway  
North Chesterfield, Virginia 23236

To the Members of the Board:

It is our pleasure to present the Annual Financial Report (the Report) of the Virginia College Savings Plan (VA529) for the fiscal year ended June 30, 2015, as required by Section 23-38.84 of the *Code of Virginia*. This Report will be presented to the Governor, the Senate Committee on Finance, the House Committees on Appropriations and Finance, and the Joint Legislative Audit and Review Commission. The Report also will be available on our web site at Virginia529.com.

## MISSION AND PROGRAMS

VA529's mission is to continue to be a national leader in 529 programs by providing superior, affordable, innovative, tax-advantaged college savings options to assist families and others in achieving their higher education goals, all as part of our statutory mandate to help make college more affordable and accessible. We accomplish our mission primarily through four college savings programs, Virginia529 prePAID<sup>SM</sup> (prePAID), Virginia529 inVEST<sup>SM</sup> (inVEST), CollegeAmerica<sup>®</sup> and CollegeWealth<sup>®</sup>.

## ACCOUNTING SYSTEM AND INTERNAL CONTROL

VA529's management assumes full responsibility for the accuracy, completeness and reliability of the information presented. The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). The financial statements contain a description of the accounting principles used in the preparation of the statements. In accordance with GASB principles per the *Codification of Governmental Accounting and Financial Reporting Standards*, the financial statements include Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it.

VA529's management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with GAAP. The internal control system includes the organization plan, the appropriate segregation of duties and responsibilities and sound practices in the performance of duties, data security, and personnel with capabilities commensurate with their responsibilities.

### **VIRGINIA529 prePAID ACTUARIAL VALUATION AND OUTLOOK**

VA529's most recent actuarial valuation report for the Virginia529 prePAID program was prepared by Milliman, Inc. as of June 30, 2015 and compares the value of the current and projected assets of prePAID to the value of expected future disbursements and program costs. The actuarial valuation was performed based upon generally accepted actuarial principles. The two most significant assumptions used to prepare prePAID's actuarial valuation report are the long-term rates of investment return and future tuition growth. The report indicated an improvement in prePAID's actuarially determined funded position from the position as of June 30, 2014 primarily due to lower than expected tuition increases and changes to the economic assumptions offset by lower than expected investment returns. We are pleased to report that prePAID was 125.8 percent funded on an actuarial basis as of June 30, 2015.

The Plan continues to remain optimistic that its asset allocation and investment strategies will result in the prePAID portfolio meeting or exceeding performance expectations over the long term. The Plan has assumed a long-term rate of return of 6.25 percent on prePAID investments, lowering the rate from 6.75 percent in June 2015. As of June 30, 2015, the total return since inception was 6.4 percent, net of fees, and reflected the lower than expected 1.2 percent overall performance during fiscal 2015. Virginia529 has adopted a long-term target asset allocation strategy for prePAID as set forth in its Investment Policy and Guidelines. As of June 30, 2015, the prePAID portfolio was within about 0.5 percent of its target allocation in the four major categories.

During the fiscal year ended June 30, 2015, domestic equity markets continued to perform moderately well but with increased volatility resulting from falling energy and commodity prices, slowing and uneven growth overseas, and continued uncertainty as to when the Federal Reserve would commence tightening rates. International equity markets exhibited similar volatility with emerging markets being negatively impacted by currency fluctuations. Domestic fixed income markets were relatively flat and exhibited volatility similar to domestic equity markets as U.S. and global investors bought and sold U.S. Treasuries in reaction to global events. As a result, U.S. Treasury performance was inconsistent as demonstrated by the yield on the ten-year U.S. Treasury which started the year at 2.58 percent, fell in January 2015 to about 1.73 percent but climbed back to end the year about where it started at 2.35 percent. Global market turmoil continued through September 2015 as domestic and international equity markets continued to see more volatility. In July 2015 for example, China's stock market tumbled 8.5

percent in one day – the largest one-day drop since 2007. Global markets continued to sell off through September and the U.S. equity markets experienced significant volatility. As of September 30, 2015, U.S. stocks had suffered their worst quarter since 2011.

In October 2014, the Federal Reserve (Fed) announced that it would conclude its asset purchase program under which it was purchasing agency mortgage-backed securities and longer-term Treasury securities under its third round of quantitative easing. The Fed stated that it would continue to reinvest principal payments. This followed the issuance in September of a normalization principles and plans policy paper in which the Fed tried to explain when, how and under what circumstances it would begin raising short-term interest rates from its target range for the federal funds rate of 0 to 0.25 percent established in 2008 during the market downturn and liquidity crunch. In December 2014, the Fed inserted the word “patient” into its FOMC statement raising hopes that a rate increase would occur in the spring of 2015. By its March 2015 meeting, however, the word patient had been removed. Unfortunately for the Fed, a surging dollar which led to falling exports, persistently low inflation, weak and uneven global growth, steady but tepid job growth, softer GDP growth, other international developments and domestic market volatility continued throughout fiscal 2015. On the jobs front while the unemployment rate fell to 5.3 percent by the end of June, the labor-force participation rate, or share of the population working or looking for a job, marked a 38-year low at 62.6 percent. Thus, the Fed did not increase the target federal funds rate during fiscal 2015 and held pat at its September 2015 meeting citing low inflation, soft labor markets and financial and international market developments.

In summary, by the end of September 2015, global markets are remarkably similar to where they were in the autumn of 2014 when we wrote our 2014 Letter of Transmittal. Worries continue to abound with regard to geopolitical turmoil throughout the world and particularly in the Middle East, economic slowdowns in China and the emerging markets, low interest rates failing to ignite inflation, expectations of Fed rate hikes, U.S. Government debt levels and growing deficit spending, and continued sluggish job creation, tepid wage growth and a lagging recovery. It is difficult to estimate how these and other factors may impact the performance of prePAID during the remainder of fiscal 2016.

The other significant factor in prePAID’s ability to meet its future obligations is the future growth in tuition. There is an inverse relationship between state funding and the rate at which tuition increases at public higher education institutions. During the 2014-16 biennium, Virginia’s public higher education institutions have continued to experience reductions in state support. Following the 2014 Session budget impasse, subsequent special sessions and the adoption of a revised budget in September 2014, E&G funding for higher education was reduced by \$45 million in each year of the biennium or about 2.1 percent according to the State Council of Higher Education for Virginia (SCHEV). During its 2015 Session, the General Assembly provided additional general fund support, but it was not sufficient to restore all of the funding from the prior budget reduction. As a result, according to SCHEV, full time undergraduate tuition and all mandatory fees at public higher education institutions in Virginia increased by an

average of 6.0 percent for the 2015-16 academic year. This increase was more than the 5.8 percent increase in 2014-15 and the 4.3 percent increase in 2013-14.

Also according to SCHEV, as a result of years of successive general fund budget reductions, the State's contribution to the cost of higher education is estimated to be 47 percent, which means that on average, in-state undergraduate students will pay more than half of the cost of their education in fiscal 2016. That is 20 percentage points lower than the target of 67 percent identified in the Commonwealth's tuition policy.

Prior to the 2015 Session, the Joint Legislative Audit and Review Commission (JLARC) published the last of its five-part series on public higher education in Virginia. The last report focused on the cost of higher education noting the significant recent increases in tuition and fees. It also presented options and recommendations to address the rising cost of public education in Virginia. During the 2015 Session, several bills were introduced to modify tuition and fee-setting policies at Virginia public colleges. Included in these bills was Senate Bill 806 that proposed to fix the cost of in-state tuition for incoming freshman under certain conditions. Also during the 2015 Session, the Joint Subcommittee on Future Competitiveness of Virginia Higher Education was created to review affordability and access and make recommendations. Changes in tuition and fee models, whether the result of institutions' efforts to balance their funding models or legislative action, pose a threat to the sustainability of the prePAID Program. Virginia529 looks forward to working with this Committee as it completes its work.

Although growing at a slow pace, economic conditions continued to improve in fiscal 2015 nationally and in Virginia. However, Virginia is considered to be one of the most vulnerable states to federal spending reductions because of its dependence on defense spending and the large number of federal employees who live and work in Virginia. According to a JLARC study, between 18 and 30 percent of Virginia's general fund revenue is estimated to result from federal spending. So, while Virginia has benefitted from its relationship with the federal government, pressures on future federal spending may result in reduced spending in Virginia. The ultimate impact and amount of federal spending reductions have yet to be determined.

In assessing prePAID's financial condition and in pricing prePAID contracts, VA529 has projected that tuition and fee increases at Virginia's public higher education institutions will increase annually by approximately 6.5 percent for four-year and two-year institutions for fiscal years 2017 and thereafter. Additional budget shortfalls and corresponding reductions in general fund support to Virginia's public higher education institutions may result in mid-year tuition and fee increases and higher tuition and fee increases in future academic years. Changes in public education funding or changes in tuition models that result in tuition increases above VA529's projections would have an immediate, detrimental impact on VA529's outstanding long-term prePAID obligations. With the statutory requirement that institutions provide updated, long-term tuition projections, VA529 remains in a position to be informed of future tuition and fee increases. However, changes in tuition and fee models at Virginia public higher education institutions that impact prePAID may have an adverse impact on program sustainability.

## 2015 PROGRAM HIGHLIGHTS

- **Account Growth and Transaction Volume**

During fiscal 2015, the Plan continued to experience positive growth in accounts as shown in the table below. CollegeWealth's 23.6 percent growth rate demonstrates the success of the program with BB&T and Union Bank & Trust. This figure continues to normalize as the program's account base increases following its 2009 re-launch. The inVEST Program's 16.5 percent growth rate depicts continued strong growth and corresponds to an additional 28,905 accounts opened during the fiscal year.

<b>Fiscal 2015 Growth in Accounts<sup>1</sup></b>	
<b>prePAID</b>	4.9%
<b>inVEST</b>	16.5%
<b>CollegeAmerica</b>	1.2%
<b>CollegeWealth</b>	23.6%

<sup>1</sup>Gross accounts opened during fiscal year, except for CollegeAmerica (net)

Transaction volume also continued to increase as participants utilized their college savings accounts. During fiscal year 2015, the Plan processed 31,796 inVEST distribution requests and 26,850 prePAID payments to institutions, representing a 15.99 percent and 0.5 percent increase over the prior fiscal year, respectively.

- **Virginia529 inVEST Program and CollegeAmerica Investment Changes**

The inVEST Program's age-based portfolio's evolved in January 2015 along the glide path to emphasize more income and preservation of capital as the portfolios proceed towards the final evolution. The final evolution for all portfolios is to 100 percent stable value. Stable value comprised over 22 percent of the inVEST program's assets under management as of June 30, 2015. The age-based evolving portfolios continue to be the most popular of the diversified inVEST program investment options.

In March 2015, VA529 approved the addition of three actively-managed target risk portfolios as static investment options for the inVEST Program. These actively-managed portfolios are designed to complement the passively-managed index target risk funds currently offered and provide an alternative for those investors who prefer active management. The new portfolios were opened as of October 1, 2015. With the addition of these portfolios, inVEST now offers nineteen portfolio options for new investors.

In October 2014, the inVEST and CollegeAmerica Programs received Silver ratings from Morningstar. Morningstar, a leading provider of independent investment research, introduced its

ratings on 529 plans in 2010 and evaluates college savings plans on five key pillars – Process, Performance, People, Parent, and Price – which its analysts believe lead to plans that are more likely to outperform over the long term on a risk-adjusted basis. Morningstar evaluated 64 of the largest 529 plans in 2014. Morningstar’s ratings from highest to lowest are Gold, Silver, Bronze, Neutral and Negative. inVEST and CollegeAmerica were two of the four plans that received Silver ratings. Four plans also received a Gold rating, which makes inVEST and CollegeAmerica two of eight plans that received one of the top two ratings.

In September 2014, VA529 approved the inclusion of two new CollegeAmerica investment options, the American Funds’ Inflation Linked Bond Fund and the American Funds College 2033 Fund. The American Funds College 2033 Fund is similar to an inVEST age-based portfolio in that both are target date funds designed to provide investors with an easy-to-use investment in which the asset allocation gradually transitions over time to a more income and capital preservation focus as the college enrollment date nears. As of June 30<sup>th</sup>, the CollegeAmerica program offered 40 American Funds mutual funds.

- **Operational and System Improvements**

During fiscal 2015 VA529 continued to make improvements to better serve our customers. While too numerous to list them all, we offer the following examples.

The Department of Accounts is replacing CARS with a new, more robust accounting system (Cardinal Project). VA529 is a Wave 2 agency and is scheduled to go-live in February 2016. VA529’s staff are working with the Cardinal team to successfully implement the interface between VA529’s accounting system and Cardinal. As of September 30, 2015, VA529 was on track to achieve a successful transition.

As a result of legislation passed during the 2013 Session, Virginia taxpayers were allowed to direct the Department of Taxation, beginning with tax year 2014, to deposit all or a portion of their Virginia state income tax refund into one or more Virginia529 accounts. This collaborative project between Tax and Virginia529 resulted in a new tax form and was successfully implemented under budget. During fiscal 2015, 631 deposit transactions were processed representing over \$363,000 in tax refunds.

VA529 continued to improve our customers’ experience by redesigning our statements to provide more information on portfolio balances, asset allocation and returns in an easy-to-read format. We also consolidated the customer statements by unique account owner and beneficiary combinations and provided statements electronically to reduce printing and mailing costs and speed delivery. Paper statements are still available to customers who prefer a hard copy via mail.

In addition, VA529 improved the distribution of prePAID program benefits for those students attending school outside of Virginia by transferring benefits to an inVEST account in advance of when the benefits would have been paid to the college under the prior methodology.



This provided account owners with the flexibility to pay the schools directly and to better manage their VA529 prePAID benefits.

- **2015 General Assembly Session**

The Achieving a Better Life Experience Act of 2014 (ABLE Act) was signed into law by President Obama in December 2014. The ABLE Act created a new Section 529A of the Internal Revenue Code to permit states to establish and maintain tax-exempt accounts that individuals with disabilities can use to pay for “qualified disability expenses”. This would include expenses for education, including higher education, a primary residence, transportation, obtaining and maintaining employment, health and wellness, and other personal support expenses. In order to be eligible, a beneficiary must either be determined disabled or blind under the Social Security Disability Insurance or Supplemental Security Income programs, or be certified by a licensed physician to meet standards of disability. The disability must have been diagnosed before the date on which the individual reached the age of 26. The ABLE Act was drafted and developed such that ABLE programs were intended to be administered by state college savings programs like VA529.

In March, Governor McAuliffe signed the Virginia ABLE Act (Chapter 311 of the 2015 Virginia Acts of Assembly), which mandated that VA529 develop an ABLE Program. There are many challenges with creating an ABLE Program many of which stem from the federal ABLE Act. For example, total annual contributions to an ABLE account would be capped at the annual exclusion for gift tax purposes (currently \$14,000). Further, unlike 529 college savings plans, an ABLE account beneficiary must be a resident of the state in which the account is established, thus limiting the establishment of a national program. While a state may contract with another state to provide its residents with access to the second state’s ABLE program, that structure would be expensive and complex to establish. To further complicate matters, the IRS issued proposed regulations in June 2015, which included onerous reporting requirements on the state program managers. Comments were due at the end of September 2015 and VA529 participated with industry groups and our partners in filing comment letters. As a result, pending final regulations that would resolve these issues, it is difficult to estimate when VA529 will establish and implement an ABLE Program. VA529 has included funds to implement an ABLE Program in its budget adjustments and requests for fiscal 2016 and the next biennium, respectively, in anticipation of favorable regulations.

- **Joint Legislative Audit and Review Commission (JLARC) Oversight.**

During its 2012 Session, the General Assembly passed, and the Governor signed, the Virginia College Savings Plan Oversight Act, which provided for oversight and evaluation on a continuing basis by JLARC. Although the legislation was not the result of a problem or deficiency, JLARC oversight resulted in the continued dedication of VA529 staff and financial resources in fiscal 2015 as the Oversight Act was fully implemented and the first biennial status report was issued.

JLARC staff issued its first biennial status report on VA529 in July 2014 and noted that VA529's programs had grown and met long-term, performance goals and had met most investment performance benchmarks. The report also repeated the findings of JLARC's actuary, Gabriel Roeder Smith & Company from its initial quadrennial actuarial audit of the prePAID program, which was completed in fiscal 2013 and found that prePAID was actuarially sound. JLARC's report also noted the restructuring of the prePAID contracts in fiscal 2013 to improve affordability and that the restructuring appeared to increase the number of prePAID applications. Finally, the report noted the reductions in program fees and recent legislative changes. The full report may be found on JLARC's website at <http://jlarc.virginia.gov/reports.shtml>. We look forward to continuing our relationship with JLARC.

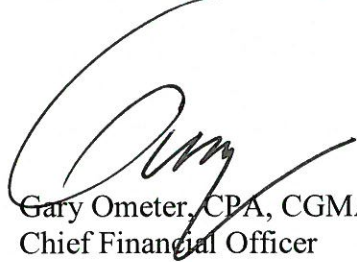
**ACKNOWLEDGEMENTS**

We remain committed to providing the best possible customer service to our program participants and to the citizens of the Commonwealth, and to be responsible stewards of the funds in our care. We express our sincere thanks and appreciation to our outstanding staff, our business partners and the guidance and dedication of our Board and Committee members.

Respectfully submitted,



Mary G. Morris  
Chief Executive Officer



Gary Ometer, CPA, CGMA  
Chief Financial Officer

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Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 9, 2015

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
And Review Commission

Board Members  
Virginia College Savings Plan

## INDEPENDENT AUDITOR'S REPORT

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities (the Enterprise Fund) and the remaining fund information (the Private-Purpose Trust Fund) of the **Virginia College Savings Plan** (Plan) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit 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 financial statement presentation.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the remaining fund information of the Virginia College Savings Plan as of June 30, 2015, and the changes in its financial position and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

#### Relationship to the Commonwealth of Virginia

As discussed in Note 1, the basic financial statements of the Plan are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities, the major enterprise fund, and aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the Plan. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2015, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### Change in Accounting Principles

As discussed in Note 2 to the financial statements, the Plan implemented Governmental Accounting Standards Board (GASB) Statement No. 68 and No. 71, related to pension accounting and financial reporting for employers. As discussed in Note 5, the Plan also implemented GASB 72, Fair Value Measurement and Application. Our opinion is not modified with respect to these matters.

## *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 7 through 21, the Schedule of VA529's Share of Net Pension Liability on page 73, Schedule of VA529 Contributions on page 73 and Notes to Required Supplementary Information on pages 73 through 74 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 the 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.

### Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's basic financial statements. The accompanying supplementary information, such as Appendix A, Appendix B, and Appendix C and other information such as the letter of transmittal and program information for CollegeAmerica and CollegeWealth, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

Appendix A, Appendix B, and Appendix C are the responsibility of management and were derived from and relate 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, Appendix A, Appendix B, and Appendix C are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The letter of transmittal and program information for CollegeAmerica and CollegeWealth has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2015 on our consideration of the Plan'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Plan's internal control over financial reporting and compliance.

*Staci A. Henshaw*

DEPUTY AUDITOR OF PUBLIC ACCOUNTS

AVC/alh



# Management's Discussion & Analysis



**VIRGINIA COLLEGE SAVINGS PLAN'S  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Unaudited**

The Virginia College Savings Plan's (VA529) Management's Discussion and Analysis is designed to assist the reader in focusing on significant financial issues and provides an overview of financial activity. This discussion includes an analysis of the VA529's financial condition and results of operations for the fiscal year ended June 30, 2015. This presentation includes summarized data and should be read in conjunction with the accompanying financial statements and notes.

VA529 operates the Commonwealth's Internal Revenue Code (IRC) Section 529 qualified tuition plan, which offers four programs, Virginia529 prePAID<sup>SM</sup> (prePAID), Virginia529 inVEST<sup>SM</sup> (inVEST), CollegeAmerica<sup>®</sup> and CollegeWealth<sup>®</sup>. prePAID is considered a defined benefit program which offers contracts, at actuarially determined prices, that provide the future payment of undergraduate tuition for the normal full-time course load for students enrolled in a general course of study at any Virginia public higher educational institution and all mandatory fees required as a condition of enrollment of all students and differing payouts at private or out-of-state institutions. Annually, VA529's actuary determines the actuarial soundness of prePAID. Key factors used in the actuarial analysis include anticipated tuition increases (both short and long-term) as well as anticipated long-term investment performance. inVEST is a defined contribution savings program, which allows participants to make contributions into their selected investment portfolio(s). inVEST accounts are subject to market investment risks, including the possible loss of principal.

