Audited Financial Statements with Other Financial Information

West Virginia College Prepaid Tuition and Savings Program

Year Ended June 30, 2012

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West Virginia College Prepaid Tuition and Savings Program

Financial Statements with Other Financial Information for the
Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the enterprise funds and the fiduciary fund of the West Virginia College Prepaid Tuition and Savings Program (the "Program"), as of and for the year ended June 30, 2012, which collectively comprise the Program's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on the respective 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the enterprise funds and the fiduciary fund of the Program, as of June 30, 2012, and the respective changes in financial position and respective cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, the financial statements of the enterprise funds include investments valued at $77,821,459 (95.2% of total assets) as of June 30, 2012, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on valuations provided by the West Virginia Investment Management Board (the "WVIMB") as the fair value of the enterprise funds' shares of the WVIMB public investment pools in which the funds participate.

The management’s discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Program’s management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements. The Other Financial Information listed in the table of contents is presented for purposes of additional analyses and is not a required part of the basic financial statements of the Program. This supplementary information is the responsibility of the Program’s management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Deloitte & Touche LLP

January 7, 2013

West Virginia College Prepaid Tuition and Savings Program

Management's Discussion and Analysis

June 30, 2012

As management of the West Virginia College Prepaid Tuition and Savings Program (the "Program"), we offer readers of the financial statements of the Program this discussion and analysis of the Program's financial performance for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented in this section in conjunction with the Program's financial statements, including notes to the financial statements, which follow this section.

Financial Highlights

Net assets of the Program's enterprise funds decreased $15.8 million for the fiscal year ended June 30, 2012. The actuarially funded ratio, which is assets divided by liabilities, was 83.8%. The ratio was 88.5% for the fiscal year ended June 30, 2011. The decrease in net assets was driven by adjustments to actuarial assumptions for future investment returns and growth in college tuition and fees.

The investment portfolio of the Program's enterprise funds had a 2.3% gain for the fiscal year, which followed on the heels of a 19.7% gain for the prior year and a 17.2% gain for the fiscal year ended June 30, 2010.

Net assets of the Program's fiduciary fund increased $52.3 million for the fiscal year ended June 30, 2012. The increase was driven by a $64.0 million excess of contributions over redemptions and a net investment loss of $7.3 million. Administrative expenses increased from $4.0 million to $4.3 million because of the increased account activity. Net assets of the fiduciary fund represent funds held in trust for individual investors, and, as such, are not available to support operations of the enterprise funds.

Overview of the Financial Statements

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

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

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

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

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

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

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

Financial Analysis of the Prepaid Tuition Plan and Administrative Account

Net (deficit) assets. The following are combined, condensed Statements of Net (Deficit) Assets of the enterprise funds, which are the Prepaid Tuition Plan and the Administrative Account, as of June 30, 2012 and 2011.

	2012	2011
Current assets	$ 3,153,812	$ 3,136,306
Noncurrent assets	78,601,260	85,905,238
Total assets	81,755,072	89,041,544
Current liabilities	14,883,647	13,897,173
Noncurrent liabilities	82,649,895	86,683,455
Total liabilities	97,533,542	100,580,628
Net assets (deficit):		
Restricted	480,762	324,004
Unrestricted	(16,259,232)	(11,863,088)
Total net (deficit) assets	$ (15,778,470)	$ (11,539,084)

The net assets deficit increased 36.7%, or $4,239,386. Net assets are the excess of total assets over total liabilities, and a net assets deficit occurs when liabilities exceed assets. While the actuarially funded status (assets divided by liabilities) of total enterprise funds was 83.8% at June 30, 2012 and 88.5% at June 30, 2011, the funded status of the Prepaid Tuition Plan at June 30, 2012 and 2011, was 83.2% and 88.1%, respectively. The actuarially funded status represents the Prepaid Tuition Plan's ability to fund payment of its liabilities as of the date on which the value of the assets and liabilities are measured. Actuarial funding ratios above 100.0% provide financial support during down times in the economy and lower earnings levels from the Prepaid Tuition Plan's investment portfolio, and during brief periods of unexpectedly high increases in tuition costs. As the funding ratio decreases, the funding soundness level decreases, and as the funding ratio increases, the funding soundness level increases.