CollegeAmerica and CollegeWealth are also defined contribution savings programs. CollegeAmerica, a broker-sold program, offers 40 different American Funds mutual fund products as investment options. CollegeAmerica participants bear all market risk for their investment, including the potential loss of principal. The American Funds acts as program manager for CollegeAmerica and provides all back office and operational services for the program. CollegeWealth participants invest in FDIC-insured savings products offered through two participating banks, BB&T and Union Bank & Trust.

**Overview of Financial Statements**

This discussion and analysis is an introduction to VA529's basic financial statements, which include VA529's business-type activity or enterprise fund, the fiduciary or private purpose trust fund and notes to the financial statements.

**Business Type Activities – Enterprise Fund**

All prePAID activities and VA529's operating activities are accounted for in an enterprise fund, which is typically used to account for governmental operations that are financed and operated in a manner similar to a private sector business. Enterprise funds typically report activities that charge fees for supplies or services to the general public. This activity is reported on the full accrual basis of accounting. This means that all revenue and expenses are reflected in the financial statements even if the related cash has not been received or paid as of June 30th.

The Statement of Net Position presents information on all prePAID assets and liabilities, with the difference between the two reported as total net position. Over time, increases and decreases in net position along with the information contained in the annual actuarial soundness report indicate prePAID's financial position.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year, including both actual as well as actuarially determined contract payments from participants and distributions for higher education expenses.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, financing, and investing activities.

#### Fiduciary Fund

inVEST is reported as a private purpose trust fund. A private purpose trust fund accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations or other governments, and uses the full accrual basis of accounting.

inVEST activities are reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. The Statement of Fiduciary Net Position presents information on all inVEST assets and liabilities, with the difference between the two reported as total net position. The Statement of Changes in Fiduciary Net Position presents the revenues earned and expenses incurred during the year.

CollegeAmerica and CollegeWealth are both defined contribution savings programs and are presented as Other Information.

#### Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

### **Fiscal 2015 Financial Highlights**

VA529 collects, holds, invests and distributes monies held in trust for program participants. VA529 invests its funds pursuant to statute and Investment Policies and Guidelines under the direction of its Board and Investment Advisory Committee in a mix of equity, fixed income and alternative investments. During the fiscal year ended June 30, 2015, domestic equity markets continued to perform moderately well, but with increased volatility resulting from falling energy and commodity prices, slowing and uneven growth overseas, and continued uncertainty as to when the Federal Reserve would commence tightening rates. International equity markets exhibited similar volatility with emerging markets being negatively impacted by currency fluctuations. The United States domestic equity market, as measured by the Standard & Poor's 500 Index, ended the year up 7.4 percent from June 30, 2014 while international equity markets as measured by the MSCI EAFE Index, were down -3.8 percent, with emerging markets as measured by the MSCI EM Index, down -4.8 percent for the year. The fixed income markets provided inconsistent performance throughout the year as interest rates remained fairly steady with the yield on the ten-year U.S. Treasury falling at the beginning of calendar 2015 but climbing back to end the year about where it started. The Barclays Capital US Aggregate Bond Index returned just 1.9 percent for the year ended June 30, 2015. Certain fixed income classes such as senior secured bank loans performed slightly better than others as demonstrated by the Credit Suisse Leveraged Loan Index which returned 2.2 percent for the year ended June 30, 2015.

In aggregate, market movements had an overall net positive effect, albeit mixed, on fixed income and equity security prices in the prePAID, inVEST and CollegeAmerica portfolios for the fiscal year ended June 30, 2015.

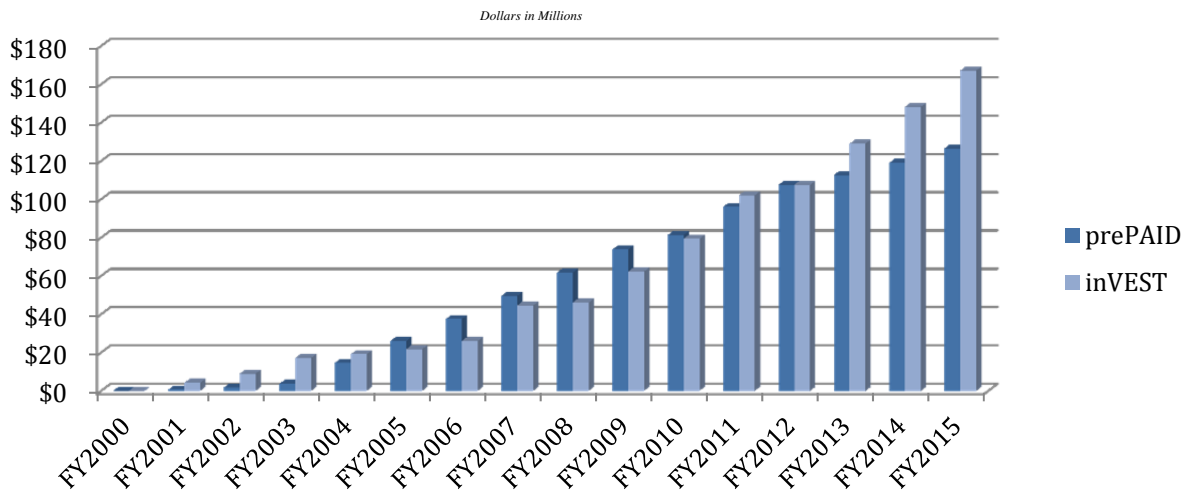
#### **Other Highlights**

- The Enterprise Fund's total cash, cash equivalents, and investments held in trust for program participants increased by \$14.5 million, or about 0.6 percent from fiscal year-end 2014.

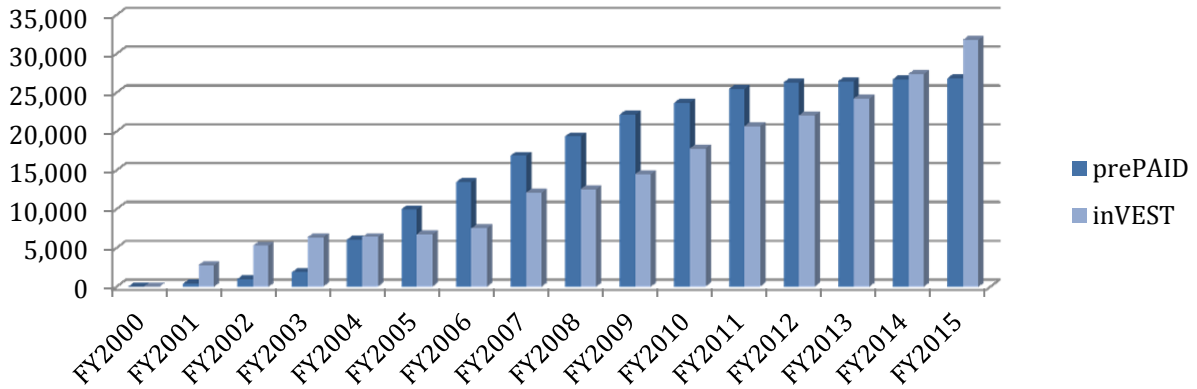
- prePAID’s actual return on investments for the fiscal year ended June 30, 2015 was 1.2 percent on a time-weighted and dollar-weighted basis reflecting the equity and fixed income market performance during the fiscal year.
- The Enterprise Fund’s net position increased by \$23.1 million to an actuarially determined surplus of \$546.4 million from an actuarial surplus of \$523.3 million in the prior year, which was primarily due to lower than expected tuition increases and changes in the economic assumptions offset by lower than expected investment returns.
- prePAID’s actuarially determined obligations for future payments decreased by \$23.7 million, or approximately -1.1 percent, which was primarily due to the passage of time, unit redemptions and new unit sales, differences between actual experience and the actuarial assumptions used, and changes to the actuarial assumptions. 3,305 new contracts were opened during the 2014 - 2015 enrollment period.
- inVEST’s net position held in trust for program participants increased by \$261.7 million or about 9.3 percent due to growth in accounts and favorable market conditions.
- Both prePAID and inVEST applicants continued utilization of on-line applications with more than 97.1 and 92.8 percent of applications being filed on-line, respectively.
- VA529 continued to experience positive growth in accounts, particularly in inVEST and CollegeWealth with 16.5 percent and 23.6 percent gross account growth, respectively. CollegeAmerica also experienced positive net account growth in 2015 at 1.2 percent. More information on CollegeAmerica and CollegeWealth is provided in Other Information.
- Distributions as measured by dollars and number of transactions continued to increase for both prePAID and inVEST as participants utilized their college savings accounts. Transactional activity for both prePAID and inVEST is depicted in the graphs below.

The two graphs below represent inVEST and prePAID distributions since fiscal year 2000.

**Amounts Distributed per Fiscal Year**



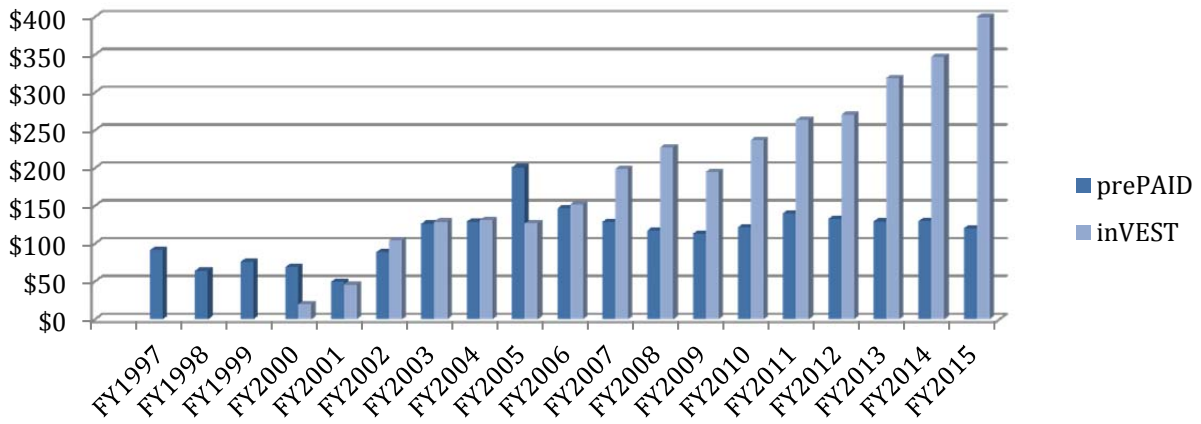
**Number of Distributions on Behalf of Beneficiaries per Fiscal Year**



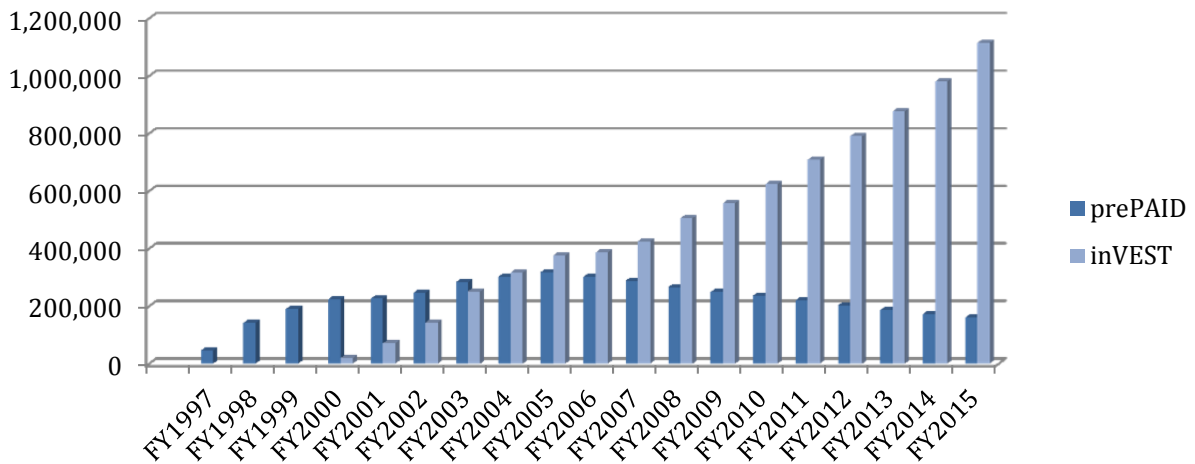
The two graphs below represent prePAID contract payments and inVEST contributions received since fiscal year 1997 – inVEST being introduced in fiscal 2000.

**Amounts Received per Fiscal Year**

*Dollars in Millions*

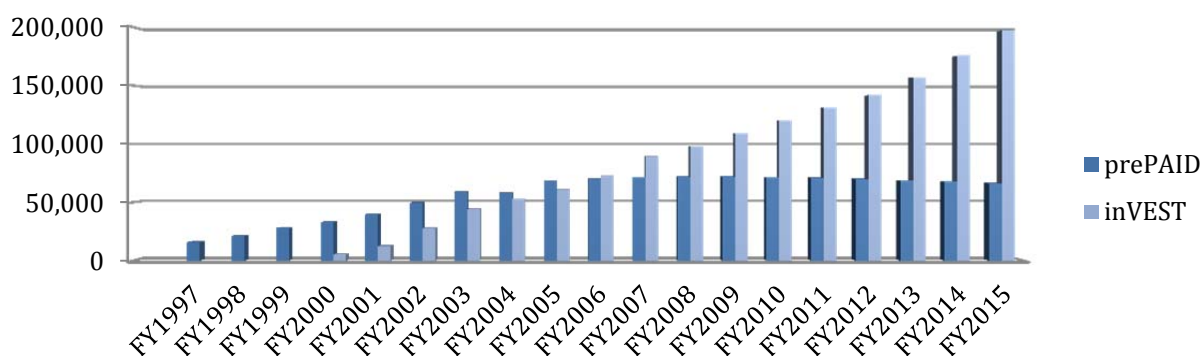


**Number of Payments/Contributions Received per Fiscal Year**



The graph below represents inVEST and prePAID accounts under management since fiscal year 1997 – inVEST being introduced in fiscal 2000.

**Growth in Accounts Under Management**



**Analysis of Enterprise Fund Financial Activities**

The Enterprise Fund includes the activities of prePAID as well as VA529's general operating activities. The Enterprise Fund ended the year with net position of \$546.4 million.

Table 1 is a summary comparison of the Enterprise Fund's Statement of Revenues, Expenses, and Changes in Net Position for fiscal year 2015 as compared to the prior year.

**Table 1 – Enterprise Fund – Changes in Net Position (in millions)**

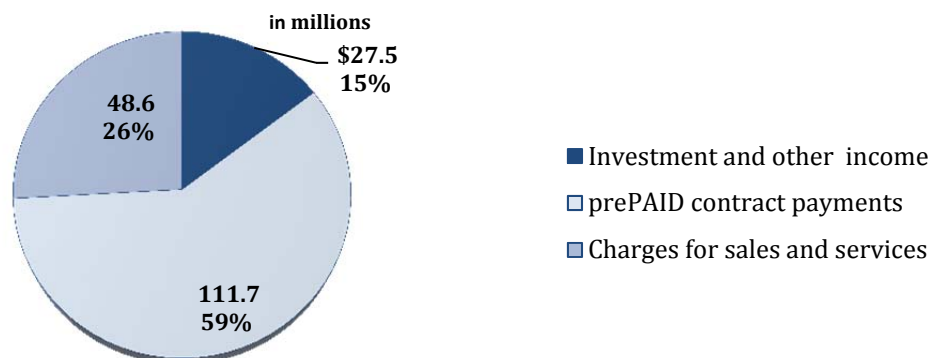
<b>YEARS ENDED JUNE 30,</b>	<b>2015</b>	<b>2014</b>	<b>CHANGE</b>
Operating revenues			
Charges for Sales and Services	\$ 48.6	\$ 47.1	\$ 1.6
Interest and Dividends	113.7	151.7	(37.9)
Net increase in fair value of investments	(86.2)	102.1	(188.3)
prePAID contract payments	111.7	106.9	4.8
Other	-	-	-
<b>Net operating revenues</b>	<b>187.9</b>	<b>407.7</b>	<b>(219.9)</b>
Operating expense			
Tuition Benefits Expense	135.1	84.1	51.0
Other operating expenses	19.5	19.4	0.1
<b>Net operating expenses</b>	<b>154.6</b>	<b>103.5</b>	<b>51.1</b>
Operating income (loss)	33.3	304.2	(270.9)
Transfer to the Commonwealth	(0.3)	(0.2)	(0.1)
Non Operating Interest Expense	(0.2)	(0.2)	-
<b>Change in net position</b>	<b>32.8</b>	<b>303.9</b>	<b>(271.1)</b>
Beginning Net position ( as restated)	513.6	219.5	294.1
<b>Ending Net position</b>	<b>\$ 546.4</b>	<b>\$ 523.4</b>	<b>\$ 23.1</b>

Amounts may not sum due to rounding

As stated above, capital markets performance was mixed during the fiscal year with global fixed income and international equity markets posting negative returns and U.S. domestic equity markets

providing moderate gains compared to recent years. The prePAID Portfolio's performance reflected this with a rate of return for fiscal 2015 of about 1.2 percent. For the fiscal year ended June 30, 2015, as a result of the investment performance and prePAID program payouts, there was a net decrease in the fair value of investments of approximately \$86.2 million, versus the increase in the prior fiscal year of \$102.1 million. The fair market value of investment securities changes on a daily basis depending upon market conditions. This number will fluctuate from year to year, depending upon market conditions on June 30th, or the last business day of the fiscal year. Investment income represents about 15 percent of enterprise fund revenue, as shown in Chart 1.

**Chart 1**  
**2015 Enterprise Fund Revenue**



VA529 prePAID contract payment revenue includes actual and actuarially estimated contract payments, and represents approximately 59 percent of enterprise fund revenue. Actual contract payments received from participants increased by \$2.8 million over prior year receipts. Beginning in FY2015, prePAID rollovers and transfers to inVEST are now accounted for as a program expense, instead of a reduction in revenue. If using the same method as used in previous years for fiscal 2015, the variance in actual contract payment revenue would be a decrease of \$15.2 million over prior year receipts. This change in accounting also affects prePAID contract payment revenue. In addition, actuarially determined prePAID contract payment revenue increased by \$2.0 million. Receipts for charges for sales and services totaled \$48.6 million in fiscal year 2015. This is a \$1.5 million increase over the prior year. The increase is attributable to the growth in assets in the CollegeAmerica and CollegeWealth programs.

Table 1 also reflects tuition benefits expense, which is comprised of two components; actuarially determined and actual tuition benefits expenses. The net change in tuition benefits expense from fiscal year 2014 is \$50.9 million. The actuarially determined tuition benefit expense is accrued for estimated expenses, as determined by VA529's actuary, and represents the net change in tuition benefits payable over the prior fiscal year end. This actuarially determined amount increased from the previous fiscal year end accrual by \$25.0 million.

Actual tuition benefits expense represents actual distributions made during the fiscal year. This amount increased over the prior year by \$26.0 million, or 19.6 percent. \$7.9 million of the increase in actual distributions is attributable to increases in tuition and mandatory fees at the higher education institutions. \$18.1 million of this increase is due to a change in the accounting of prePAID rollovers and transfers to inVEST. As discussed above, prePAID rollovers and transfers to inVEST are now accounted for as an expense of the prePAID Program.

Table 2 demonstrates the numbers of students served and the amounts paid from prePAID directly to Virginia public universities and community colleges during fiscal year 2015. Virginia's



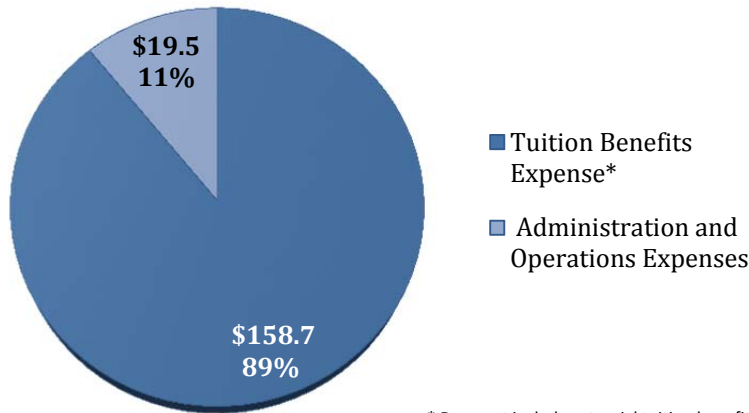
universities and colleges received approximately \$106.9 million in prePAID tuition and mandatory fee payments for 11,260 students in fiscal year 2015.

**Table 2 prePAID Payments to Virginia Public Universities and Community Colleges Fiscal Year 2015**

<b>Public Universities</b>	<b>Students with prePAID Contracts</b>	<b>prePAID Payments to Universities</b>
Virginia Tech	1,872	\$21,250,586
University of Virginia	1,456	18,354,540
Virginia Commonwealth University	1,273	13,090,843
James Madison University	1,139	10,300,335
College of William & Mary	664	9,912,566
George Mason University	898	8,170,733
Christopher Newport University	482	5,335,122
Longwood University	426	4,255,704
Radford University	468	3,901,883
Old Dominion University	504	3,577,471
University of Mary Washington	319	3,038,699
Virginia Military Institute	64	895,563
University of Virginia's College at Wise	35	305,939
Virginia State University	19	120,302
Norfolk State University	14	92,479
<b>Total Universities</b>	<b>9,633</b>	<b>\$102,602,766</b>
<b>Public Community Colleges*</b>	<b>Students with prePAID Contracts</b>	<b>prePAID Payments to Community Colleges</b>
Northern Virginia Community College	615	\$1,725,851
Tidewater Community College	166	516,163
J Sargeant Reynolds Community College	175	405,739
John Tyler Community College	148	328,674
Germanna Community College	98	245,771
Virginia Western Community College	63	163,045
Thomas Nelson Community College	55	142,197
Piedmont Virginia Community College	53	139,406
Lord Fairfax Community College	53	122,212
Richard Bland College	29	112,683
New River Community College	46	107,232
Blue Ridge Community College	31	100,328
Central Virginia Community College	16	45,724
Rappahannock Community College	15	38,022
Patrick Henry Community College	10	27,350
Wytheville Community College	8	22,518
Danville Community College	10	20,947
Southside Virginia Community College	8	15,205
Dabney S Lancaster Community College	7	14,519
Eastern Shore Community College	4	11,516
Paul D Camp Community College	4	9,442
Southwest Virginia Community College	5	9,246
Mountain Empire Community College	2	7,923
Virginia Highlands Community College	6	7,313
<b>Total Community Colleges*</b>	<b>1,627</b>	<b>\$4,339,024</b>

As shown in Chart 2, tuition benefit payments represent 89 percent of actual expenses of the Enterprise Fund. Of the \$19.5 million expended for administration and operations expenses, 91 percent were for personal and contractual services.

**Chart 2**  
**2015 Enterprise Fund Expenses**  
in millions



\* Does not include actuarial tuition benefits

Table 3 provides a comparison of administration and operations expenses between fiscal years 2015 and 2014.

**Table 3 – Enterprise Fund**  
**Plan Administration and Operations Expenses** (in thousands)

<b>YEARS ENDED JUNE 30,</b>	<b>2015</b>	<b>2014</b>	<b>CHANGE</b>
Personal services	\$8,936	\$ 8,770	\$ 166
Actuarial pension expense	682	-	682
Fiscal and contractual services	8,801	7,351	1,450
Supplies and materials	43	34	9
Depreciation	527	522	5
Rent, insurance, and other related charges	144	133	11
Expendable equipment	351	427	(76)
SOAR Virginia	-	2,000	(2,000)
Other	29	146	(117)
<b>Administration and Operations Expenses</b>	<b>\$19,514</b>	<b>\$19,383</b>	<b>\$ 131</b>

Actuarial pension expense is newly reported in fiscal 2015 pursuant to GASB Statement No. 68. This figure represents the portion of VA529's change in net pension liability during the measurement period attributable to expenses. The remainder of the change in net pension liability is reflected as deferred inflows and outflows. The actual pension expense incurred during fiscal 2015 is included as a deferred outflow as well as a reduction in personal services. See Note 11 – Retirement and Pension Plan for additional information on accounting for pension expenses. If using the same method as used in previous years for fiscal 2015, the variance in personal services

expense would be an increase of \$977 thousand, or 11.1 percent, over the prior year's amount. That increase is attributable to newly added positions as well as VA529 employees receiving salary increases and incentive performance bonuses as provided in the Plan's Compensation Plan approved by the General Assembly.

Fiscal and contractual services increased by 19.7 percent. This increase is primarily attributable to an increase in promotional media costs as well as an increase in fiscal services expenses. There was also a decrease in expenses for SOAR Virginia as VA529 did not contribute monies to the SOAR Virginia Fund in fiscal 2015 since it had a sufficient balance to fund scholarships through fiscal 2016. The decrease in other expenses represents a decrease in promotional and scholarship award payments from fiscal 2014.

**Table 4 – Enterprise Fund  
Summary of Net Position**

As of JUNE 30,	2015	2014	CHANGE
<b>Assets and deferred outflows:</b>			
Current assets	\$ 152.9	\$ 129.5	\$ 23.4
Investments	2,359.5	2,367.7	(8.2)
Other noncurrent assets	168.6	174.9	(6.3)
<b>Total assets</b>	<b>2,681.0</b>	<b>2,672.1</b>	<b>8.9</b>
Total deferred outflows	1.1	-	1.1
<b>Assets and deferred outflows</b>	<b>2,682.1</b>	<b>2,672.1</b>	<b>10.0</b>
<b>Liabilities and deferred inflows:</b>			
Current liabilities	242.0	226.5	15.5
Noncurrent liabilities	1,892.1	1,922.3	(30.2)
<b>Total liabilities</b>	<b>2,134.1</b>	<b>2,148.8</b>	<b>(14.7)</b>
Total deferred inflows	1.6	-	1.6
<b>Liabilities and deferred inflows</b>	<b>2,135.7</b>	<b>2,148.8</b>	<b>(13.1)</b>
<b>Net Position</b>			
Net investment in capital assets	3.4	3.5	(0.1)
Unrestricted	542.9	519.8	23.1
<b>Change in net position</b>	<b>\$ 546.3</b>	<b>\$ 523.3</b>	<b>\$ 23.0</b>

Amounts may not sum due to rounding

### Assets

Total current assets increased by approximately \$23.4 million from the previous year and was attributable to (i) a change in mortgage-backed securities investment vehicles during fiscal 2015 from a mutual fund to a separate account where cash is distinguished from other investments, and (ii) the election by other prePAID program investment managers utilizing separate account vehicles to hold more cash in their portfolios subject to their applicable constraints specified in investment guidelines.

Long-term investments remained steady, decreasing by less than 1 percent. Other noncurrent assets decreased by \$6.3 million, which was due to the decrease in the noncurrent portion of the tuition contributions receivable. This represents the decrease in the actuarially determined amount expected to be collected from contract holders of record in future years.

**Liabilities**

Total liabilities decreased by \$14.7 million. While current liabilities increased by \$15.5 million, total tuition benefits payable, reflected in both current and noncurrent liabilities above, decreased by \$23.7 million, or approximately -1.1 percent. The total decrease represents the change in the actuarial present value of the future tuition obligations. Changes in the present value of the future tuition benefit obligation can be attributed to the passage of time, unit redemptions and new unit sales, differences between actual experience and the actuarial assumptions used, and changes to the actuarial assumptions.

**Actuarial Soundness**

VA529's statute requires that it annually determine the actuarial soundness of prePAID. The purpose of the actuarial valuation is to assess the future value of VA529's assets and liabilities, which are discounted to reflect their present value.

During fiscal year 2015, prePAID's actuarial position, as calculated by VA529's actuary and reported in the 2015 Actuarial Valuation Report, improved from an actuarial surplus of \$523.3 million to a surplus of \$546.4 million. This improvement is mostly attributable to lower than expected tuition increases and changes in the economic assumptions offset by lower than expected investment returns. Actuarial assumptions are discussed in Note 12 in the Notes to the Financial Statements.

The overall effect of the changes on the actuarial reserve is summarized in Table 5. Table 5 reflects the actuarial gains and losses and the Actuarial Reserve as of June 30, 2015 as calculated by VA529's actuary using preliminary financial statements developed and provided by VA529 as reflected in the draft Actuarial Valuation Report as of October 31, 2015. The final report is expected to be completed no later than mid-December 2015. Any adjustments to the final Actuarial Reserve and the estimated valuation will be reflected and disclosed in subsequent year's financial statements. A copy of the 2015 Actuarial Valuation Report may be obtained from VA529.

**Table 5 – prePAID**  
**Statement of Changes in Actuarial Reserve** (dollars in millions)

Actuarial reserve at June 30, 2014	\$ 523.3
Restatement of beginning position due to GASB 68 Implementation	(9.5)
Interest on the reserve at 6.75%	34.7
Investment gain/(loss)	(134.1)
Tuition gain/(loss)	21.5
Lower than expected actual account balances	8.0
Sales of new contracts	9.8
Administrative fee revenue from VA529 programs	34.2
Change in investment return assumption	(54.7)
Change in tuition growth assumptions	71.9
Change in reasonable rate and other assumptions	29.0
Other experience gains	12.3
Actuarial Reserve as of June 30, 2015	\$ 546.4

VA529 prePAID's overall funded status, as calculated by the actuary, as of June 30, 2015 was 126 percent. Chart 3 provides prePAID's funded status since 1997.

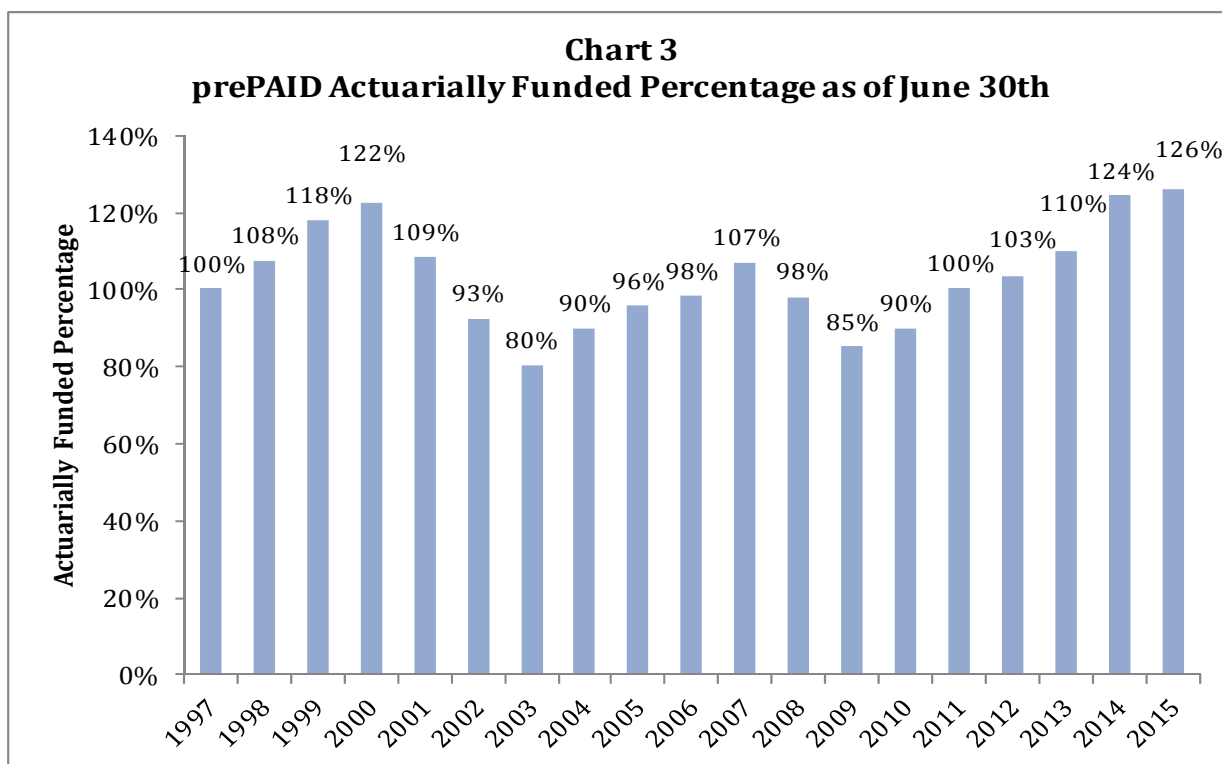


Table 6 represents the condensed Statement of Cash Flows for the Enterprise Fund for the fiscal years ended June 30, 2015 and 2014. VA529's year-end cash balance in the Enterprise Fund increased by \$22.7 million. The increase is attributed to a change in mortgage backed securities investment vehicles from a mutual fund to a separate account where cash is distinguished from other investments, and the election by other prePAID program investment managers utilizing separate account vehicles to hold more cash in their portfolios subject to their applicable constraints specified in investment guidelines.

**Table 6 – Enterprise Fund**  
**Statement of Cash Flows** (dollars in millions)

<b>As of June 30,</b>	<b>2015</b>	<b>2014</b>
<b>Cash provided (used) by:</b>		
Operating activities	(\$12.1)	\$10.6
Noncapital financing activity	(\$0.3)	(\$0.2)
Capital and related financing activities	(\$0.7)	(\$0.7)
Investing activities	\$35.8	(\$24.3)
<b>Net increase (decrease) in cash</b>	<b>\$22.7</b>	<b>(\$14.6)</b>
Cash – beginning of year	\$60.6	\$75.2
Cash – end of year	\$83.3	\$60.6

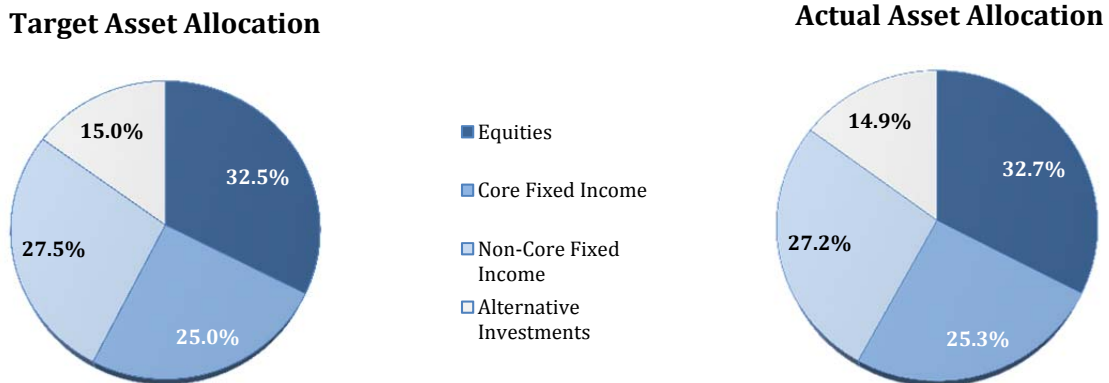
The change in the amount reflected as investing activities for fiscal year 2015 is primarily the result of an increase in sales of investments during the fiscal year.

In December 2014, the Board revised its Investment Policies and Guidelines for prePAID and inVEST. The revisions were primarily related to (i) updating applicable benchmarks, (ii) conforming the policies and guidelines to reflect VA529's status as a body politic and corporate, and thus as a qualified institutional buyer and an accredited investor, (iii) adding collective trusts as acceptable pooled investment vehicles along with mutual funds, and (iv) adding a separate section for stable value fixed income investments. The overall asset allocation targets for prePAID, most recently revised in June 2009, did not change.

In fiscal 2014, the Investment Advisory Committee selected Brookfield Investment Management and approved the guidelines to manage an active mortgage-backed securities mandate for prePAID to be funded through the liquidation of a passive mortgage-backed securities index fund managed by Vanguard. This transition and funding was completed in September 2014.

During fiscal 2015, the Vanguard Intermediate Corporate Bond Fund was liquidated and the funds invested in the BlackRock Intermediate Core Bond Index Fund. This change was approved in a prior fiscal year by the Investment Advisory Committee but was delayed pending modification to the Investment Policy and Guidelines as described above allowing for the use of collective trusts. Also during fiscal 2015, the Investment Advisory Committee approved additional allocations to Adams Street Partners and Private Advisors, private equity fund of funds managers for prePAID. A complete list of prePAID managers as of June 30, 2015 can be found in Appendix B.

**Chart 4**  
**prePAID Asset Allocation as of June 30, 2015**



**Analysis of Fiduciary Fund (inVEST)**  
**Financial Activities**

Table 7 reflects the changes in inVEST's net position for fiscal 2015. Additions to the fiduciary net position held in trust include contributions from participants as well as net investment income. Contributions represent amounts received from new and existing account holders. Beginning in FY2015, inVEST rollovers and transfers to prePAID are now accounted for as a program expense, instead of a reduction in revenue. If using the same method as used in previous years for FY2015,

the variance in actual additions would be a decrease of \$215.4 million over prior year receipts. Contributions from inVEST participants increased from the previous year by approximately \$47.2 million and there were nearly 29,000 new inVEST accounts opened during the fiscal year. Net income on inVEST investments decreased by \$268.0 million over the prior year due to market conditions compared to the prior year. As anticipated, overall disbursements to inVEST beneficiaries and institutions increased over the prior year by approximately 15.7 percent as more participants withdrew funds for higher education expenses.

**Table 7 - inVEST**  
**Change in Fiduciary Net Position (dollars in millions)**

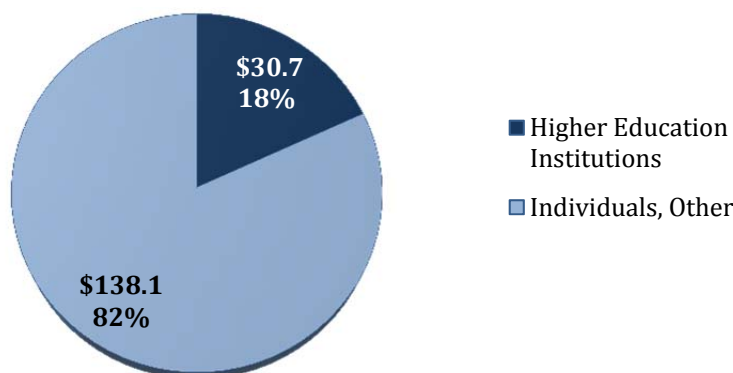
<b>Fiscal year ended June 30</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>
Additions	\$ 455.2	\$ 675.9	\$(220.7)
Deductions	193.4	167.1	26.3
Net Increase (decrease)	261.8	508.8	(247.0)
Net position held in trust, beginning	2,810.7	2,301.9	508.8
Net position held in trust, ending	\$ 3,072.5	\$2,810.7	\$ 261.8

A majority of the \$168.8 million inVEST distributions during the fiscal year were paid directly to individuals. Under inVEST, participants have the ability to direct VA529 to pay the institution, or to pay higher education expenses directly and subsequently reimburse themselves from their inVEST account. Chart 5 below contains a breakdown of these distributions.

In October 2014, the inVEST Program received a Silver rating from Morningstar. Morningstar is a leading provider of independent investment research in North America, Europe, Australia, and Asia. Morningstar offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors. Morningstar introduced its ratings on 529 plans in 2010 and evaluates college savings plans on five key pillars – Process, Performance, People, Parent, and Price – which its analysts believe lead to plans that are more likely to outperform over the long term on a risk-adjusted basis. Morningstar evaluated 64 of the largest 529 plans in 2014. Morningstar's ratings from highest to lowest are Gold, Silver, Bronze, Neutral and Negative. inVEST was one of four plans to receive a Silver rating. Four plans also received a Gold rating, which makes inVEST one of eight plans that received one of the top two ratings.



**Chart 5**  
**2015 inVEST Distributions**  
in millions



On January 1, 2015, the inVEST age-based portfolios evolved in accordance with their scheduled glide path, which emphasizes more income and preservation of capital as the portfolios proceed towards their final evolution. The Southside portfolio entered the in-college phase of the glide path, which consists of two years of 100 percent fixed income (65 percent stable value, 35 percent other fixed income) prior to transition to 100 percent stable value on January 1, 2017.

During the fiscal year the Board approved an addition of three new actively-managed static target risk portfolios to complement the current passively-managed target risk portfolios. These portfolios will mirror the allocations of the current 80 percent equity/ 20 percent fixed income, 50 percent equity/50 percent fixed income, and 25 percent equity/75 percent fixed income age-based portfolios, respectively. The asset allocations of these portfolios will not evolve. These portfolios will be available in fiscal 2016.

### CollegeAmerica and CollegeWealth

Assets under management in CollegeAmerica increased during the fiscal year by approximately 4.8 percent from \$47.6 billion to \$49.8 billion. There were an additional 24,487 unique CollegeAmerica accounts at fiscal year-end compared to the prior fiscal year-end.