The increase in the net assets deficit and the decrease in total assets were the result primarily of an increase actuarial assumptions for future investment earnings and the actuarially estimated growth of tuition and fees for the 2013-14 academic year. The Prepaid Tuition Plan's investment portfolio earned a gain of 2.3% during the fiscal year ended June 30, 2012, as compared to an anticipated 6.4%. There was an investment gain of 19.7% for the prior year. Investments are included in noncurrent assets.

Changes in net (deficit) assets. The following are condensed Statements of Revenues, Expenses and Changes in Net (Deficit) Assets of the enterprise funds for the years ended June 30, 2012 and 2011.

	Year Ended June 30,	
	2012	2011
Revenues		
Operating revenues:		
Tuition contracts *(See Note 5)*	$ 85,135	$ 103,106
Savings Plan administrative fee	1,015,893	946,721
	1,101,028	1,049,827
Nonoperating revenues:		
Investment gain	1,633,476	14,510,592
Appropriations from primary government	147,163	144,351
	1,780,639	14,654,943
Total revenues	2,881,667	15,704,770
Expenses		
Operating expenses:		
Tuition contract benefits and expenses *(See Note 5)*	5,968,409	4,178,846
General and administrative expenses	1,152,644	905,445
Total expenses	7,121,053	5,084,291
Change in net assets	(4,239,386)	10,620,479
Net deficit at beginning of year	(11,539,084)	(22,159,563)
Net deficit at end of year	$ (15,778,470)	$ (11,539,084)

Operating revenues for the Prepaid Tuition Plan reflect the interest effect of discounting future contract payments receivable and include an administrative fee received from the administrators of the Savings Plan and deposited into the Program's Administrative Account. As discussed in Note 9 to these financial statements, during fiscal year 2003 the West Virginia Legislature closed the Prepaid Tuition Plan to new enrollment until the Legislature authorizes the plan to reopen. Because of the closure, no new prepaid tuition contracts were sold during fiscal years 2011 and 2012. Nonoperating revenues represent investment earnings, appropriations from the primary government, and payments made by the primary government for other postemployment benefits premiums on behalf of the Prepaid Tuition Plan. Investment gains for fiscal year 2012 were $1,633,476 and the rate of return was 2.3%. For fiscal year 2011, the rate of return was 19.7%, resulting in an investment gain of $14,510,592 for that year. The Prepaid Tuition Plan's finances are structured such that investment earnings are an integral component of total revenues, and when the investment portfolio's performance is less than expected, net assets can decrease significantly. Operating expenses represent prepaid tuition contract benefits and expenses and general and administrative expenses. Prepaid tuition contract benefits and expenses were $5,968,409 for the current year and $4,178,846 for the past year. See Note 5 to these financial statements. Prepaid tuition contract benefits and expenses are affected by actuarial factors such as the assumed rate of return and tuition growth, which are discussed in the Economic Factors section later in this discussion and analysis.

Financial Analysis of the Savings Plan

Net assets. The following are condensed Statements of Fiduciary Net Assets of the Savings Plan as of June 30, 2012 and 2011.

	2012	2011
Assets	$ 1,626,233,488	$ 1,574,669,896
Liabilities	1,305,342	2,039,911
Net assets	$ 1,624,928,146	$ 1,572,629,985

Net assets increased 3.3% or $52,298,161 during the current fiscal year. Net assets are the excess of total assets over total liabilities. Contributions in excess of $64.0 million over redemptions, less net investment losses totaling $7.3 million for the year drove the increase in net assets.