In September 2014 the Board approved the addition of two new CollegeAmerica investment options, the American Funds' Inflation Linked Bond Fund and the American Funds College 2033 Fund. These funds ended the fiscal year with assets of \$2.3 million and \$18.7 million, respectively. Additionally, the American Funds College 2015 Fund was closed and its assets were transferred to the American Funds College Enrollment Fund during the fiscal year. These two funds are components of the American Funds College Target Date Series®, which was added to the CollegeAmerica lineup in September 2012. Funds in this series allow investors to select a single investment that provides diversification and a glide path matched to the beneficiary's intended college enrollment date. New funds are opened and fully evolved funds are rolled into the College Enrollment Fund approximately every three years to maintain the glide path.

Assets under management in CollegeWealth increased by 30.4 percent in fiscal year 2015 to more than \$109.8 million at year end. The assets represented amounts held in savings instruments at the two participating banks (BB&T and Union Bank & Trust) and were thus not subject to fair market value adjustments at year-end.



CollegeAmerica and CollegeWealth are presented as Other Information to VA529. Additional information on these programs can be found in this section of the report.

### **Economic Factors and Outlook**

VA529 continues to remain optimistic that its asset allocation and investment strategies will result in the prePAID portfolio meeting or exceeding performance expectations over the long term. VA529 has assumed a long-term rate of return of 6.25 percent on the prePAID investments having reduced the rate from 6.75 percent during fiscal 2015 to reflect reductions in expected long-term global capital market returns. As of June 30, 2015, the total return since inception was about 6.4 percent net of fees and reflected prePAID's 1.2 percent performance during fiscal 2015. Global and domestic equity and fixed income markets experienced significant volatility from June 30, 2015 into fiscal 2016 negatively impacting prePAID portfolio performance. Portfolio performance through the balance of fiscal 2016 will depend on many factors.

In assessing prePAID's financial condition and in pricing prePAID contracts, VA529 has projected that tuition and fee increases at Virginia's public higher education institutions will increase annually by approximately 6.5 percent for four-year and two-year institutions for fiscal years 2017 and thereafter. This long-term tuition and fee increase projection was reduced from 7.5 percent for the June 30, 2015 prePAID valuation and 2015-2016 enrollment period pricing. Changes in public education funding or changes in tuition models that result in tuition increases above VA529's projections would have an immediate, detrimental impact on VA529's outstanding long-term prePAID obligations. With the statutory requirement that institutions provide updated, long-term tuition projections, VA529 remains in a position to be informed of future tuition and fee increases. However, changes in tuition and fee models at Virginia public higher education institutions that impact prePAID may have an adverse impact on program sustainability.

The performance of participants' inVEST and CollegeAmerica portfolios will depend on many of the same investment factors as those impacting prePAID. In inVEST, CollegeAmerica, and CollegeWealth, the participants rather than VA529 bear the risk of portfolio declines as a result of the market or other factors. As a result, no further information as to economic factors and outlook is provided.



# Financial Statements



VIRGINIA529  
STATEMENT OF NET POSITION  
ENTERPRISE FUND  
For the Year Ended June 30, 2015

	Administration and Operations	prePAID	Total Enterprise
<b>Assets and Deferred Outflows of Resources</b>			
Current assets:			
Cash and cash equivalents (Note 1E and 3)	\$ 1,768,080	\$ 81,582,346	\$ 83,350,426
Interest receivable	-	4,523,056	4,523,056
prePAID contract payments receivable (Note 1G and 10)	-	49,851,704	49,851,704
Prepaid and other assets	172,274	-	172,274
Accounts receivable (Note 1H)	11,334,481	3,670,952	15,005,433
Total current assets	<u>13,274,835</u>	<u>139,628,058</u>	<u>152,902,893</u>
Noncurrent assets:			
Investments (Note 1E, 3, 4 and 5)	-	2,359,527,524	2,359,527,524
prePAID contract payments receivable (Note 1G and 10)	-	159,417,121	159,417,121
Depreciable capital assets, net (Note 1J and 9)	9,143,077	-	9,143,077
Total noncurrent assets	<u>9,143,077</u>	<u>2,518,944,645</u>	<u>2,528,087,722</u>
Total assets	<u>22,417,912</u>	<u>2,658,572,703</u>	<u>2,680,990,615</u>
Deferred Outflows of Resources:			
Pension contributions made after measurement date (Note 11)	810,765	-	810,765
Other pension related - change in proportion (Note 11)	256,000	-	256,000
Total deferred outflows	<u>1,066,765</u>	<u>-</u>	<u>1,066,765</u>
Total Assets and Deferred Outflows of Resources	<u>23,484,677</u>	<u>2,658,572,703</u>	<u>2,682,057,380</u>
<b>Liabilities and Deferred Inflows of Resources</b>			
Current liabilities:			
Accounts payable	909,890	-	909,890
Program distributions payable	-	154,197	154,197
Due to program participants (Note 1K)	-	1,058,383	1,058,383
Tuition benefits payable (Note 8 and 10)	-	239,233,954	239,233,954
Compensated absences (Note 1L and 8)	301,265	-	301,265
Obligations under capital lease (Note 8)	365,053	-	365,053
Total current liabilities	<u>1,576,208</u>	<u>240,446,534</u>	<u>242,022,742</u>
Noncurrent liabilities:			
Tuition benefits payable (Note 8 and 10)	-	1,877,534,871	1,877,534,871
Compensated absences (Note 1L and 8)	338,748	-	338,748
Obligations under capital lease (Note 8)	5,343,034	-	5,343,034
Net pension liability (Note 11)	8,855,000	-	8,855,000
Total noncurrent liabilities	<u>14,536,782</u>	<u>1,877,534,871</u>	<u>1,892,071,653</u>
Total liabilities	<u>16,112,990</u>	<u>2,117,981,405</u>	<u>2,134,094,395</u>
Deferred inflows of resources:			
Pension Related (Note 11)	1,581,000	-	1,581,000
Total deferred inflows	<u>1,581,000</u>	<u>-</u>	<u>1,581,000</u>
Total Liabilities and Deferred Inflows of Resources	<u>17,693,990</u>	<u>2,117,981,405</u>	<u>2,135,675,395</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,434,990	-	3,434,990
Unrestricted	2,355,697	540,591,297	542,946,994
Total net position	<u>\$ 5,790,687</u>	<u>\$ 540,591,297</u>	<u>\$ 546,381,984</u>

The notes to financial statements are an integral part of this statement.

VIRGINIA529  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
ENTERPRISE FUND  
For the Year Ended June 30, 2015

	Administration and Operations	prePAID	Total Enterprise
Operating revenues:			
Charges for sales and services (Note 1D)	\$ 48,625,009	\$ -	\$ 48,625,009
Interest, dividends, rents, and other investment income	-	113,736,517	113,736,517
Net increase in fair value of investments	-	(86,230,192)	(86,230,192)
prePAID contract payments (Note 1G)	-	120,305,064	120,305,064
Actuarial prePAID contract payments (Note 10)	-	(8,560,530)	(8,560,530)
Other	25	11	36
	<u>48,625,034</u>	<u>139,250,870</u>	<u>187,875,904</u>
Total operating revenues			
Operating expenses:			
Personal services (Note 11)	8,936,328	-	8,936,328
Actuarial pension expense (Note 11)	682,000	-	682,000
Fiscal and Contractual services	8,800,556	-	8,800,556
Supplies and materials	43,294	-	43,294
Depreciation	527,098	-	527,098
Rent, insurance, and other related charges	143,925	-	143,925
Tuition benefits expense	-	158,724,026	158,724,026
Actuarial tuition benefits expense (Note 10)	-	(23,660,530)	(23,660,530)
Expendable equipment	351,386	-	351,386
SOAR Virginia (Note 13)	-	-	-
Other	29,341	-	29,341
	<u>19,513,928</u>	<u>135,063,496</u>	<u>154,577,424</u>
Total operating expenses			
Operating gain	29,111,107	4,187,374	33,298,481
Non-operating interest expense	(182,457)	-	(182,457)
Transfers:			
Transfers to the General Fund of the Commonwealth	(336,556)	-	(336,556)
Operating transfer in (out) (Note 1)	<u>(29,372,110)</u>	<u>29,372,110</u>	<u>-</u>
Change in net position	(780,016)	33,559,484	32,779,468
Net position - July 1, 2014 (as restated)	<u>6,570,703</u>	<u>507,031,813</u>	<u>513,602,516</u>
Net position - June 30, 2015	<u>\$ 5,790,687</u>	<u>\$ 540,591,297</u>	<u>\$ 546,381,984</u>

The notes to financial statements are an integral part of this statement.

VIRGINIA529  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUND  
For the Fiscal Year Ended June 30, 2015

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Cash flows from operating activities:	
Receipts for sales and services	\$ 47,869,152
Contributions Received	118,379,163
Internal Activity - Payments to Other Funds	(404,225)
Payments to Suppliers for Goods & Services	(1,577,034)
Payments to Employees	(8,995,575)
Other Operating Revenue	(592,499)
Payments for Contractual Services	(8,291,950)
Distributions	(158,393,234)
Other Operating Expenses	<u>(134,320)</u>
Net cash provided by (used for) operating activities	<u>\$ (12,140,521)</u>
Cash flows from noncapital financing activities:	
Transfer to the General Fund of the Commonwealth	<u>(336,556)</u>
Net cash provided by (used for) noncapital financing activities	<u>\$ (336,556)</u>
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	\$ (111,744)
Payment of Principal and Interest on Capital Leases	(546,838)
Net cash provided by (used for) capital and related financing activities	<u>\$ (658,582)</u>
Cash flows from investing activities:	
Purchase of investments	\$ (1,605,458,492)
Proceeds from sales or maturities of investments	1,527,587,667
Interest income on cash, cash equivalents, and investments	<u>113,736,517</u>
Net cash provided by (used for) investing activities	<u>\$ 35,865,692</u>
Net increase in cash and cash equivalents	22,730,033
Cash and cash equivalents - July 1, 2014	<u>60,620,393</u>
Cash and cash equivalents - June 30, 2015	<u><u>\$ 83,350,426</u></u>
Reconciliation of cash and cash equivalents:	
Per the Statement of Net Position:	
Cash and cash equivalents	\$ 83,350,426
Cash and cash equivalents per the Statement of Cash Flows	<u><u>\$ 83,350,426</u></u>

VIRGINIA529  
STATEMENT OF CASH FLOWS (continued)  
ENTERPRISE FUND  
For the Fiscal Year Ended June 30, 2015

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Reconciliation of operating income to net cash provided	
by operating activities:	
Operating gain	\$ 33,298,481
Adjustments to reconcile operating income to net cash provided	
by (used for) operating activities:	
Depreciation	527,098
Interest, dividends, rents and other investment income	(113,736,517)
Net decrease in fair value of investments	86,230,192
Changes in assets, liabilities, and deferred inflows and outflows:	
(Increase) decrease in receivables	(3,274,295)
(Increase) decrease in tuition contributions receivable	8,560,530
(Increase) Decrease in assets	(104,979)
Increase (decrease) in deferred outflows	(523,765)
Increase (decrease) in accounts payable	(335,601)
Increase (decrease) in amounts due to program participants	843,366
Increase (decrease) in current tuition benefits payable	14,889,887
Increase (decrease) in current compensated absences	140,840
Increase (decrease) current obligations under capital lease	672
Increase (decrease) in noncurrent tuition benefits payable	(38,550,417)
Increase (decrease) in noncurrent compensated absences	(135,962)
Increase (decrease) non current obligations under capital lease	(365,051)
Increase (decrease) in net pension liability	(1,186,000)
Increase (decrease) in deferred inflows	1,581,000
Net cash provided by (used for) operating activities	<u>\$ (12,140,520)</u>

Noncash investing, capital, and financing activities:

The following transaction occurred prior to the statement of net position date:	
Change in fair value of investments	<u>\$ (86,230,192)</u>

The notes to financial statements are an integral part of this statement.



VIRGINIA529  
STATEMENT OF FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUND  
June 30, 2015

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Assets:	
Cash and cash equivalents (Note 1E and 3)	\$ 36,433,939
Receivables:	
Interest and dividends	2,174,287
Accounts Receivable	1,577
Investments:	
Bonds	88,740,664
Mutual funds - Non Index	634,469,515
Mutual funds - Index	1,589,109,732
Stable Value	659,747,194
Equities	68,122,008
Total investments	<u>3,040,189,113</u>
Total Assets	<u>3,078,798,917</u>
Liabilities:	
Accounts payable	979,558
Due to program participants (Note 1K)	3,785,341
Program distributions payable	<u>1,507,708</u>
Total liabilities	<u>6,272,607</u>
Net position held in trust for program participants	<u><u>\$ 3,072,526,310</u></u>

The notes to financial statements are an integral part of this statement.

VIRGINIA529  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUND  
For the Year Ended June 30, 2015

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**ADDITIONS**

Contributions:

From participants	\$ 400,354,650
Total contributions	<u>400,354,650</u>

Investment income:

Net increase in fair value of investments	(105,347,927)
Interest, dividends, and other investment income	164,558,834
Other	441
Total investment income	<u>59,211,348</u>
Less investment expense	<u>(4,384,775)</u>
Net investment income	<u>54,826,573</u>
Total additions	<u>455,181,223</u>

**DEDUCTIONS**

Educational expense benefits	168,797,848
Shares redeemed	23,151,147
Other Expenses	<u>1,492,016</u>
Total deductions	<u>193,441,011</u>

Changes in net position 261,740,212

Net position:

July 1, 2014	<u>2,810,786,098</u>
June 30, 2015	<u>\$ 3,072,526,310</u>

The notes to financial statements are an integral part of this statement.

# Notes to the Financial Statements



## 1. Summary of Significant Accounting Policies

The Virginia College Savings Plan (VA529), a body politic and corporate and an independent agency of the Commonwealth of Virginia, was created in 1994 by the Virginia General Assembly and its enabling legislation is codified at §23-38.75 through §23-38.87:1 of the *Code of Virginia*, as amended. VA529 operates the Commonwealth's Internal Revenue Code (IRC) §529 qualified tuition plan, which offers four programs, Virginia529 prePAID (prePAID), Virginia529 inVEST (inVEST), CollegeAmerica and CollegeWealth.

prePAID is a defined benefit program, which offers contracts, at actuarially determined amounts, that provide for the future payment of undergraduate tuition for the normal full-time course load for students enrolled in a general course of study at any Virginia public higher educational institution and all mandatory fees required as a condition of enrollment of all students. The contract provisions also allow benefits to be used at in-state private or out-of-state institutions with payouts based on earnings and the amounts charged by Virginia's public higher education institutions. Calculations and payouts differ between in-state private and out-of-state institutions. prePAID has a limited enrollment period each year, and is open to children in the ninth grade or younger if the child or participant is a Virginia resident. Since inception, over 118,700 accounts have been opened, with 66,359 contracts remaining active at year-end. The program had total assets invested from contributions, net earnings and other revenue of approximately \$2.7 billion as of June 30, 2015. The program invests contract payments to meet future obligations. Operating costs are paid from program earnings and other revenue. VA529 does not receive any general fund appropriations. VA529's enabling legislation provides that all moneys remaining in its enterprise fund at the end of a biennium shall not revert to the Commonwealth's general fund. VA529 annually assigns net operating revenue to prePAID to support its funded status. Accordingly, net operating revenue of \$29,372,110 was transferred to prePAID for FY2015. The program's assets and income are exempt from federal, state, and local income taxation, except for taxes on unrelated business income. VA529's enabling legislation also provides that a sum sufficient appropriation be included by the Governor in his budget to cover current obligations of VA529, including prePAID's contractual obligations, in the event of a funding shortfall.

inVEST is a defined contribution savings program, which allows participants of all ages to save for qualified higher education expenses, including tuition and fees, at any qualified higher education institution by making contributions into the investment portfolio(s) of their choice. Participants are allowed to select from among 16 investment portfolios. Two additional portfolios remain open in the inVEST program but are closed to new participants. inVEST accounts are subject to investment risks, including the possible loss of principal. The inVEST program is open year round and has no age or residency restrictions. inVEST began operation in December 1999. As of June 30, 2015, 255,708 accounts had been opened, with 197,115 accounts remaining active at year end. These accounts had a net asset value of approximately \$3.1 billion as of June 30, 2015. Investment management fees and inVEST operating expenses are paid on a pro-rata basis by each inVEST account owner and vary according to the portfolio selected. inVEST accounts provide investors with the same federal and state tax benefits available to participants in the prePAID program.

CollegeAmerica, a broker-sold IRC §529 college savings option, is a defined contribution savings program and is administered by the American Funds pursuant to a contract using 40 of the American Funds mutual funds. CollegeWealth is also a defined contribution savings program under which participants invest in FDIC-insured savings products offered through participating banks. CollegeAmerica and CollegeWealth are presented as Other Information. These programs are presented as Other Information as the majority of associated investment and record keeping is maintained by the respective partners, not VA529.

An eleven-member Board administers VA529, consisting of four ex-officio members and seven non-legislative citizens, four to be appointed by the Governor, one to be appointed by the Senate Committee on Rules, and two to be appointed by the Speaker of the House of Delegates. The ex-officio members are the Director of the State Council on Higher Education for Virginia, the Chancellor of the Virginia Community College System, the State Treasurer, and the State Comptroller. The non-legislative citizen members shall have significant experience in finance, accounting, law or investment management. In order to assist the Board in fulfilling its fiduciary duty with the investment of VA529 assets; and in fulfilling its responsibilities relating to VA529's financial reporting processes and internal and financial controls; the Board has appointed an Investment Advisory Committee (IAC) and Audit and Actuarial Committee (A&AC), respectively. The IAC and A&AC are permanent advisory committees of the Board pursuant to §23-38.79:1 of the *Code of Virginia*, as amended. The Board has adopted charters that describe the purpose of the committees as well as their duties and responsibilities, composition and conduct of business.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. VA529 is an integral part of the reporting entity of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The following is a summary of significant accounting policies employed by the VA529.

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

B. Reporting Entity

The accompanying financial statements report the financial position, changes in financial position and cash flows of VA529 as of and for the fiscal year ended June 30, 2015. For financial reporting purposes, VA529 includes all funds and entities over which VA529 is financially accountable and exercises oversight authority.

C. College Savings Systems

College Savings Systems (CSS) is the software development and technical services division of VA529, which was formed in 2004. VA529 has an agreement with Ellucian (formerly SunGard Higher Education) to maintain the College Savings Program (CSP) module of the Banner software suite. CSS provides record keeping software and technical services to other savings and prepaid qualified tuition plans including Virginia. As of June 30, 2015, CSS also provided services to Colorado, Maryland, Texas, and Washington.

VA529's contracts with the aforementioned states have two components; maintenance fees and fees for additional services. The maintenance fees are annual charges assessed to support the Banner CSP module and continued development thereof, and benefits all users/clients. The programming fees are assessed to the states when providing specific software programming changes, at their request, to enhance or change application, contract, transaction or distribution processing; customer web access; or make other system enhancements. The programming fees vary year-to-year based on user/client needs.

CSS fee revenue is included in the enterprise fund as operating revenue. In accordance with the 2015 Appropriation Act, revenue from operations performed for

programs outside of Virginia in fiscal 2015, exceeded all direct and indirect costs of providing the services.

D. [Measurement Focus, Basis of Accounting, and Financial Statement Presentation](#)

VA529 reports the activity of the prePAID program as an enterprise fund, which is a type of proprietary fund. Enterprise funds typically account for transactions related to resources received and used for financing self-supporting entities that offer products and services on a user-charge basis to external users. All operating expenses and all administrative fee revenue collected to support VA529 operations, including administrative revenue and expenses of inVEST, CollegeAmerica and CollegeWealth, are reflected in the enterprise fund.

VA529 reports the activity of the inVEST program as a private-purpose trust fund, which is a type of fiduciary fund. Private-purpose trust funds account for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments.

The financial statements of the proprietary and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating. The principal Enterprise Fund revenues of VA529 are prePAID contract payments for program participants and investment income. VA529 Enterprise Fund expenses include tuition benefits expenses.

VA529's operating component is presented in a separate column, providing transparency in reporting operating position and activity. Operating revenues include administrative and other fees received from CSS as well as the prePAID, inVEST, CollegeAmerica, and CollegeWealth programs. Operating expenses include contractual and personal services.

All proprietary funds reported herein apply all applicable GASB principles per the *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

E. [Cash Equivalents and Investments](#)

Money market investments of VA529, which are deemed short-term, highly liquid investments, are reported at amortized cost. Long-term investments of VA529 are reported at fair value based upon quoted market prices, except for stable value investments, which are reported at contract value. Cash equivalents are investments with an original maturity of three months or less.

VA529 also participated in the Commonwealth's General Account pool, which is managed by the State Treasurer. These pooled investments are valued on an amortized cost basis. VA529 receives no additional distribution of unrealized gains or losses in the fair values of the pool's investments.