Investments make up 99.9% of total assets, and the remaining assets includes receivables for units and securities sold, and dividends receivable. Approximately 96.0% of liabilities consists of payables for securities purchased and units redeemed, and the remaining amount represents accrued fees and other payables.

Changes in net assets. The following are condensed Statements of Changes in Fiduciary Net Assets of the Savings Plan for the years ended June 30, 2012 and 2011.

	Year Ended June 30,	
	2012	2011
Additions		
Contributions	$ 218,875,018	$ 256,589,493
Net investment (loss) gain	(7,326,489)	258,990,047
Total additions	211,548,529	515,579,540
Deductions		
Redemptions	154,918,875	133,614,129
Administrative expenses	4,331,493	3,955,652
Total deductions	159,250,368	137,569,781
Increase (decrease) in net assets	52,298,161	378,009,759
Net assets at beginning of year	1,572,629,985	1,194,620,226
Net assets at end of year	$ 1,624,928,146	$ 1,572,629,985

Contributions for the current fiscal year were 14.6% less than those of the prior year; however, redemptions increased 11.7% over the prior year. Fiscal year 2011 contributions had been reported as $609.9 million but are now adjusted to reflect only those transactions into the Savings Plan and do not reflect the additional inter-pool and inter-fund transfers. Similarly, fiscal year 2011 redemptions had been reported as $486.9 million but are now adjusted to reflect only those transactions out of the Savings Plan and do not reflect the additional inter-pool and inter-fund transfers. Program management believes contributions were down for the year because of the difficult economic environment in which savers reallocated their available funds. Program management believes redemptions were up because savers were applying their funds toward increasing college costs. The various investment portfolios and funds that make up the Savings Plan had rates of return for the current fiscal year ranging from -10.1% to 11.7%.

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

Economic Factors

Prepaid Tuition Plan. The actuarial valuation of tuition contracts receivable and accrued contract benefits liability as of June 30, 2012, is based on various actuarial assumptions. A key assumption is average tuition inflation of 9.5% for the 2013-14 and 2014-15 school years and 7.0% thereafter. Another key assumption is a 6.1% rate of return on Prepaid Tuition Plan investments for the upcoming fiscal year 2013, and declining returns each year to 2022 when the assumption is 4.5%. The assumed return is then 4.5% for each year after 2022. The actual weighted average tuition for in-state, full-time students increased 6.8% from school years 2011-12 to 2012-13, and increased 4.9% from school years 2010-11 to 2011-12. The plan's actual rate of return on its investments was 2.3% for fiscal year 2012 and 19.7% for 2011.

Long-term variances in the assumptions can affect the Prepaid Tuition Plan's financial position. Program management together with actuarial and investing consultants and the Program's Board of Trustees (the "Board") review the assumptions annually. Prepaid Tuition Plan management and its advisors believe that the key assumptions, while subject to sudden and unexpected changes in the future, were reasonable for the fiscal years ended June 30, 2012 and 2011.

As discussed in Note 9 to these financial statements, during fiscal year 2003 the West Virginia Legislature closed the Prepaid Tuition Plan to new enrollment until the Legislature authorizes the plan to reopen. No new contracts were sold in fiscal years 2011 and 2012. The Prepaid Tuition Plan will continue in existence to service existing contracts and no current contracts will be affected by the closure.