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F. Use of Estimates

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

G. prePAID Contract Payments

prePAID contract purchasers can elect to pay their contract in full via a lump sum payment or over time. Customized financing options are available for purchasers electing to pay over time, allowing for payments to be spread over a period determined by the contract purchaser. Contracts must be paid in full prior to drawing benefits and accordingly the maximum number of years available for those purchasers electing to pay over time is approximately equal to the number of years between the beneficiary's current age and their expected college entrance date. prePAID contract payments receivable represent the actuarially determined present value of future payments due from contract holders.

Approximately 54.76 percent of contract holders of outstanding (active) contracts as of June 30, 2015 had elected to pay over time.

H. Accounts Receivable

Accounts receivable reflected in VA529's operating column of the enterprise fund reflect amounts due to VA529 at June 30<sup>th</sup> for administrative and other services provided. These amounts include second calendar quarter administrative fees collected on behalf of VA529 for the CollegeAmerica and the CollegeWealth programs, as well as CSS service fees.

The American Funds pays VA529 an annual fee equal to ten basis points (.10 percent) of the average daily net asset value of the underlying funds held in CollegeAmerica up to \$30 billion. The fee is reduced to seven basis points (.07 percent) for amounts in excess of \$30 billion up to \$50 billion with further reductions above \$50 billion. This fee is calculated and accrued daily and paid to VA529 on a quarterly basis.

CollegeWealth banking partners, Branch Banking & Trust (BB&T) and Union Bank & Trust, pay VA529 an annual fee equal to ten basis points (.10 percent) of the average daily assets held in 529 Bank Products issued by the Banks under the Program. These fees are calculated, accrued and paid to VA529 on a quarterly basis.

I. Administrative Expenses and Budget

VA529 is an independent state agency that does not receive a general fund appropriation from the Commonwealth of Virginia. However, VA529's operating expenditures, funded with non-general fund revenues, are included in the Commonwealth's Appropriation Acts and accordingly are subject to approval by the General Assembly and the Governor. The Board annually reviews and approves an operating budget. Operating expenses are primarily funded from administrative fee revenue. VA529 prepares and submits a biennial budget to the Commonwealth in compliance with biennial budgetary requirements (cash basis). Also, in accordance with its fiduciary responsibility, the Board reviews a comparison of actual versus budgeted expenses each quarter.



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J. Capital Assets

Tangible assets are recorded at cost at the time of acquisition and are reported net of accumulated depreciation. VA529 capitalizes all property, plant, and equipment that have a cost or value greater than \$5,000 and an expected useful life greater than two years. Depreciation is computed on a straight-line basis over the estimated useful life of the property, ranging from five to forty years. Intangible assets with a value of \$100,000 or greater are capitalized. These assets are depreciated over their useful lives.

Intangible assets are nonfinancial in nature, lack physical substance and have an initial useful life extending beyond a single reporting period. These assets may be acquired by purchase or license, through non-exchange transactions or internally generated. These assets are also capital assets and adhere to the same policies of other property, plant and equipment. VA529 has recorded one type of intangible asset, computer software. These assets were acquired through retail purchases and/or internally generated, and are reported in Note 9, Capital Assets.

K. Amounts Due To Program Participants

Amounts due to program participants reflects accrued amounts due and payable at June 30, 2015 to participants for distributions to other qualified tuition programs, or for cancelled or overpaid prepaid contracts or savings accounts. In the Fiduciary Statement of Net Position, due to program participants also includes contributions received from participants that have yet to settle. These funds are classified as a liability until the settlement process is complete.

L. Accrued Leave Policy

Employees accrue annual leave at a rate of four to nine hours semi-monthly, depending on their length of service. Rates may vary for regular part-time employees depending on normal work hours. The maximum accumulation is dependent upon years of service, but in no case may it exceed 54 days at the end of the leave year. All employees leaving the agency are paid for accrued vacation leave up to a maximum limit, not to exceed 36 days for 15-19 years of service and 42 days for 20 or more years of service, at their current earnings rate.

In conformance with Section C60 of GASB Codification, the monetary value of accumulated annual leave payable upon termination is included in the accompanying financial statements. The liability at June 30, 2015, was computed using salary rates effective at that date and represents vacation, compensatory, overtime, recognition, and sick leave earned or disability credits held by employees up to the allowable ceilings, including the liability for VA529's share of Social Security and Medicare taxes on leave balances for which employees will be compensated.

Employees of VA529 have elected to participate in the Virginia Sickness and Disability Program (VSDP). The Virginia Retirement System (VRS) administers the program to provide income protection for absences due to sickness or disability. For employees hired after July 1, 2009, there is a one year waiting period for VSDP and coverage is not provided from the first day on the job.

After a seven calendar-day waiting period following the first incident of disability, eligible employees receive short-term disability benefits ranging from 60 to 100 percent of compensation up to a maximum of 125 work days, based upon months of State service. After a 180 calendar-day waiting period (125 work days of short-term

disability), eligible employees receive long-term disability benefits equal to 60 percent of compensation until they return to work, until age 65, or until death. Employees enrolled in this program are not eligible for disability retirement benefits under the VRS.

One employee, hired prior to January 1, 1999, opted to remain in the traditional sick leave program in which participating employees accrue five hours of leave for each pay period, regardless of the length of service. The employee is not covered under VSDP and remains eligible for disability retirement. Non-VSDP sick leave is payable upon termination of employment and is limited to 25 percent of the value accumulated or \$5,000, whichever is less, under the Commonwealth of Virginia's sick leave pay-out policy for employees with five or more years of service.

All State agencies are required to contribute to the cost of providing disability benefits. Initial contribution requirements to fund the program were determined by the VRS actuary based on an estimate of the amount of the liability for disability benefits that would transfer from VRS to the new program. The contribution requirement was 1.78 percent of payroll for State employees. Further information about this program can be found in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

#### M. [prePAID – Investment in Real Estate](#)

On February 15, 2008, VA529 established Aventura Holdings LLC, a limited liability company, for the purpose of acquiring and owning real estate. VA529 is the sole member of Aventura. On March 20, 2008, VA529's Board approved adding Aventura as an investment vehicle under prePAID and the purchase by Aventura Holdings of a 48,500 square foot office building in Chesterfield County, Virginia. Aventura was funded with \$8.8 million and acquired the office building in April 2008.

The investment in Aventura is reflected in prePAID's assets at \$7.2 million as of fiscal year end. The value was determined by a professional real estate appraisal in June 2015.

VA529 leases the building from Aventura. The Lease was renewed by VA529 for another five years beginning July 1, 2013. The Lease is carried as a capital lease in the enterprise fund financial statements, as VA529 intends to renew the Lease every five years and occupy the building for a time period greater than 75% of the asset's useful life. Accordingly, the financial statements reflect the lease obligation as a liability and the office building as an asset in enterprise fund's financial statements. See the Long-Term Liabilities Note 8 below for a description of the Lease Agreement. Aventura has also established a renewal and replacement reserve funded from 27% of the annual rental payments received from VA529 to cover capital improvements to the building.

## 2. Beginning Net Position Restatement (Enterprise Fund)

The Enterprise Fund's 2015 beginning net position of \$513.6 million differs from the previous fiscal year's ending balance of \$523.3 million as reported in VA529's fiscal 2014 financial statements. The difference primarily resulted from a required beginning balance adjustment to recognize the VA529's proportionate share of the Commonwealth's unfunded pension liability as VA529 implemented GASB Statement No. 68, *Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*.

### 3. Cash, Cash Equivalents, and Investments

The Board of VA529 has established Statements of Investment Policy and Guidelines for VA529's investment programs in accordance with §23-38.80 of the *Code of Virginia*, as amended. This section of the *Code* requires the Board to discharge its duties in a manner which will provide the investment return and risk level consistent with the actuarial return requirements and cash flow demands of VA529 and conforming to all statutes governing the investment of VA529 funds. The Board shall exercise the judgment of care under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but to the permanent disposition of funds, considering the probable income as well as the probable safety of their capital when investing funds. In order to meet the return requirements, VA529's portfolio shall be invested in a broadly diversified investment portfolio including, but not limited to, domestic and foreign stocks, bonds, mutual funds and cash equivalent investments, which are defined as investments with an original maturity of three months or less. The Board's allocation target for the prePAID portfolio, at market value, is 32.5 percent equities, 25.0 percent core fixed income, 27.5 percent non-core fixed income, and 15 percent alternatives. The Board's allocation targets for the inVEST program vary according to the investment objective of each portfolio.

To assist the Board in fulfilling its fiduciary duty with the investment of VA529 assets, the Board has appointed an IAC. The IAC provides the Board with objective and prudent investment advice on all matters related to the management of investments, within the parameters set by the Board's Statement of Investment Policy and Guidelines and the IAC's Charter. The Board has also selected a group of 27 external managers and/or funds. See complete lists of Investment Managers in Appendices A and B. In addition, prePAID contractual payments are considered Commonwealth revenue and as a result must pass through the State Treasury. Prior to being moved to VA529's custodian, these monies along with other minor balances may be invested with the State Treasurer as part of the Commonwealth's General Account. VA529 receives no interest on balances held at the State Treasury and accordingly minimizes amounts held at Treasury.

During fiscal 2014, legislation was passed that excludes inVEST contributions as Commonwealth revenue beginning July 1, 2014. Accordingly, beginning in fiscal 2015 these contributions were deposited directly with VA529's financial institution, Wells Fargo Bank N.A.

The Board has authorized its partner, the American Funds, to offer a subset of their mutual funds to investors in CollegeAmerica. At fiscal year-end, 40 mutual funds were available through the CollegeAmerica program. The Board has oversight and review authority for the investment activity and operations of the CollegeAmerica program. The American Funds is required to seek renewed approval of the use of these mutual funds on an annual basis.

#### Private Equity Investment Commitments

In fiscal year 2015, VA529 extended investment commitments under limited partnership agreements for private equity investments in prePAID. At June 30, 2015, VA529's investment commitments amounted to almost \$149 million.

#### Custodial Credit Risk

*Custodial Credit Risk – Deposits:* Custodial credit risk is the risk that in the event of a bank failure, VA529's deposits may not be returned to it. VA529 does not hold deposits for CollegeAmerica or CollegeWealth. All deposits of the prePAID and inVEST programs are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400, of the *Code of Virginia*.

**Custodial Credit Risk – Investments:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, VA529 will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2015, all investments of the prePAID and inVEST programs, except those investments in open-end mutual funds, certain collective trusts, private equity or hedge funds, were held in VA529's name by VA529's custodian, BNY Mellon Asset Servicing. Approximately 60 percent of total prePAID investments (reported as enterprise fund assets) and 73 percent of total inVEST investments (reported as a private-purpose trust fund) are invested in these vehicles. All investments of the CollegeAmerica program are invested in mutual funds. Investments in open-end mutual funds, collective trusts, private equity and hedge funds are not directly exposed to custodial credit risk because their existence is not evidenced by individual securities.

#### Interest Rate Risk – Fixed Income Securities

As of June 30, 2015, VA529 had fixed income investment securities held in prePAID and inVEST with the following maturities and effective duration. Effective duration is a measure of interest rate and price sensitivity that takes into account options, such as early call provisions, embedded in the securities. It is widely used in the management of fixed income portfolios as it quantifies the risk of interest rate changes.

prePAID		Investment Maturities (in Years)				Duration
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10	Effective Duration (years)
Money Market Funds	\$78,949,275	\$78,949,275	-	-	-	-
Non-Agency Mortgage-Backed Securities	32,914,915	-	-	\$585,307	\$32,329,608	3.81
Asset-Backed Securities	20,517,239	-	\$513,436	3,694,983	16,308,820	3.95
Mortgage-Backed Securities - Agency	11,919,661	-	-	9,408,553	2,511,108	5.49
Corporate Bonds	442,821,904	4,874,445	226,720,059	204,560,447	6,666,953	4.51
Convertible Securities	105,607,941	8,026,142.00	76,638,570	11,731,463	9,211,766.00	-
Bond Funds	497,100,710	-	178,646,950.00	318,453,760.00	-	6.03
Treasury and Agency Securities	1,415,224	95,485.00	-	-	1,319,739.00	5.61
Stable Value <sup>1</sup>	118,526,528	-	118,526,528.00	-	-	3.48
<b>Total</b>	<b>\$1,309,773,397</b>	<b>\$91,945,347</b>	<b>\$601,045,543</b>	<b>\$548,434,513</b>	<b>\$68,347,994</b>	<b>-</b>
inVEST		Investment Maturities (in Years)				Duration
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10	Effective Duration (years)
Money Market Funds	\$34,209,658	\$34,209,658	-	-	-	-
Corporate Bonds	88,740,664	1,028,029	\$32,137,713	\$52,790,697	\$2,784,225	4.50
Bond Funds	514,967,860	-	320,680,586	194,287,274	-	6.11
Stable Value <sup>1</sup>	659,747,194	-	659,747,194	-	-	3.25
<b>Total</b>	<b>\$1,297,665,376</b>	<b>\$35,237,687</b>	<b>\$1,012,565,493</b>	<b>\$247,077,971</b>	<b>\$2,784,225</b>	<b>-</b>

<sup>1</sup>Reported at contract value

VA529's Statements of Investment Policy and Guidelines do not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Although not an explicit requirement, duration of fixed income portfolios, if applicable, is expected to be within +/-20 percent of each portfolio's designated benchmark.

### Credit Risk of Fixed Income Securities

VA529's Statements of Investment Policy and Guidelines require its fixed income securities managers to invest in holdings which, on average, are comprised of high quality securities and may not include securities deemed to be below investment grade. Investment grade is generally defined as a rating of BBB or above by one of the three major rating agencies. This requirement does not apply to VA529's managers who are instructed to manage a specific investment strategy (e.g., high yield fixed income), whether in a separate account or as a dedicated allocation within a broader fixed income portfolio. VA529's fixed income investment securities held in prePAID and inVEST as of June 30, 2015 were rated by Standard & Poor's (S&P) and/or Moody's and the ratings are presented in the charts entitled credit quality by investment type.

### Concentration of Credit Risk

At June 30, 2015, VA529 had no investment securities held in separately managed accounts in prePAID and inVEST in any one issuer that represented 5 percent or more of total investments.

### Mutual Fund Risks

At June 30, 2015, VA529 participated in a number of open-end domestic and foreign equity and fixed income mutual funds and collective trusts in prePAID and inVEST. These funds are subject to various investment risks, including the possibility that the value of the fund's portfolio holdings may fluctuate in response to events specific to the companies in which the fund invests, as well as economic, political or social events in the United States and abroad. Certain mutual funds may be subject to additional risks due to investments in a more limited group of sectors and industries than the broad market. Those funds with holdings issued by entities based outside the United States are subject to foreign securities risks, including currency fluctuations.

The value of and the income generated by fixed income securities held by certain mutual funds in which VA529 participates, may be affected by changing interest rates and credit risk assessments. Lower quality or longer maturity bonds may be subject to greater price volatility than higher quality or shorter maturity bonds.

Prospectuses for each of the mutual funds in which VA529 participates may be requested from VA529, 9001 Arboretum Parkway, North Chesterfield, VA 23236, or at [Virginia529.com](http://Virginia529.com). A prospectus may also be requested directly from each of the underlying fund managers. Prospectuses for each CollegeAmerica mutual fund offering may be obtained directly from the American Funds or from a financial adviser. Please see Supplementary and Other Information for a listing of prePAID, inVEST and CollegeAmerica mutual funds.

### Currency Risk

Currency risk is the risk that changes in currency exchange rates will adversely affect the fair value, in U.S. dollars (USD), of non-USD denominated securities. At June 30, 2015, VA529 had indirect exposure to this risk through its investments in certain mutual funds and other pooled vehicles. More information relating to currency risk in VA529's mutual fund investments can be found in each fund's prospectus.

VA529 has direct exposure to currency risk through investments held in the convertible bonds account managed by Advent Capital Management, LLC. Advent invests in both domestic and international securities and uses currency forward contracts to hedge risks associated with currency fluctuations. The table below shows exposures to non-USD denominated currencies by asset class. A similar exhibit showing non-USD denominated currency exposure associated with the forward contracts is included in Note 5, Investment in Derivative Instruments and Stable Value.

<b>prePAID Currency Exposures by Asset Class</b>			
<b>Currency</b>	<b>Convertible Bonds</b>	<b>Cash &amp; Cash Equivalents</b>	<b>Total</b>
British Pound Sterling	\$3,278,018	\$544,924	\$3,822,942
Canadian Dollar	2,817,205	237	2,817,442
Euro	21,698,545	1,546,696	23,245,241
Hong Kong Dollar	3,551,815	8,912	3,560,727
Japanese Yen	6,001,512	7,567	6,009,079
Singapore Dollar	1,235,657	201,711	1,437,368
Swedish Krona	-	4	4
Swiss Franc	2,188,486	3,306	2,191,792
<b>Total</b>	<b>\$40,771,238</b>	<b>\$2,313,357</b>	<b>\$43,084,595</b>

Note: Amounts shown in U.S. dollars using June 30, 2015 foreign exchange rates.

### Counterparty Risk

Counterparty risk is the risk of loss arising from the failure of one party to a transaction to fulfill its contractual obligation to the other. VA529 has exposure to counterparty risk through its investments. Higher levels of this risk are attributable to VA529's investments in hedge funds, as these types of investments are subject to the potential usage of over-the-counter derivative transactions. Other potential examples of risk for over-the-counter transactions may include transaction costs/inefficiencies/errors, fraud or reputation risk. As of June 30, 2015 approximately 8 percent of prePAID investments were invested in these vehicles.

<b>Rating Agency</b>	<b>inVEST Credit Quality by Investment Type</b>			
	<b>Corporate Bonds</b>	<b>Money Market Funds</b>	<b>Bond Funds</b>	<b>Stable Value</b>
<b>S&amp;P's Quality Rating</b>				
AAA	-	\$ 34,209,658	-	-
BBB+	-	-	-	-
BBB	\$ 200,098	-	-	-
BBB-	3,069,633	-	-	-
BB+	9,247,904	-	-	-
BB	17,191,265	-	-	-
BB-	15,099,231	-	-	-
B+	14,026,440	-	-	-
B	12,250,025	-	-	-
B-	8,434,842	-	-	-
Less than B-	7,374,741	-	-	-
<b>Moody's Quality Rating</b>				
Ba2	131,937	-	-	-
Ba3	752,670	-	-	-
B1	293,153	-	-	-
B3	175,219	-	-	-
Caa1	194,000	-	-	-
Caa2	-	-	-	-
<b>Unrated<sup>1</sup></b>	299,506	-	\$ 514,967,860	\$ 659,747,194

<sup>1</sup>Securities have not been rated by either Standard & Poor's or Moody's



Rating Agency	prePAID Credit Quality by Investment Type								
	Non-Agency Mortgage Backed Securities	Asset-Backed Securities	Mortgage Backed Securities - Agency	Corporate Bonds	Convertibles	Money Market Funds	Bond Funds	Treasury and Agency Securities	Stable Value
<b>Standard &amp; Poor's</b>									
AAA	-	\$5,225,884	-	\$ 409	-	\$78,949,275	-	-	-
AA+	\$ 3,141,316	1,223,904	\$ 11,908,412	-	-	-	-	\$ 1,319,739	-
AA	-	1,352,902	-	-	-	-	-	-	-
AA-	992,750	-	-	-	-	-	-	-	-
A+	4,369,226	750,297	-	-	\$ 4,923,750	-	-	-	-
A	-	-	-	-	2,298,029	-	-	-	-
A-	425,828	-	-	-	2,689,879	-	-	-	-
BBB+	1,411,076	-	-	-	5,893,023	-	-	-	-
BBB	818,683	1,772,063	-	652,491	12,329,909	-	-	-	-
BBB-	1,141,286	985,465	-	13,191,731	8,043,229	-	-	-	-
BB+	728,946	140,216	-	37,690,432	4,958,040	-	-	-	-
BB	2,208,150	834,385	-	58,149,307	3,100,224	-	-	-	-
BB-	-	-	-	66,636,368	2,840,430	-	-	-	-
B+	-	-	-	79,704,866	730,588	-	-	-	-
B	-	712,606	-	82,033,305	1,676,263	-	-	-	-
B-	1,364,201	-	-	34,931,920	-	-	-	-	-
Less than B-	1,556,349	698,104	-	26,984,536	-	-	-	-	-
<b>Moody's</b>									
Aaa	12,231,432	-	-	-	-	-	-	-	-
Aa1	-	32,609	-	-	-	-	-	-	-
Aa3	520,333	-	-	-	-	-	-	-	-
A2	-	878,413	-	-	(14,819)	-	-	-	-
Baa3	-	-	-	-	4,340,000	-	-	-	-
Ba1	-	-	-	-	1,074,228	-	-	-	-
Ba2	-	-	-	3,437,406	-	-	-	-	-
Ba3	-	-	-	1,833,235	-	-	-	-	-
B1	-	-	-	1,179,305	-	-	-	-	-
B2	-	-	-	-	894,077	-	-	-	-
Less than B2	372,684	-	-	815,875	-	-	-	-	-
<b>Unrated<sup>1</sup></b>	<b>1,632,655</b>	<b>5,910,391</b>	<b>11,249</b>	<b>35,580,718</b>	<b>49,831,091</b>	<b>-</b>	<b>\$ 497,100,710</b>	<b>95,485</b>	<b>\$ 118,526,528</b>

<sup>1</sup>Securities have not been rated by either Moody's or Standard & Poor's

#### 4. Investment Derivative Instruments and Stable Value

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires that VA529 disclose its exposure to investment derivative instruments and certain investments described as synthetic guaranteed investment contracts.