Also during fiscal year 2003, as discussed in Note 9 to these financial statements, the Legislature created the Prepaid Tuition Trust Escrow Account to guarantee payment of Prepaid Tuition Plan contracts. The Escrow Account will receive transfers of up to $1,000,000 from the State Unclaimed Property Trust Fund each year there is an actuarially determined unfunded liability of the Prepaid Tuition Plan. If the Prepaid Tuition Plan is unable to pay current tuition benefits, funds may be withdrawn from the Escrow Account to meet those payments. At June 30, 2012, there was $15,122,902 in the Escrow Account, which consisted of $14,254,008 in total transfers from the Unclaimed Property Trust Fund and net investment gains of $868,894. There was a $1,000,000 transfer in fiscal year 2012 because of the actuarial unfunded liability at the end of fiscal year 2011. Because there is an actuarially determined unfunded liability of $16.3 million in the Prepaid Tuition Plan at June 30, 2012, $1,000,000 is expected to be transferred from the Unclaimed Property Trust Fund to the Escrow Account on or before December 15, 2012, in accordance with the provisions enacted by the Legislature. While the Board controls the Escrow Account, funds in the Escrow Account are not assets of either the Prepaid Tuition Plan or the Program and accordingly are not included in the basic financial statements included herein. The State reports the Escrow Account in the general fund in its financial statements as unrestricted cash.

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

Requests for Information

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

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

Statement of Net (Deficit) Assets

June 30, 2012

	Prepaid Tuition Trust Fund	College Prepaid Tuition and Savings Program Administrative Account	Total Enterprise Funds
Assets			
Current assets:			
Cash and cash equivalents	$ 1,329,530	$ 1,305,651	$ 2,635,181
Due from primary government	-	69,598	69,598
Tuition contracts receivable	363,275	-	363,275
Other receivables	-	85,758	85,758
Total current assets	1,692,805	1,461,007	3,153,812
Noncurrent assets:			
Tuition contracts receivable	779,801	-	779,801
Investments	77,821,459	-	77,821,459
Total noncurrent assets	78,601,260	-	78,601,260
Total assets	80,294,065	1,461,007	81,755,072
Liabilities			
Current liabilities:			
Accounts payable	-	22,376	22,376
Accrued contract benefits liability	14,653,032	-	14,653,032
Accrued contract expense liability	-	143,323	143,323
Compensated absences	-	64,916	64,916
Total current liabilities	14,653,032	230,615	14,883,647
Noncurrent liabilities:			
Accrued contract benefits liability	81,900,265	-	81,900,265
Accrued contract expense liability	-	568,997	568,997
Other postemployment benefits	-	180,633	180,633
Total noncurrent liabilities	81,900,265	749,630	82,649,895
Total liabilities	96,553,297	980,245	97,533,542
Net (deficit) assets:			
Restricted for payment of general and administrative expenses	-	480,762	480,762
Unrestricted	(16,259,232)	-	(16,259,232)
Total net (deficit) assets	$ (16,259,232)	$ 480,762	$ (15,778,470)

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

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

Statement of Revenues, Expenses and Changes in Net (Deficit) Assets

For the Year Ended June 30, 2012

	Prepaid Tuition Trust Fund	College Prepaid Tuition and Savings Program Administrative Account	Total Enterprise Funds
Operating revenues			
Tuition contracts *(See Note 5)*	$ 85,135	$ -	$ 85,135
Savings Plan administrative fee	-	1,015,893	1,015,893
Total operating revenues	85,135	1,015,893	1,101,028
Operating expenses			
Tuition contract benefits *(See Note 5)*	6,114,755	-	6,114,755
Tuition contract expenses	-	(146,346)	(146,346)
General and administrative expenses	-	1,152,644	1,152,644
Total operating expenses	6,114,755	1,006,298	7,121,053
Operating (loss) gain	(6,029,620)	9,595	(6,020,025)
Nonoperating revenues			
Investment gain	1,633,476	-	1,633,476
Appropriations from primary government	-	147,163	147,163
Total nonoperating revenues	1,633,476	147,163	1,780,639
Change in net assets	(4,396,144)	156,758	(4,239,386)
Net (deficit) assets at beginning of year	(11,863,088)	324,004	(11,539,084)
Net (deficit) assets at end of year	$ (16,259,232)	$ 480,762	$ (15,778,470)