##### A) Investment Derivatives:

Pursuant to the Statements of Investment Policy and Guidelines established for VA529's investment programs, investments in derivative securities are prohibited except where specifically permitted in the investment manager agreement for a separate account or prospectus for a fund. The Board may permit managers in certain asset classes to use derivatives consistent with the overall investment guidelines and objectives of that asset class. As of June 30, 2015, three separate account managers were permitted to use derivatives as shown in the table below.

<b>Program</b>	<b>Manager</b>	<b>Asset Class</b>
prePAID	Prudential Investment Management, Inc.	High Yield Fixed Income
inVEST	Prudential Investment Management, Inc.	High Yield Fixed Income
prePAID	Brookfield Investment Management, Inc.	Mortgage-Backed Securities
prePAID	Advent Capital Management, LLC	Convertible Bonds

##### (i) Derivatives held in Prudential Investment Management Accounts

Pursuant to its investment management agreement, Prudential Investment Management may invest in derivatives for hedging, duration and cash management. The portfolio's exposure to derivatives, as measured on a net market value basis, is limited to 10 percent of the market value of the high yield account. At June 30, 2015, neither the inVEST nor prePAID Prudential accounts held any derivatives.

##### (ii) Derivatives held in Brookfield Investment Management Account

Pursuant to its investment management agreement, Brookfield Investment Management may invest in derivatives for hedging, and duration management. The portfolio's notional exposure to derivatives, as measured on a net market value basis, is limited to 10 percent of the market value of the account. U.S. Treasury futures used to hedge duration are excluded from the 10 percent limit. At June 30, 2015, the only derivatives held in the account were U.S. Treasury futures. The following table contains information relating to fair value, changes in fair value and notional value of these derivative instruments. Credit risk is mitigated with these instruments as they are exchange traded.

<b>Investment Derivatives – U.S. Treasury Futures Contracts</b>					
	<b>Changes in Fair Value</b>		<b>Fair Value at June 30, 2015</b>		
	<b>Classification</b>	<b>Amount</b>	<b>Classification</b>	<b>Amount</b>	<b>Notional Amount</b>
<b>Enterprise Fund</b>	Revenue	\$95,485	Investment	\$95,485	\$32,391,406



*(iii) Derivatives held in Advent Capital Management Account*

Pursuant to its investment management agreement, Advent Capital Management, LLC may invest in derivatives for hedging purposes or for the use of efficient portfolio management. Synthetic positions are not allowed and the use of derivatives should not be considered as an alpha generator. Advent primarily uses forward foreign exchange contracts to hedge the value of investments denominated in non-U.S. dollar currencies. Credit risk of exchange traded currency contracts lies with the clearinghouse of the exchange at which the contracts are traded, while credit risk of currency contracts traded over the counter lies with the counterparty. Counterparty risk exposure is generally equal to the unrealized gain on in-the-money contracts. The following table contains a breakdown of these forward contracts by currency.

<b>prePAID Currency Forwards</b>				
<b>Currency</b>	<b>Cost</b>	<b>Foreign Exchange Purchases</b>	<b>Foreign Exchange Sales</b>	<b>Market Value</b>
British Pound Sterling	\$3,795,392	-	(\$3,812,347)	(\$3,812,347)
Canadian Dollar	2,765,704	-	(2,725,366)	(2,725,366)
Euro	23,279,822	\$2,797,068	(26,108,560)	(23,311,492)
Hong Kong Dollar	3,662,342	-	(3,663,084)	(3,663,084)
Japanese Yen	6,207,393	-	(6,149,406)	(6,149,406)
Singapore Dollar	1,462,400	-	(1,455,169)	(1,455,169)
Swiss Franc	2,270,344	-	(2,267,800)	(2,267,800)
U.S. Dollar	(43,443,397)	46,247,587	(2,804,190)	43,443,397
<b>Total</b>	<b>-</b>	<b>\$49,044,655</b>	<b>(\$48,985,922)</b>	<b>\$58,734</b>

Note: Amounts shown in U.S. dollars using June 30, 2015 foreign exchange rates.

**B) Stable Value:**

GASB Statement No. 53 defines stable value investment vehicles as synthetic guaranteed investment contracts. Stable value funds are invested in a high quality, diversified, intermediate term, fixed income portfolio that is protected against interest rate volatility by wrap or investment contracts from banks and insurance companies that guarantee the payment of benefits at book value (cost plus accrued interest) which enables the entire investment to be carried at its book value. VA529 utilizes stable value investments in both the prePAID and inVEST programs. VA529's stable value investments meet the definition of fully benefit-responsive synthetic guaranteed investment contracts and are reported at contract value. At June 30, 2015, VA529 had the following stable value investments outstanding in the respective programs as shown in the table below.

<u>Program</u>	<u>Wrap Provider</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Crediting Rate</u>
prePAID	American General Life	\$36,546,213	2/21/2014	Open ended	1.49%
	State Street Bank	24,048,183	5/1/2002	Open ended	2.75%
	Voya Retirement & Annuity	57,932,132	12/3/2002	Open ended	2.46%
inVEST	American General Life	\$131,667,099	1/16/2014	Open ended	1.36%
	Prudential Retirement Ins. & Annuity	132,092,121	1/30/2014	Open ended	2.07%
	State Street Bank	132,077,172	5/1/2002	Open ended	1.88%
	Voya Retirement & Annuity	132,324,359	12/3/2002	Open ended	2.25%
	Voya Retirement & Annuity	131,586,443	10/5/2012	Open ended	1.30%

At June 30, 2015, the fair value of the underlying investments for both prePAID and inVEST exceeded the book value (notional amount) of the wrap contracts. The book value of the wrap contracts provides a guaranteed minimum value that program participants would receive upon liquidation, and therefore it would have a separate fair value only in the circumstance that the fair value of the associated underlying investment pool fell below the book value of the wrap contracts. In that case the fair value of the wrap contracts would be the amount required to bring the total value of the stable value investments up to the book value of the wrap contracts. Therefore, there is no separate fair value associated with the wrap contracts as of June 30, 2015.

In the prePAID program, the fair value of the stable value investments at June 30, 2015, was \$120,897,896.

<u>prePAID - Stable Value Components</u>	<u>Fair Value</u>
Underlying Investments	\$120,897,896
Wrap Contracts	-
Total	<u>\$120,897,896</u>

In the inVEST program, the fair value of the stable value investments at June 30, 2015, was \$666,732,772.

<u>inVEST - Stable Value Components</u>	<u>Fair Value</u>
Underlying Investments	\$666,732,772
Wrap Contracts	-
Total	<u>\$666,732,772</u>

## 5. Fair Value Measurement and Application

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes inputs of valuation techniques used to determine fair value. The hierarchy gives highest priority to valuations maximizing observable inputs and lowest priority to those utilizing unobservable inputs. The three levels of the fair value hierarchy under GASB Statement No. 72 are described below:

**Level 1:** Quoted prices in active markets for identical assets or liabilities

**Level 2:** Quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active or inputs other than quoted prices that are observable for the asset or liability

**Level 3:** Unobservable inputs

GASB Statement No. 72 also permits certain investments that do not have a readily determinable fair value to be reported at the investment's Net Asset Value (NAV). These investments are excluded from the fair value hierarchy above and accordingly are reported in a separate table. The following exhibits represent VA529's investments and related disclosures in accordance with GASB Statement No. 72 by program.

The requirements of GASB Statement No. 72 are effective for financial statements for periods beginning after June 15, 2015. Virginia529 implemented GASB Statement No. 72 one year early. Implementation of this statement does not impact amounts reported on financial statements, rather it provides additional details and disclosures regarding those amounts.

prePAID investments measured at fair value as of June 30th, 2015:

prePAID Investments By Fair Value Level	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash &amp; Cash Equivalents</b>				
Cash with the Treasurer of VA	\$ 1,245,450	\$ 1,245,450	-	-
Money Market Funds	78,949,275	78,949,275	-	-
Foreign Currencies	2,313,357	2,313,357	-	-
Total Cash & Cash Equivalents	<u>82,508,082</u>	<u>82,508,082</u>	<u>-</u>	<u>-</u>
<b>Debt Securities</b>				
US Treasury & Agency Securities	1,415,224	1,415,224	-	-
Corporate Bonds	442,821,904	-	\$ 442,821,904	-
Convertible Bonds	105,607,941	-	105,607,941	-
Bond Funds	64,499,242	64,499,242	-	-
Asset Backed Securities	20,517,239	-	20,517,239	-
Mortgage Backed - Agency	11,919,661	-	11,919,661	-
Mortgage Backed - Non Agency	32,914,915	-	32,914,915	-
Total Debt Securities	<u>679,696,125</u>	<u>65,914,466</u>	<u>613,781,659</u>	<u>-</u>
<b>Equity Securities</b>				
Equities	237,411,363	237,411,363	-	-
Equity Real Estate	7,199,996	-	-	\$ 7,199,996
Index Funds - Equity	105,402,567	105,402,567	-	-
International & Emerging Markets Funds	427,458,493	427,458,493	-	-
Total Equity Securities	<u>\$ 777,472,419</u>	<u>\$ 770,272,423</u>	<u>-</u>	<u>\$ 7,199,996</u>
<b>Total Investments by Fair Value Level</b>	<u>\$ 1,539,676,626</u>	<u>\$ 918,694,971</u>	<u>\$ 613,781,659</u>	<u>\$ 7,199,996</u>

Description of prePAID investments measured at fair value:

1. Debt and equity securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in level 2 of the fair value hierarchy utilize dealer quotes for similar securities traded in active markets. VA529's investment in real estate as the sole member of Aventura Holdings, LLC. is classified as a level 3 investment. The property value is determined annually at fiscal year-end through the engagement of a professional building appraiser. The appraisal takes into account the comparable sales, cost and income approach in determining value.
2. Stable Value investments are held at contract value and are accordingly excluded from this exhibit.

prePAID investments reported at NAV:

<u>Investments Measured at the NAV</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
<b>Hedge Funds</b>				
Harmonic - Hedge Fund	\$ 90,369,157	-	Monthly	14 Days
Aurora - Hedge Fund of Funds	98,832,306	-	Quarterly	95 Days
<b>Equity Real Estate</b>				
UBS Realty Investors	75,905,774	-	Quarterly	60 Days
<b>Private Equity Funds of Funds</b>				
Private Advisors	29,418,527	\$ 19,059,722		
Adams Street Partners	48,049,530	102,191,300		
Aether Investment Partners	2,503,761	14,213,027		
Commonfund	6,151,928	13,200,000		
<b>Common Trust Funds &amp; Other</b>				
Wellington Management	168,963,773	-	Monthly	10 Days
State Street Global Advisors	117,939,083	-	Daily	2 Days
Ferox Capital	72,523,204	-	Daily	2 Days
BlackRock	73,175,409	-	Daily	2 Days
Total Investments Measured at the NAV	<u>783,832,451</u>			
Total Investments at Fair Value and NAV	<u>\$ 2,323,509,078</u>			

Description of investments measured at NAV:

- Hedge Funds:** This investment type includes two hedge funds. The Harmonic Alpha Plus Macro Fund's investment strategy is global macro, consisting of a range of strategies in global fixed income, equity, commodity and currency markets. The Aurora Offshore Fund Ltd. II is a multi-strategy hedge fund of funds. Underlying investment strategies include, but are not limited to, long/short equities, opportunistic, long/short credit, portfolio hedge, macro and event-driven strategies. The fund is not restricted from participating in any market, strategy or investment. The fair value of investments in this type has been determined using the NAV per share of the investments.
- Equity Real Estate:** This investment type includes one limited partnership. The UBS Trumbull Property Fund's investment strategy is to invest primarily through direct equity-owned real estate assets. The fund also has flexibility to invest in joint venture and debt investments. Investments are generally acquired on an all-cash basis, however debt may be used where UBS determines leverage is prudent and is expected to enhance total return without undue risk. The fair values of investments in this type have been determined using the NAV per share of VA529's ownership of the partnership.
- Private Equity Funds of Funds:** This investment type includes four private equity funds of funds. These investments cannot be redeemed from the fund. Capital is generally expected to be called during the initial 4 to 5 years and is expected to be returned through liquidations of underlying fund investments during the 3rd through 10th year. Investments with Adams Street Partners are diversified geographically through use of the firms U.S. Fund, Non-U.S. Developed Markets Fund, Emerging Markets Fund. VA529 is also diversified by vintage year with respect to these investments with twelve total investments across four vintage years. VA529's investment in Commonfund's Natural Resources IX fund seeks to gain exposure to private investments in oil and natural gas production, development and gathering, oilfield services as well as other opportunities (power, energy infrastructure, mining and clean energy). VA529's investment in Aether Investment Partners' Real Assets III, LP Fund seeks to gain exposure to private investments in oil and natural gas, metals and

minerals, agriculture and timber. VA529's investment in Private Advisors seeks to gain exposure to small company growth equity and buyout, distressed/turnaround, and opportunistic fund managers located in North America through its investments in the Small Company Buyout Fund IV and Small Company Private Equity Fund VI. The fair values of investments in this type have been determined using the March 31, 2015 NAV of VA529's ownership of the partnership, adjusted for cash flows (capital calls) through June 30, 2015.

4. **Common Trust Funds & Other:** This investment type includes three common trust funds. State Street Global Advisors' U.S. Treasury Inflation Protected Securities Index Non-Lending Common Trust Fund, invests in securities or other pooled vehicles in order to track performance of the Barclays Capital U.S. Treasury Inflation Protected Securities Index. Wellington Management Co.'s Emerging Market Debt Common Trust Fund invests in securities, derivatives, private placements or other pooled vehicles in order to generate excess returns over the J.P. Morgan Emerging Markets Bond Index Plus. Additionally, this investment type includes Ferox Capital's Salar Fund PLC, a UCITS IV compliant Dublin, Ireland based Public Limited Company. The Salar Fund's investment strategy is long-only global convertible bonds. The fair value of investments in this type have been determined using the NAV per share of the investments. BlackRock Intermediate Term Credit Bond Index Non-Lendable Fund "B" is an index fund that seeks investment results that correspond generally to the price and yield of a particular index. Through investment in debt securities the fund seeks to approximate as closely as practicable the total rate of return of the intermediate-term division of the Barclays Intermediate Credit Bond Index, which consists of credit bonds with maturities between one and ten years.

inVEST investments measured at fair value as of June 30th, 2015:

Investments By Fair Value Level	Fair Value	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash &amp; Cash Equivalents</b>				
Cash with Wells Fargo	\$ 2,224,281	\$ 2,224,281	-	-
Money Market Funds	59,781,371	59,781,371	-	-
<b>Total Cash &amp; Cash Equivalents</b>	<b>62,005,652</b>	<b>62,005,652</b>	<b>-</b>	<b>-</b>
<b>Debt Securities</b>				
Corporate Bonds	88,740,664	-	\$ 88,740,664	-
Emerging Markets - Debt	173,015,724	173,015,724	-	-
Index Funds - Debt	411,268,301	411,268,301	-	-
<b>Total Debt Securities</b>	<b>673,024,689</b>	<b>584,284,025</b>	<b>88,740,664</b>	<b>-</b>
<b>Equity Securities</b>				
Equities	68,122,008	68,122,008	-	-
Equity Real Estate	150,002,453	150,002,453	-	-
Index Funds - Equity	1,138,795,531	1,138,795,531	-	-
International & Emerging Markets Funds	324,925,527	324,925,527	-	-
<b>Total Equity Securities</b>	<b>1,681,845,519</b>	<b>1,681,845,519</b>	<b>-</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>\$ 2,416,875,860</b>	<b>\$ 2,328,135,195</b>	<b>\$ 88,740,664</b>	<b>\$ -</b>

Description of inVEST investments measured at fair value:

1. Debt and equity securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in level 2 of the fair value hierarchy utilize dealer quotes for similar securities traded in active markets.
2. Stable Value investments are held at contract value and are thus excluded from this exhibit.

**6. Securities Lending Transactions**

A portion of the balance sheet line item Cash and Cash Equivalents represents cash held in the General Account of the Commonwealth and thus represents VA529's allocated share of securities received for securities lending transactions conducted therein. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. VA529 receives no interest on balances held at the State Treasury. Accordingly, VA529 did not share in any gain or loss on securities lending transactions during fiscal 2015.

**7. Commitments**

VA529 is committed under operating leases for business equipment and building space rental. The equipment lease is for a three-year term. The space rental is for one year, automatically renewing each year. In both cases, VA529 expects that in the normal course of business, these leases will be renewed or replaced by similar leases. Rental expense for the fiscal year ended 2015 was \$252,543.

As of June 30, 2015, VA529 had the following total future minimum rental payments due under the above leases.

<u>Fiscal Year</u>	<u>Amount</u>
2016	\$ 264,803
2017	163,004
2018	166,334
2019	<u>119,405</u>
Total future minimum rental payments	<u>\$ 713,546</u>

**8. Long-Term Liabilities**

Long-term liabilities include tuition benefits payable, capital lease payments, and compensated absences.

**A. Tuition Benefits Payable**

This liability represents the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for prePAID.

**B. Capital Lease**

On July 1, 2013, VA529 entered into the first 5-year extension of its Lease Agreement with Aventura Holdings, LLC under which it leases a 48,500 square foot office building through June 30, 2018. The Lease provides for two additional 5-year

renewal options. Pursuant to the Lease, VA529 will make base rent payments as reflected below on an annual basis in advance, and will make additional rent payments on a quarterly basis in advance in an amount sufficient to pay building operating costs for the next quarter. Aventura has entered into an agreement with a property management company for the purpose of providing facilities maintenance, grounds keeping, custodial services, etc. The additional rent payments will cover operating costs incurred by Aventura under the property management agreement. At the end of each quarter, VA529 and Aventura reconcile expenses before funding operating expenses for the subsequent quarter.

<u>Base Rent Periods <sup>(1)</sup></u>	<u>Annual Base Rent</u>
FY15	\$ 546,838
FY16	560,508
FY17	574,521
FY18	588,884
FY19	603,606

(1) 2015 rent at \$11.00 psf with a 2.5% annual escalator.

<u>Future Minimum Lease Payments <sup>(2)</sup></u>	<u>Amount</u>
FY 2020 - FY 2024	\$ 3,252,072
FY 2025 - FY 2029	3,679,421
FY 2030 - FY 2034	4,162,927
FY 2035 - FY 2039	4,709,970
FY 2040 - FY 2044	5,328,898
FY 2045 - FY 2048	4,763,054

(2) Future minimum lease payments calculated with a 2.5% annual escalator and are subject to change upon renegotiation of the lease. See Note 1M – prePAID Investment in Real Estate.

Aventura has also established a renewal and replacement reserve funded from 27% of the annual rental payments received from VA529 to cover capital improvements to the building. The reserve funding schedule is set forth below.

<u>Base Reserve Periods</u>	<u>Annual Reserve Funding</u>
July 1, 2014 – June 30, 2015	\$ 149,138
July 1, 2015 – June 30, 2016	152,866
July 1, 2016 – June 30, 2017	156,688
July 1, 2017 – June 30, 2018	160,605

### C. Compensated Absences

Compensated Absences represent the long-term liability for accrued annual, sick or disability credits, compensatory, overtime, on-call, recognition and other leave for all leave-eligible employees employed on June 25, 2015. Long-term leave liability is further apportioned as current or noncurrent based on whether they are estimated to be due within one year or due greater than one year, respectively.