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

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

Statement of Cash Flows

For the Year Ended June 30, 2012

	Prepaid Tuition Trust Fund	College Prepaid Tuition and Savings Program Administrative Account	Total Enterprise Funds
Cash flows from operating activities			
Cash received from contract purchasers	$ 549,719	$ -	$ 549,719
Cash received from Savings Plan administrator	-	1,014,046	1,014,046
Tuition benefit payments	(9,059,473)	-	(9,059,473)
Payments to employees	-	(621,564)	(621,564)
Payments to suppliers	-	(487,102)	(487,102)
Net cash used in operating activities	(8,509,754)	(94,620)	(8,604,374)
Cash flows provided by noncapital financing activities			
Appropriations from primary government	-	113,359	113,359
Cash flows from investing activities			
Investment earnings	1,477,988	-	1,477,988
Purchase of investments	(1,475,220)	-	(1,475,220)
Proceeds from sale of investments	8,600,000	-	8,600,000
Net cash provided by investing activities	8,602,768	-	8,602,768
Net increase in cash and cash equivalents	93,014	18,739	111,753
Cash and cash equivalents at beginning of year	1,236,516	1,286,912	2,523,428
Cash and cash equivalents at end of year	$ 1,329,530	$ 1,305,651	$ 2,635,181

(Continued on next page)

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

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

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2012

	Prepaid Tuition Trust Fund	College Prepaid Tuition and Savings Program Administrative Account	Total Enterprise Funds
Reconciliation of operating loss to net cash used in operating activities			
Operating (loss) gain	$ (6,029,620)	$ 9,595	$ (6,020,025)
Adjustments to reconcile operating (loss) gain to net cash used in operating activities:			
Changes in assets and liabilities:			
Tuition contracts receivable	464,584	-	464,584
Other receivables	-	(1,847)	(1,847)
Accounts payable	-	(60,414)	(60,414)
Accrued contract benefits liability	(2,944,718)	-	(2,944,718)
Accrued contract expense liability	-	(146,346)	(146,346)
Compensated absences	-	31,218	31,218
Other postemployment benefits	-	73,174	73,174
Net cash used in operating activities	$ (8,509,754)	$ (94,620)	$ (8,604,374)
Noncash activities			
Unrealized gain in investments	$ 155,488	$ -	$ 155,488

(Concluded)

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

Fiduciary Fund of the
West Virginia College Prepaid Tuition and Savings Program

Savings Plan Trust Fund

Statement of Fiduciary Net Assets

June 30, 2012

Assets	
Investments at fair value	$ 1,624,169,584
Receivables for units and securities sold	1,438,567
Dividends receivable	625,337
Total assets	1,626,233,488
Liabilities	
Payables for units redeemed and securities purchased	1,253,058
Accrued fees	52,284
Total liabilities	1,305,342
Net Assets	
Net assets held in trust for individuals and organizations	1,624,928,146
Total net assets	$ 1,624,928,146

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

Fiduciary Fund of the
West Virginia College Prepaid Tuition and Savings Program

Savings Plan Trust Fund

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2012

Additions	
Contributions:	
Account holders	$ 218,739,671
Deposits to establish new investment funds	135,347
Total contributions	218,875,018
Investment earnings:	
Net decrease in fair value of investments	(39,879,959)
Dividends and capital gains	37,488,585
Total investment loss	(2,391,374)
Investment expense	4,935,115
Net investment loss	(7,326,489)
Total additions	211,548,529
Deductions	
Redemptions:	
Payments in accordance with trust agreements	154,837,363
Redemptions of deposits to establish new investment funds	81,512
Total redemptions	154,918,875
Administrative expense	4,331,493
Total deductions	159,250,368
Change in net assets held in trust for individuals and organizations	52,298,161
Net assets at beginning of year	1,572,629,985
Net assets at end of year	$ 1,624,928,146

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

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West Virginia College Prepaid Tuition and Savings Program

Notes to Financial Statements

June 30, 2012

1. Organization and Operations

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

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

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

Enterprise Funds: Prepaid Tuition Plan and Administrative Account

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

Effective March 8, 2003, the West Virginia Legislature closed the Prepaid Tuition Plan to new contracts until the Legislature authorizes the Prepaid Tuition Plan to reopen. According to State Code (§18-30-6 (g)), closing the Prepaid Tuition Plan to new contracts shall not mean that the Prepaid Tuition Plan is closed and shall not affect any contracts in effect on March 8, 2003. All contract holders will continue to pay any amounts due, including monthly installments, penalties and fees, and the Prepaid Tuition Plan will continue to pay all benefits due. No contracts were sold in fiscal year 2012.

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

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

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

While the beneficiary has up to ten years after high school to use the Prepaid Tuition Plan benefit, four other options are available: 1) the purchaser may transfer the contract benefits to an eligible substitute beneficiary; 2) at any time four years or more after the beneficiary's expected college entrance date, the purchaser may request a refund of the contract benefit value, less a termination fee and an earnings penalty required by federal law; 3) at any time, the purchaser may cancel the contract and receive a refund of the contract value, less administrative fees and any benefits already paid; or 4) the purchaser may transfer the prepaid contract cancellation value at the time of transfer to the Program's Savings Plan in accordance with state and federal regulations.

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

The College Prepaid Tuition and Savings Program Administrative Account (the "Administrative Account") was created by State Code to implement, operate and maintain the Prepaid Tuition and Savings Plans and the overall Program. Sources of funds for the Administrative Account come from fees charged to participants in both the Prepaid Tuition Plan and Savings Plan and from appropriations from the State, which is the primary government. Expenses of the Administrative Account cover administrative operations of the overall Program such as wages and benefits, consulting services, and office supplies.

The accompanying financial statements report the financial position, results of operations, and cash flows for the fiscal year ended June 30, 2012, of the Program's enterprise funds, which includes the Prepaid

Tuition Plan and the Administrative Account. The Program's enterprise funds are enterprise funds of the primary government of the State of West Virginia.

Fiduciary Fund: Savings Plan

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

The Savings Plan currently is composed of 55 different investment portfolios and individual funds. These financial statements report on the total of all portfolios and individual funds.

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

2. Significant Accounting Policies – Enterprise Funds

Basis of Accounting

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

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

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

As a private-purpose trust fund, which is a type of fiduciary fund, assets of the Savings Plan are held in a trustee capacity for individuals and entities invested in the plan, and those assets cannot be used to support the Program. Because the Savings Plan assets are not available to support the Program's operations, the Savings Plan is discussed separately in Note 10 to these financial statements. Assets of the Program's enterprise funds (the "Prepaid Tuition Plan" and the "Administrative Account") are available to support the Program's operations.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

Budgetary Information

The Office of the State Treasurer submits a detailed budgetary schedule of administrative expenses to the Budget Director of the West Virginia Department of Revenue prior to the beginning of each fiscal year. The budgetary schedule is prepared on the cash basis of accounting. Appropriation requests for the Program are included in the Treasurer's schedule. The budgetary schedule is subject to the annual budget review and approval process of the West Virginia State Legislature.

Cash and Cash Equivalents

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

Revenue Recognition

The Plan recognizes revenue for tuition contracts in the year the contracts are entered into with the purchaser, with future contract payments being recognized at their present value. The Plan uses its expected return on investments as the discount rate in calculating such present value. A rate of 6.1% is assumed for the upcoming fiscal year 2013. Declining rates are assumed for each year through 2022 when the rate is assumed to be 4.5%. Contracts receivable are reduced by the annual amounts of contract payments received, and the remaining contracts receivable is recorded at present value. Changes in the present value of the remaining contracts receivable are recognized in revenue in the year of the change. The Administrative Account records Savings Plan administrative fee revenue from Hartford Life in the period that administrative services are provided.

Tuition Contracts Receivable

Tuition contracts receivable of the Prepaid Tuition Plan at the balance sheet date represents Program management's best estimate of the present value of future contract payments using the discount rates discussed above.