#### D. Pension Liability

Employees of VA529 are employees of the Commonwealth of Virginia. The employees participate in one of two defined benefit pension plans or a hybrid retirement plan administered by the Virginia Retirement System. The Commonwealth's actuarially determined Net Pension Liability is calculated as of the previous fiscal year end. VA529's proportion of this liability is based on its actuarially determined employer contributions to the pension plan. See Note 11 – Retirement and Pension Plan for additional information on this liability.

Changes in long-term liabilities are shown below:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Compensated absences	\$635,136	\$428,716	\$423,838	\$640,014	\$301,266
Tuition Benefits	2,140,429,355	135,063,496	158,724,026	2,116,768,825	239,233,954
Net Pension Liability	10,380,861	-	1,525,861	8,855,000	-
Capital lease obligation	6,072,470	-	364,380	5,708,090	365,053
<b>Total</b>	<b>\$ 2,157,517,822</b>	<b>\$ 135,492,212</b>	<b>\$ 161,038,105</b>	<b>\$ 2,131,971,929</b>	<b>\$ 239,900,273</b>

#### 9. Capital Assets

The following schedule presents capital asset activity of VA529 for the year ended June 30, 2015.

<b>Enterprise Fund</b>	<b>Balance July 1, 2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2015</b>
<b>Depreciable capital assets:</b>				
Equipment	\$ 1,882,147	\$ 111,744	\$ -	\$ 1,993,891
Software	1,038,466	-	-	1,038,466
Building*	8,800,000	-	-	8,800,000
<b>Total Depreciable capital assets:</b>	<b>11,720,613</b>	<b>111,744</b>	<b>-</b>	<b>11,832,357</b>
<b>Less accumulated depreciation for:</b>				
Equipment	1,173,385	185,056	-	1,358,441
Software	287,468	103,847	-	391,315
Building	701,328	238,196	-	939,524
<b>Total accumulated depreciation</b>	<b>2,162,181</b>	<b>527,099</b>	<b>-</b>	<b>2,689,280</b>
<b>Net depreciable capital assets</b>	<b>9,558,432</b>	<b>(415,355)</b>	<b>-</b>	<b>9,143,077</b>
<b>Total net capital assets</b>	<b>\$ 9,558,432</b>	<b>\$ (415,355)</b>	<b>\$ -</b>	<b>\$ 9,143,077</b>

\*Asset purchased under a capital lease.

#### 10. Summary of Actuarial Assumptions and Methods

VA529's statute requires that it annually determine the actuarial soundness of prePAID. VA529 has assumed that actuarially sound, when applied to prePAID, means that VA529 has sufficient assets (including the value of future installment payments due under current prePAID contracts) to cover the actuarially estimated value of the tuition obligations under those contracts, including any administrative costs associated with those contracts.

The two most significant assumptions used to prepare prePAID's actuarial valuation report and contract pricing are the rates of investment return and future tuition growth. In addition, there are



other assumptions the actuary employs in the actuarial valuation and contract pricing. In the summer of 2015, VA529's Board approved reductions in the rates of investment return and future tuition growth from 6.75 to 6.25 percent, and from 7.5 to 6.5 percent, respectively. The change in the investment return assumption had a negative impact, while the reduction in the tuition growth assumption had a positive impact on the funded position. The following assumptions, reflecting the changes approved by the Board, were used in the actuarial valuation for June 30, 2015:

**Investment Rate of Return:** 6.25 percent per annum.

**Projected Tuition Increase:** The assumed tuition increase rates used in the current and prior year's valuations are outlined in the table below.

	<u>Universities</u>		<u>Community Colleges</u>	
	<u>Current assumption</u>	<u>Prior assumption</u>	<u>Current assumption</u>	<u>Prior assumption</u>
Fall 2016 and thereafter	6.5%	7.5%	6.5%	7.5%

**Cancellations, Rollovers and Transfers:** It is assumed that 0.5 percent of contracts will be cancelled, etc. each year for beneficiaries ages 0 through 17. It is assumed that 5.0 percent of contracts will be cancelled, etc. each year for beneficiaries ages 18 and higher.

**Attendance and Bias:** It is assumed that of the remaining contracts that will be redeemed to pay for tuition, 76 percent of beneficiaries will attend a public university in Virginia, 7.6 percent will attend a private university in Virginia, 11.4 percent will attend a university in another state, and 5 percent will request a cancellation, transfer, or rollover to a savings plan. Weighted average tuition for four-year public universities and two-year community colleges in Virginia was adjusted with 8 percent and 1 percent loads, respectively, to add a bias for attendance at more expensive schools. The highest tuition for a public university in Virginia was assumed to be 50 percent higher than weighted average tuition. Out-of-state students are assumed to receive a benefit equal to the payments made on the contract plus interest at the composite reasonable rate of return.

**Utilization:** It is assumed that participants will begin utilizing their contract at actuarially determined rates, and then redeem up to two semesters of tuition per year until the contract is depleted. While some participants redeem contracts and utilize benefits in the year of expected matriculation, many delay redeeming units until later years.

**Expenses:** The expenses included in the present value of future obligations are those relating to Annual Maintenance Expense per Contract of \$55.58 and Annual Distribution Cost per Contract in Payment Status of \$24.61. These expenses were developed by VA529 staff and are assumed to increase annually at the rate of inflation plus 0.5 percent.

The actuarial prePAID contract payments and the actuarial tuition benefits expense line items represent the annual accrual of contract payments receivable and the obligation for distribution expenses determined by the actuarial valuation. At June 30, 2015, the accrual of the actuarially determined prePAID contract payments receivable and the accrual of the tuition benefits payable both decreased over the prior year. The decrease in the receivable resulted in negative actuarial prePAID contract payments reported as a reduction in operating revenue. The decrease in the payable resulted in negative actuarial prePAID tuition benefit expenses reported as a reduction in operating expenses.

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**Actuarial Valuation Results**


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	<b>2015</b>	<b>2014</b>	<b>Change</b>
prePAID contract payments receivable	\$209,268,825	\$217,829,355	\$(8,560,530)
Tuition benefits payable	\$2,116,768,825	\$2,140,429,355	\$(23,660,530)

## 11. Retirement and Pension Plan

Employees of VA529 are employees of the Commonwealth of Virginia. The employees participate in one of two defined benefit pension plans or a hybrid retirement plan administered by the Virginia Retirement System (VRS or the System).

### [Summary of Significant Accounting Policies](#)

#### ***Pensions***

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 VRS State Employee Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by the plan are reported at fair value.

### [General Information about the Pension Plan](#)

#### ***Plan Description***

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the VRS along with plans for other employer groups in the Commonwealth of Virginia. The State Employee Retirement Plan is a single employer plan treated as a cost-sharing employer plan for financial purposes. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

<b>RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>About Plan 1</b> Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2</b> Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>

<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Eligible Members</b> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• State employees*</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1- April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan.</p> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a</p>	<p><b>Retirement Contributions</b> State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p><b>Retirement Contributions</b> A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution</p>

<p>pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>		<p>components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p><b>Creditable Service</b>          Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b>          Same as Plan 1.</p>	<p><b>Creditable Service</b>  <u><b>Defined Benefit Component:</b></u>          Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u><b>Defined Contributions Component:</b></u>          Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

<p><b>Vesting</b>  Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b>  Same as Plan 1.</p>	<p><b>Vesting</b>  <u><b>Defined Benefit Component:</b></u>  Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u><b>Defined Contributions Component:</b></u>  Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
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<p><b>Calculating the Benefit</b>                  The Basic Benefit is calculated based on a formula using the member’s average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit</b>                  See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b>  <u><b>Defined Benefit Component:</b></u>                  See definition under Plan 1</p> <p><u><b>Defined Contribution Component:</b></u>                  The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><b>Average Final Compensation</b>                  A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b>                  A member’s average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b>                  Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b>                  The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p><b>Service Retirement Multiplier</b>                  Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p><b>Service Retirement Multiplier</b>  <u><b>Defined Benefit Component:</b></u>                  The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><u><b>Defined Contribution Component:</b></u>                  Not applicable.</p>
<p><b>Normal Retirement Age</b>  <b>VRS:</b> Age 65.</p>	<p><b>Normal Retirement Age</b>  <b>VRS:</b> Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age</b>  <u><b>Defined Benefit Component:</b></u>  <b>VRS:</b> Same as Plan 2.</p>

		<p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <b><u>Defined Benefit Component:</u></b> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> Age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <b><u>Defined Benefit Component:</u></b> Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>



<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b>Eligibility:</b>  For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b>Exceptions to COLA Effective Dates:</b>  The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b>Eligibility:</b>  Same as Plan 1</p> <p><b>Exceptions to COLA Effective Dates:</b>  Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  <b>Defined Benefit Component:</b>  Same as Plan 2.</p> <p><b>Defined Contribution Component:</b>  Not applicable.</p> <p><b>Eligibility:</b>  Same as Plan 1 and Plan 2.</p> <p><b>Exceptions to COLA Effective Dates:</b>  Same as Plan 1 and Plan 2.</p>
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<ul style="list-style-type: none"> <li>• The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>		
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <b><u>Defined Benefit Component:</u></b> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that one-year period, the rate for most categories of service will change to actuarial cost.</li> </ul>

		<p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>
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***Contributions***

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5 percent of their compensation toward their retirement. Prior to July 1, 2012, the 5 percent member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5 percent member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency’s contractually required contribution rate for the year ended June 30, 2015 was 12.33 percent of covered employee compensation for employees in the VRS State Employee Retirement Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80 percent. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02 percent of the actuarial rate for the year ended June 30, 2015. Contributions from VA529 to the VRS State Employee Retirement Plan were \$810,765 and \$543,000 for the years ended June 30, 2015 and June 30, 2014, respectively.

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

At June 30, 2015, VA529 reported a liability of \$8,855,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. VA529’s proportion of the Net Pension Liability was based on its actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, VA529’s proportion of the VRS State Employee Retirement Plan was 0.15817 percent as compared to 0.15291 percent at June 30, 2013.

For the year ended June 30, 2015, VA529 recognized pension expense of \$682,000 for the VRS State Employee Retirement. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, VA529 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	-	\$1,581,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	\$256,000	-
Employer contributions subsequent to the measurement date	810,765	-
Total	<u>\$1,066,765</u>	<u>\$1,581,000</u>

\$810,765 reported as deferred outflows of resources related to pensions resulting from VA529's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30, 2015</b>	
2016	\$ 306,000
2017	306,000
2018	317,000
2019	396,000

### ***Actuarial Assumptions***

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06 percent of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0 percent. However, since the difference was minimal, and a more conservative 7.0 percent investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0 percent to simplify preparation of pension liabilities.

## Mortality rates:

## Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

## Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

## Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

***Net Pension Liability***

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2014, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

	<b>State Employee Retirement Plan</b>
Total Pension Liability	\$ 21,766,933
Plan Fiduciary Net Position	<u>16,168,535</u>
Employers' Net Pension Liability (Asset)	<u>\$ 5,598,398</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

***Long-Term Expected Rate of Return***

The long-term expected rate of return on System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of

return (expected returns, net of System 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 asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class (Strategy)</b>	<b>Target Allocation</b>	<b>Arithmetic Long-Term Expected Rate of Return</b>	<b>Weighted Average Long-Term Expected Rate of Return</b>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Market Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>8.33%</u>

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33 percent but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44 percent, including expected inflation of 2.50 percent.

### **Discount Rate**

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by VA529 for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive

employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of VA529's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents VA529's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.0 percent, as well as what VA529's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
VA529's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$12,972,000	\$8,855,000	\$5,403,000

***Pension Plan Fiduciary Net Position***

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS Comprehensive Annual Financial Reports (CAFRs). The VRS CAFRs may be downloaded from the VRS website at [www.varetire.org/publications/index.asp](http://www.varetire.org/publications/index.asp), or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

***Payables to the Pension Plan***

As of June 30, 2015 VA529 reported payables to the VRS State Employee Retirement Plan in the amount of \$47,670. This amount is largely comprised of payments due to VRS that were not made until after the fiscal year end as a result of timing of payroll payment dates. Additional information regarding the Plan's pension liability can be found in the Supplementary Information section of this report.

## **12. Risk Management**

VA529 is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. VA529 participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bond, automobile, and airplanes. VA529 pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VA529's information technology disaster recovery site is provided through a co-location agreement. The co-location has a fully equipped network environment as well as multiple direct-access Internet feeds necessary to facilitate recovery of mission critical VA529 systems. VA529 also has a co-location agreement in place to provide alternate office space for periods of one business day to four weeks in the event that VA529 no longer has access to its primary office facilities.



### 13. SOAR Virginia

VA529's Board approved the creation and funding of SOAR Virginia® as a pilot program in fiscal 2010. SOAR Virginia is an early commitment scholarship program created to inspire and assist high school students to reach their post-secondary education goals. To participate, eligible students pledge to meet program requirements. In return, participating students receive a range of assistance and accumulate scholarship support up to \$2,000 to apply toward their post-secondary education expenses. SOAR Virginia is a unique program created by VA529 to further its mission to make college more affordable and accessible to all Virginians and is offered in partnership with local Virginia college access providers.

The Board approved initial funding of \$2 million per fiscal year beginning in 2011 and continuing through 2014 into an inVEST account in the name of VA529 for the development of the pilot program. As of June 30, 2015, \$8 million had been deposited in the SOAR account. Amounts deposited, plus earnings thereon, remain in the account until distributed. Amounts are allocated to students once awarded pursuant to program rules. VA529 will not commit support in excess of amounts on-hand in the SOAR Virginia account. As of June 30, 2015, the SOAR Virginia account had a balance of \$8.33 million. During fiscal year 2015 \$102,855 was distributed to institutions on behalf of SOAR participants. Details as to the number of students enrolled in the pilot program and amounts committed as of June 30, 2015 are shown below.

Number of Students Enrolled (1)	Award Amounts Allocated to Enrolled Students	Additional Awards Enrolled Students May Receive	Total SOAR Commitment
1,713	\$1,498,194	\$1,596,000	\$3,094,194

(1) Number of students that have completed a SOAR application and pledge, and have been admitted to and are currently enrolled in the program

### 14. Scholarship Program And Promotional Accounts

The VA529 scholarship program consists of prePAID and inVEST third party scholarship accounts (excluding SOAR Virginia) established to provide a range of benefits to future beneficiaries. The purpose of the program is to enable individuals, organizations, community groups, corporations, and trusts to make qualified charitable contributions, which are used to purchase prePAID and inVEST accounts for beneficiaries. VA529's scholarship program's mission is to work with community partners to make the dream of college a reality for deserving youth in Virginia.

In addition to scholarship accounts, VA529 awards prePAID or inVEST promotional accounts that do not specifically qualify as scholarships as defined by federal law. Like scholarship accounts, these accounts are funded by VA529, individuals, organizations, school groups, or other entities.



Active scholarship (excluding SOAR) and promotional accounts at June 30, 2015:

Program	Scholarship		Promotional	
	Accounts	Value	Accounts	Value
<b>inVEST</b>	268	\$927,960	208	\$1,007,185
<b>prePAID</b>	23	\$415,358	12	\$111,722
prePAID value represents the cancellation value of accounts at June 30, 2015				
inVEST value represents the aggregate market value of the investments in the portfolios at June 30, 2015				

## 15. Unrelated Business Income Tax

As a qualified tuition program under IRC §529, VA529 is subject to tax on unrelated business income. VA529 invests in certain agreements and funds that may produce unrelated business income. As such, VA529 may pay taxes on unrelated business income. During fiscal year 2015 VA529 paid no taxes as there was no reportable unrelated business income during the prior fiscal year. VA529 will determine and pay its unrelated business income tax liability, if any, for fiscal 2015 after it receives all Schedule K-1s at the end of calendar 2015.



# Required Supplementary Information



**VA529 Pension Liability  
Required Supplementary Information**

<b>Schedule of VA529's Share of Net Pension Liability VRS State Employee Retirement Plan For the Year Ended June 30, 2015 *</b>		<b>2015</b>
VA529's Proportion of the Net Pension Liability (Asset)		0.15817%
VA529's Proportionate Share of the Net Pension Liability (Asset)		\$8,855,000
VA529's Covered-Employee Payroll		\$8,595,440
VA529's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll		103.02%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		74.28%
<i>Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data are available. However, additional years will be included as they become available.</i>		
* The amounts presented have a measurement date of the previous fiscal year end		

<b>Schedule of VA529 Contributions for the year ended June 30, 2015</b>				
<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Employer's Covered Employee Payroll</b>	<b>Contributions as a % of Covered Employee Payroll</b>
\$810,765	\$810,765	\$0	\$9,569,826	8.47%

**Notes to Required Supplementary Information  
For the Year Ended June 30, 2015**

**Changes of benefit terms** – There have been no significant changes to the Virginia Retirement System (VRS or System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

**VA529 Pension Liability**  
**Required Supplementary Information**

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**Changes of assumptions** – The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

See Note 11 – Retirement and Pension Plan for additional accounting disclosures of pension expenses and liabilities.

# Supplementary Information





## APPENDIX A

## Mutual Funds by Program

Virginia529 prePAID<sup>SM</sup>

Aberdeen Asset Management, Inc.	Emerging Market Equity Fund
BlackRock, Inc.	T-Fund (Cash and Equivalents)
Capital Research & Management Co.	American Funds EuroPacific Growth Fund
Templeton Institutional Funds, Inc.	Templeton Foreign Equity Series
The Vanguard Group, Inc.	Institutional Index Fund

Virginia529 inVEST<sup>SM</sup>

Aberdeen Asset Management, Inc.	Emerging Market Equity Fund
Capital Research & Management Co.	American Funds EuroPacific Growth Fund
Templeton Institutional Funds, Inc.	Templeton Foreign Equity Series
Morgan Stanley Investment Management, Inc.	Institutional Global Real Estate Fund
Parnassus Investments	Core Equity Fund
Stone Harbor Investment Partners LP	Emerging Market Debt Fund
The Vanguard Group, Inc.	Institutional Index Fund
The Vanguard Group, Inc.	Small Cap Index Fund
The Vanguard Group, Inc.	LifeStrategy Growth Fund
The Vanguard Group, Inc.	LifeStrategy Moderate Growth Fund
The Vanguard Group, Inc.	LifeStrategy Income Fund
The Vanguard Group, Inc.	Total Stock Market Index Fund
The Vanguard Group, Inc.	Total Bond Market Index Fund
The Vanguard Group, Inc.	Total International Stock Index Fund
The Vanguard Group, Inc.	Inflation-Protected Securities Fund
The Vanguard Group, Inc.	REIT Index Fund

## APPENDIX B

## Separate Account, Commingled Fund &amp; Alternative Managers by Program

Virginia529 prePAID<sup>SM</sup>**Investment Manager**

Adams Street Partners  
 Advent Capital Management, LLC  
 Aether Investment Partners, LLC  
 Aurora Investment Management, LLC  
 Commonfund  
 BlackRock, Inc.  
 Brookfield Investment Management, Inc.  
 Donald Smith & Co.  
 Ferox Capital, LLP  
 Harmonic Capital Partners  
 Invesco Advisers, Inc.  
 Private Advisors, LLC  
 Prudential Investment Management, Inc.  
 Shenkman Capital Management, Inc.  
 State Street Global Advisors  
 Stone Harbor Investment Partners LP  
 Thompson, Siegel & Walmsley, LLC  
 UBS Realty Investors, LLC  
 Wellington Management Co., LLP  
 Westfield Capital Management Co., LP

**Investment Strategy**

Private Equity Fund of Funds  
 Convertible Fixed Income  
 Private Equity Fund of Funds  
 Market Neutral Hedge Fund of Funds  
 Private Equity Fund of Funds  
 Intermediate Corporate Bonds  
 Mortgage-Backed Securities  
 Small Cap Value Domestic Equity  
 Convertible Fixed Income  
 Global Macro Hedge Fund  
 Stable Value Fixed Income  
 Private Equity Fund of Funds  
 High Yield Fixed Income  
 Senior Secured Bank Loans  
 Indexed US Inflation Protected Securities  
 Emerging Market Debt Blend  
 SMID Cap Value Domestic Equity  
 Private Real Estate  
 Emerging Market Debt  
 Mid Cap Growth Domestic Equity

Virginia529 inVEST<sup>SM</sup>**Investment Manager**

Invesco Advisers, Inc.  
 Prudential Investment Management, Inc.  
 Rothschild Asset Management, Inc.