Accrued Contract Benefits Liability

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

Compensated Absences, Including Other Postretirement Benefits

Employees fully vest in all earned but unused annual leave to maximum amounts ranging from 240 to 320 hours depending on years of service, and the Program accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with personnel policies of the State, employees vest in any remaining unused sick leave only upon retirement, at which time any unused sick and annual leave time either can be converted into employer-paid premiums for post-retirement health care coverage through the West Virginia Public Employees Insurance Agency ("PEIA"), or can be converted into a greater retirement benefit under the State of West Virginia Public Employees Retirement System ("PERS"). On July 1, 2007, the Program adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"), which provides guidance on all aspects of other postemployment benefit reporting by employers. Under GASB 45, the Program accrues for obligations that may arise in connection with unused sick leave that may be converted to employer-paid premiums for post-retirement health care coverage, and for the employer portion of all post-retirement health care coverage regardless of whether the retiree has unused sick leave.

Restricted Assets and Net Assets

Restricted assets are subject to constraints imposed by creditors or by law. The Act restricts the Prepaid Tuition Plan's assets to be used specifically for the Prepaid Tuition Plan's obligations; however, the Prepaid Tuition Plan has a deficiency in net assets as of June 30, 2012. Accordingly, such deficiency is included in the unrestricted net assets deficit. Assets of the Administrative Account are restricted for the purposes of implementing, operating and maintaining the Program.

Federal Income Taxes

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

Effect of New Accounting Pronouncements

The GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement also amends net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Program management has not determined the effect, if any, this statement will have on its financial statements.

The GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Program management has not determined the effect, if any, this statement will have on its financial statements.

The GASB has issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, which replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Program management has not determined the effect, if any, this statement will have on its financial statements.

The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Program management has not determined the effect, if any, this statement will have on its financial statements.

3. Investments and Cash and Cash Equivalents

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

The following represents a calculation of the net increase in the fair value of investments during the year ended June 30, 2012:

Fair value at end of year	$ 77,821,459
Less cost of investments purchased during year	(1,475,220)
Plus cost of investments redeemed during year	8,600,000
Less fair value at beginning of year	(84,790,751)
Change in fair value of investments during year	$ 155,488

Investment and Deposit Risk Disclosures

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

The investment policy establishes that the Program's enterprise funds are to be allocated 51% to fixed income securities, 32% to U.S. equities, and 17% to international equities for the fiscal year ended June 30, 2012. The allocation will shift each year toward more fixed income securities to a total of 81% in fiscal year 2022. At June 30, 2012, the Program's enterprise funds were invested in the following pools at the IMB.

IMB Investment Pool	Fair Value of Program's Funds	Percent of Total Investment
Large Cap Domestic Equity	$ 20,019,491	25.7%
Non-Large Cap Domestic Equity	4,532,047	5.8%
Core Fixed Income	39,608,314	50.9%
International Equity	8,354,182	10.8%
International Nonqualified	4,303,550	5.5%
Short-Term Fixed Income	1,003,875	1.3%
Total pool assets	$ 77,821,459	100.0%

The investment policy does not specifically address custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Program will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The IMB investment pools in which the Program invests its enterprise funds are either not exposed to custodial credit risk or held no securities at June 30, 2012, that were subject to custodial credit risk.

Credit Risk

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

Large Cap Domestic Equity Pool – This pool holds equity securities of U.S. companies, exchange traded stock index futures, and money market funds with the highest credit rating. These types of securities are not exposed to credit risk.

Non-Large Cap Domestic Equity Pool – This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. These types of securities are not exposed to credit risk.

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

International Equity Pool – This pool has both equity securities and cash that are denominated in foreign currencies. This pool is not exposed to credit risk.