**Investment Strategy**

Stable Value Fixed Income  
 High Yield Fixed Income  
 SMID Cap Value Domestic Equity

**Appendix C**  
**Investment Details by Program as of June 30, 2015**  
**Virginia529 prePAID<sup>SM</sup>**

Investment Manager	Asset Class	Mutual Fund(s) (if applicable)	Aggregate Fair Value <sup>3</sup>	% of Total Fund <sup>1</sup>
<b>Equities</b>				
Aberdeen Asset Management, Inc.	Emerging Market	Emerging Market Equity	\$ 175,990,006	7.3%
Capital Research & Management Co.	International Core	American Funds EuroPacific Growth	124,876,631	5.2%
Donald Smith & Co.	Small Cap Value	N/A	62,015,416	2.6%
Templeton Institutional Funds, Inc.	International Value	Templeton Foreign Equity Series	126,591,856	5.2%
The Vanguard Group, Inc.	Large Cap Domestic Blend	Institutional Index	105,402,567	4.4%
Thompson, Siegel & Walmsley, LLC	Small/Mid Cap Value	N/A	77,983,284	3.2%
Westfield Capital Management Co., LP	Mid Cap Growth	N/A	114,693,634	4.8%
<i>Total Equities</i>			<u>787,553,394</u>	<u>32.7%</u>
<b>Core Fixed Income</b>				
BlackRock, Inc. <sup>2</sup>	Cash Equivalents	T-Fund	527,717	0.0%
BlackRock, Inc.	Intermediate Corporate Bonds	N/A	73,175,409	3.0%
Brookfield Investment Management, Inc.	Mortgage-Backed Securities	N/A	73,641,008	3.1%
Invesco Advisers, Inc. <sup>3</sup>	Stable Value	N/A	123,884,258	5.1%
Shenkman Capital Management, Inc.	Senior Secured Bank Loans	N/A	218,337,862	9.1%
State Street Global Advisors	Inflation Protected Securities	N/A	117,939,083	4.9%
Treasurer of Virginia	Cash Equivalents	N/A	1,245,450	0.1%
VA529 Transition Account	N/A	N/A	709,666	0.0%
<i>Total Core Fixed Income</i>			<u>609,460,453</u>	<u>25.3%</u>
<b>Non-Core Fixed Income</b>				
Advent Capital Management, LLC	Convertible Bonds	N/A	110,244,668	4.6%
Ferox Capital, LLP	Convertible Bonds	N/A	72,523,204	3.0%
Prudential Investment Management, Inc.	High Yield Bonds	N/A	239,584,140	9.9%
Stone Harbor Investment Partners LP	Emerging Markets Debt Blend	Emerging Markets Debt & Local Markets	64,499,242	2.7%
Wellington Management Co., LLP	Emerging Markets Debt	N/A	168,963,773	7.0%
<i>Total Non-Core Fixed Income</i>			<u>655,815,027</u>	<u>27.2%</u>
<b>Alternative Investments</b>				
Adams Street Partners	Private Equity Fund of Funds	N/A	48,049,530	2.0%
Aether Investment Partners, LLC	Private Equity Fund of Funds	N/A	2,503,761	0.1%
Aurora Investment Management, LLC	Hedge Fund of Funds	N/A	98,832,306	4.1%
Aventura Holdings, LLC	Private Real Estate	N/A	7,684,211	0.3%
Commonfund	Private Equity Fund of Funds	N/A	6,151,927	0.3%
Harmonic Capital Partners	Hedge Fund	N/A	90,369,157	3.7%
Private Advisors, LLC	Private Equity Fund of Funds	N/A	29,418,527	1.2%
UBS Realty Investors, LLC	Private Real Estate	N/A	75,905,774	3.1%
<i>Total Alternative Investments</i>			<u>358,915,193</u>	<u>14.9%</u>
<b>Grand Total</b>			<u>\$ 2,411,744,067</u>	<u>100.0%</u>

<sup>1</sup>May not total 100% due to rounding. <sup>2</sup>BlackRock, Inc. operating cash in the amount of \$30,291,539 is not included in the total above. <sup>3</sup>Stable value assets shown at contract value.

## Investment Details by Program as of June 30, 2015

Virginia529 inVEST<sup>SM</sup>

Investment Manager	Asset Class	Mutual Fund (if applicable)	Aggregate Fair Value <sup>1</sup>
<b>Age-Based Portfolios</b>			
Aberdeen Asset Management, Inc.	Emerging Markets Equity	Emerging Market Equity Fund	\$ 108,032,520
Capital Research & Management Co.	International Core Equity	American Funds EuroPacific Growth	109,266,677
Templeton Institutional Funds, Inc.	International Value Equity	Templeton Foreign Equity Series	107,626,330
Invesco Advisers, Inc.	Stable Value	N/A	688,843,276
Morgan Stanley Investment Management, Inc.	Global REITs	Institutional Global Real Estate Fund	110,956,552
Prudential Investment Management, Inc.	High Yield Bonds	N/A	91,556,215
Rothschild Asset Management	Small/Mid Cap Domestic Equity	N/A	69,497,354
Stone Harbor Investment Partners LP	Emerging Markets Debt	Emerging Market Debt Fund	173,015,724
The Vanguard Group, Inc.	Intermediate Core Fixed Income	Total Bond Market Index Fund	293,610,862
The Vanguard Group, Inc.	Large-Cap Domestic Equity Blend	Institutional Index Fund	206,877,239
The Vanguard Group, Inc.	Small Cap Domestic Equity Blend	Small Cap Index Fund	47,262,639
<i>Total Age-Based Evolving Portfolios</i>			<u>2,006,545,388</u>
<b>Static Portfolios</b>			
Parnassus Investments	Socially Responsible Large Cap Core Equity	Core Equity Fund	25,571,713
The Vanguard Group, Inc.	80% Equities 20% Fixed Income	LifeStrategy Growth Fund	393,364,392
The Vanguard Group, Inc.	60% Equities 40% Fixed Income	LifeStrategy Moderate Growth Fund	178,948,334
The Vanguard Group, Inc.	20% Equities 80% Fixed Income	LifeStrategy Income Fund	56,526,523
The Vanguard Group, Inc.	Inflation Protected Securities	Inflation-Protected Securities Fund	21,271,550
The Vanguard Group, Inc.	Real Estate Investment Trust	REIT Index Fund	39,045,901
The Vanguard Group, Inc.	Intermediate Core Fixed Income	Total Bond Market Index Fund	27,069,724
The Vanguard Group, Inc.	International Equity	Total International Stock Index Fund	69,316,164
The Vanguard Group, Inc.	Domestic Equity Blend	Total Stock Market Index Fund	255,816,404
<i>Total Static Portfolios</i>			<u>1,066,930,705</u>
<b>Grand Total</b>			<u><u>\$ 3,073,476,093</u></u>

Cash held with the Treasurer of Virginia as well as with BNY Mellon (custodian) in the amount of \$3,146,959 is not included in the total above.

<sup>1</sup>Stable value assets shown at contract value

# Other Information



**CollegeAmerica®**

CollegeAmerica, a broker-sold IRC §529 college savings option, was launched on February 15, 2002. CollegeAmerica is a defined contribution savings program administered by Capital Research and Management Company, American Funds Distributors, Inc., and American Funds Service Company, Inc. (together, the American Funds) pursuant to a contract. The American Funds acts as program manager and provides all back office and operational services for the program. As a result of this structure, VA529's staff has minimal day-to-day administrative responsibility, other than program oversight and review. VA529 has contracted these services with American Funds through February 15, 2040.

As of June 30, 2015, 40 American Funds mutual funds were approved by VA529 and available through the program. A complete list is shown in the tables on the following pages. In September 2014 the Board approved the addition of the American Funds' Inflation Linked Bond Fund. This fund was available to investors in January 2015 and ended the fiscal year with approximately \$2.3 million in assets. Additionally, the American Funds College 2033 Fund was added during the fiscal year to maintain the glide path of the age-based track that was Board approved in September 2014. CollegeAmerica is available year round and has no age or residency restrictions. Accounts are subject to market risk, including the possible loss of principal. As of June 30, 2015, approximately 2.14 million unique active accounts were open with net assets in excess of \$49.8 billion. American Funds defines unique active accounts as unique open account numbers at period end. Fees and expenses of the program are also paid on a pro-rata basis by each account owner and vary according to the fund and share class selected.

A separate audited report for each of the 40 funds offered in the CollegeAmerica program is published annually by the American Funds. Each of the funds has a different year ending date, so these audited reports are published throughout the year. An individual fund audit report includes that fund's results for all share classes offered in the fund, including the IRC §529 share classes created for the CollegeAmerica program. The individual fund reports are available in their entirety from the American Funds. A summary of the 529 Share Class Net Assets as of Fund Fiscal Year End and at June 30, 2015 for each fund are presented in the following charts.

## CollegeAmerica

## 529 Share Class Net Assets as of Fund Fiscal Year End (dollars and shares in thousands)

Fund	Shares	Net Assets	Fiscal Year End
<b>Growth funds</b>			
AMCAP Fund®	66,114	\$ 1,876,146	02/28/15
EuroPacific Growth Fund®	35,737	1,756,970	03/31/15
The Growth Fund of America®	171,023	7,861,151	08/31/14
The New Economy Fund®	13,894	552,976	11/30/14
New Perspective Fund®	53,693	2,018,071	09/30/14
New World Fund®	18,260	1,068,561	10/31/14
SMALLCAP World Fund®	28,531	1,359,042	09/30/14
<b>Growth-and-income funds</b>			
American Mutual Fund®	25,921	978,156	10/31/14
Capital World Growth and Income Fund®	87,665	4,180,054	11/30/14
Developing World Growth and Income Fund <sup>SM</sup>	1,832	19,875	11/30/14
Fundamental Investors <sup>SM</sup>	45,487	2,364,730	12/31/14
International Growth and Income Fund <sup>SM</sup>	4,872	177,795	06/30/14
The Investment Company of America®	79,339	2,934,439	12/31/14
Washington Mutual Investors Fund <sup>SM</sup>	61,600	2,531,207	04/30/15
<b>Equity-income funds</b>			
Capital Income Builder®	52,276	3,175,136	10/31/14
The Income Fund of America®	97,421	2,083,819	07/31/14
<b>Balanced funds</b>			
American Balanced Fund®	164,415	4,063,711	12/31/14
American Funds Global Balanced Fund <sup>SM</sup>	9,340	293,778	10/31/14
<b>Bond funds</b>			
American High-Income Trust <sup>SM</sup>	49,743	551,595	09/30/14
American Funds Inflation Linked Bond Fund	N/A	N/A	11/30/14
The Bond Fund of America <sup>SM</sup>	112,612	1,442,380	12/31/14
Capital World Bond Fund®	28,351	580,305	09/30/14
Intermediate Bond Fund of America®	39,548	536,394	08/31/14
Short-Term Bond Fund of America <sup>SM</sup>	43,660	436,208	08/31/14
U.S. Government Securities Fund <sup>SM</sup>	15,782	220,682	08/31/14
American Funds Mortgage Fund <sup>SM</sup>	2,130	21,731	08/31/14
<b>Money market fund</b>			
American Funds Money Market Fund®	1,147,867	1,147,867	09/30/14
<b>American Funds College Target Date Series funds</b>			
American Funds College 2015 Fund <sup>SM</sup>	29,595	301,964	10/31/14
American Funds College 2018 Fund <sup>SM</sup>	48,571	538,661	10/31/14
American Funds College 2021 Fund <sup>SM</sup>	45,520	527,283	10/31/14
American Funds College 2024 Fund <sup>SM</sup>	37,272	450,605	10/31/14
American Funds College 2027 Fund <sup>SM</sup>	26,833	335,753	10/31/14
American Funds College 2030 Fund <sup>SM</sup>	27,554	355,994	10/31/14
American Funds College 2033 Fund <sup>SM</sup>	N/A	N/A	10/31/14
American Funds College Enrollment Fund <sup>SM</sup>	8,258	82,322	10/31/14
<b>American Funds Portfolio Series<sup>SM</sup> funds</b>			
American Funds Global Growth Portfolio <sup>SM</sup>	9,778	144,221	10/31/14
American Funds Growth Portfolio <sup>SM</sup>	17,700	270,796	10/31/14
American Funds Growth and Income Portfolio <sup>SM</sup>	24,840	342,377	10/31/14
American Funds Balanced Portfolio <sup>SM</sup>	17,836	237,232	10/31/14
American Funds Income Portfolio <sup>SM</sup>	9,381	112,219	10/31/14
American Funds Preservation Portfolio <sup>SM</sup>	7,674	76,359	10/31/14

Data compiled from American Funds audited fund statements



## CollegeAmerica

529 Share Class Net Assets as of June 30, 2015 (dollars and shares in thousands)

Fund	Shares	Net Assets
<b>Growth funds</b>		
AMCAP Fund®	68,870	\$ 1,900,579
EuroPacific Growth Fund®	36,075	1,791,013
The Growth Fund of America®	186,612	8,200,270
The New Economy Fund®	15,543	607,157
New Perspective Fund®	56,829	2,143,689
New World Fund®	18,937	1,027,167
SMALLCAP World Fund®	31,155	1,538,590
<b>Growth-and-income funds</b>		
American Mutual Fund®	27,573	1,000,554
Capital World Growth and Income Fund®	88,152	4,115,670
Developing World Growth and Income Fund <sup>SM</sup>	2,780	28,156
Fundamental Investors <sup>SM</sup>	46,210	2,430,522
International Growth and Income Fund <sup>SM</sup>	5,632	179,889
The Investment Company of America®	79,865	2,934,068
Washington Mutual Investors Fund <sup>SM</sup>	61,546	2,465,880
<b>Equity-income funds</b>		
Capital Income Builder®	53,481	3,135,881
The Income Fund of America®	99,860	2,109,279
<b>Balanced funds</b>		
American Balanced Fund®	167,245	4,101,694
American Funds Global Balanced Fund <sup>SM</sup>	10,201	306,129
<b>Bond funds</b>		
American High-Income Trust <sup>SM</sup>	48,622	517,341
American Funds Inflation Linked Bond Fund	235	2,255
The Bond Fund of America <sup>SM</sup>	112,420	1,425,487
Capital World Bond Fund®	27,667	532,025
Intermediate Bond Fund of America®	39,909	539,972
Short-Term Bond Fund of America <sup>SM</sup>	44,687	446,488
U.S. Government Securities Fund <sup>SM</sup>	15,080	211,453
American Funds Mortgage Fund <sup>SM</sup>	2,453	24,920
<b>Money market fund</b>		
American Funds Money Market Fund®	1,228,408	1,228,408
<b>American Funds College Target Date Series funds</b>		
American Funds College 2018 Fund <sup>SM</sup>	63,949	698,500
American Funds College 2021 Fund <sup>SM</sup>	61,404	695,466
American Funds College 2024 Fund <sup>SM</sup>	51,384	603,772
American Funds College 2027 Fund <sup>SM</sup>	37,573	460,194
American Funds College 2030 Fund <sup>SM</sup>	41,636	530,770
American Funds College 2033 Fund <sup>SM</sup>	1,867	18,706
American Funds College Enrollment Fund <sup>SM</sup>	44,099	438,078
<b>American Funds Portfolio Series<sup>SM</sup> funds</b>		
American Funds Global Growth Portfolio <sup>SM</sup>	12,230	182,177
American Funds Growth Portfolio <sup>SM</sup>	24,237	381,868
American Funds Growth and Income Portfolio <sup>SM</sup>	30,180	406,724
American Funds Balanced Portfolio <sup>SM</sup>	21,453	286,293
American Funds Income Portfolio <sup>SM</sup>	10,945	127,794
American Funds Preservation Portfolio <sup>SM</sup>	9,033	89,702
<b>Total Assets</b>		<b>\$ 49,864,580</b>

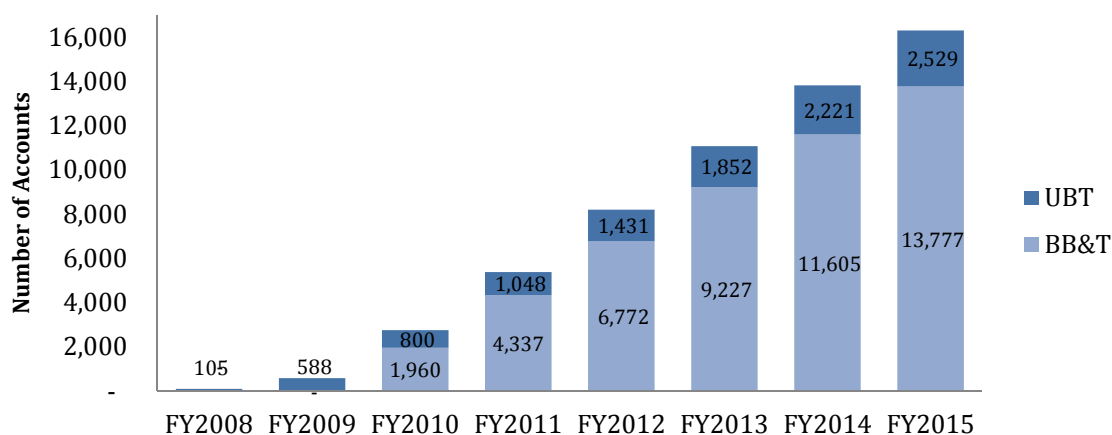
Data compiled from American Funds reports. Figures may not foot due to rounding

## CollegeWealth®

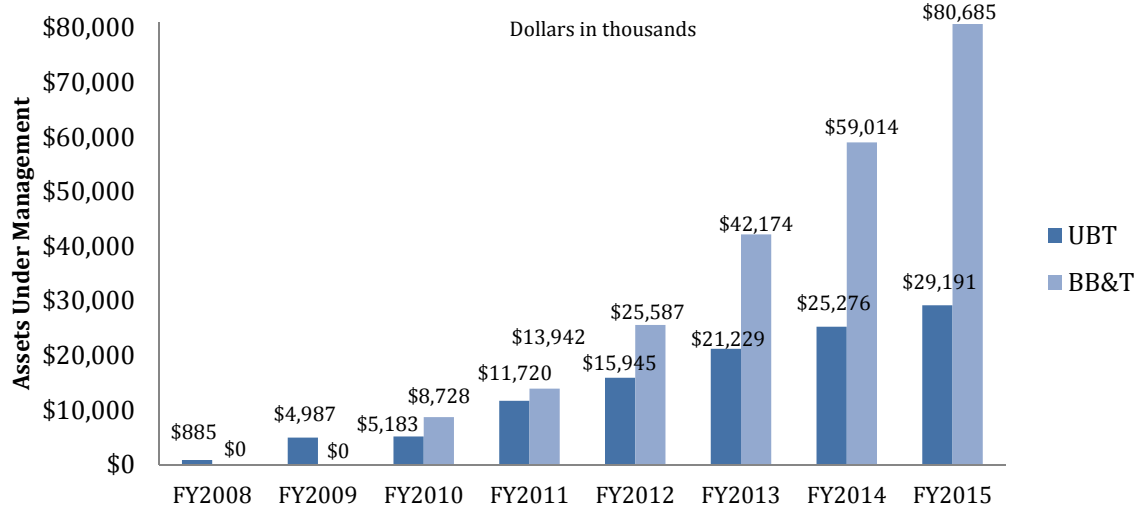
CollegeWealth is VA529's FDIC-insured defined contribution 529 college savings program, provided in partnership with two participating financial institutions; BB&T and Union Bank & Trust. Each CollegeWealth college savings account with a value up to \$250,000 (when combined with any other holdings of an individual at any one bank) is insured by the FDIC. CollegeWealth began in the autumn of 2007 with Union Bank & Trust (UBT) as VA529's first banking partner. In the autumn of 2009, VA529 added Branch Banking and Trust (BB&T) Corporation as a banking partner in an effort to significantly expand the availability of CollegeWealth within and outside of the Commonwealth. The partnership made CollegeWealth available throughout Virginia and across the country. As of June 30, 2015 there were 16,306 unique active accounts with net assets in excess of \$109.8 million. Unique active accounts represent all active accounts at period end. The net assets represented amounts held in savings instruments at the participating banks and were thus not subject to fair market value adjustments at year end.

Since its inception, the CollegeWealth program has continued to grow. The charts below provide details on the growth in the number of accounts and assets for the program.

### Growth in Accounts Under Management as of Fiscal Year End



### Growth in Assets Under Management as of Fiscal Year End



**VIRGINIA COLLEGE SAVINGS PLAN**  
N. Chesterfield, Virginia

**BOARD MEMBERS**  
As of June 30, 2015

Mr. Shawn P. McLaughlin, Chairman

Dr. Edward H. Bersoff

Mr. Peter A. Blake

Dr. Glenn Dubois

Ms. Manju Ganeriwala

Mr. William S. Jaisen

Mr. Philip R. Langham

Mr. Timothy J. Sullivan

Mr. Peter M. Vogt

Mr. David A. Von Moll

Mr. John D. Whitlock

**CHIEF EXECUTIVE OFFICER**

Ms. Mary G. Morris