Short-Term Fixed Income Pool – The IMB limits the exposure to credit risk in the Short-Term Fixed Income Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A-1 by Standard & Poor's and P-1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues. The following table provides information on the weighted average credit ratings of the Short-Term Fixed Income Pool's investments at June 30, 2012. The table includes securities received as collateral for repurchase agreements.

Security Type	Moody's	S&P	Percent of Pool Assets
Agency discount notes	Aaa	AA+	46.2%
Agency notes	Aaa	AA+	5.5%
U.S. Treasury bills *	Aaa	AA+	19.6%
Commercial paper	P-1	A-1	5.0%
U.S. Treasury notes *	Aaa	AA+	23.7%
Total rated investments			100.0%

* U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk. The ratings are shown for the reader's information.

Core Fixed Income Pool – The IMB limits the exposure to credit risk in the Core Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating of Organizations. The following table provides information on the weighted average credit ratings of the Core Fixed Income Pool's asset types at June 30, 2012.

Security Type	Moody's	S&P	Percent of Pool Assets
U.S. Treasury bonds and notes *	Aaa	AA+	23.2%
Agency collateralized mortgage obligations	Aaa	AA+	22.3%
Corporate bonds and notes	A3	A	22.7%
Agency mortgage backed securities	Aaa	AA+	14.4%
Corporate collateralized mortgage obligations	A1	AA+	12.1%
Regulated investment companies	Aaa	AAA	1.0%
Corporate asset backed securities	Aa2	AA+	2.5%
Agency bonds and notes	Aaa	AA+	1.4%
Municipal bonds	Aa3	AA-	0.4%
Total rated investments			100.0%

* U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk. The ratings are shown for the reader's information.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Program's investment in a single corporate issuer. None of the IMB pools in which the Program participates held securities of any one issuer in excess of 5% of the value of the pools in accordance with West Virginia statutes.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following IMB pools in which the Program participates are not exposed to interest rate risk: Large Cap Domestic Equity Pool, Non-Large Cap Domestic Equity Pool, International Nonqualified Pool, and International Equity Pool. The following pools are exposed to interest rate risk.

Short-Term Fixed Income Pool – The weighted average maturity of the investments in the Short-Term Pool is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Short-Term Pool as of June 30, 2012.

Security Type	Carrying Value (In Thousands)	WAM (Days)
Agency discount notes	$ 169,173	48
Repurchase agreements	80,588	1
U.S. Treasury bills	71,808	29
Commercial paper	18,279	8
Agency notes	20,096	95
U.S. Treasury notes	5,029	153
Total pool assets	$ 364,973	36

Core Fixed Income Pool – The IMB monitors interest rate risk of the Core Fixed Income Pool by evaluating the modified duration of the investments in the pool. The following table provides the weighted average modified duration for the various asset types in the Core Fixed Income Pool as of June 30, 2012.

Security Type	Fair Value (In Thousands)	Modified Duration (Years)
U.S. Treasury bonds and notes	$ 278,786	6.8
Agency collateralized mortgage obligations	268,484	3.6
Corporate bonds and notes	271,566	5.7
Agency mortgage backed securities	173,034	6.9
Corporate collateralized mortgage obligations	145,724	3.1
Regulated investment companies	11,728	0.0
Corporate asset backed securities	30,397	1.9
Agency bonds and notes	16,801	5.0
Municipal bonds	4,781	12.6
Total pool assets	$ 1,201,301	5.0

The Core Fixed Income Pool invests in commercial and residential mortgage-backed and asset-backed securities and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2012, these securities were approximately 51.0% of the value of the Total Return Fixed Income Pool.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following IMB pools in which the Program participates are not exposed to foreign currency risk: Large Cap Domestic Equity Pool, Non-Large Cap Domestic Equity Pool, Short-Term Fixed Income Pool, and Core Fixed Income Pool. The following pools are exposed to foreign currency risk.

International Nonqualified Pool – This pool invests in a collective trust fund that invests in equities denominated in foreign currencies. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the IMB. As of June 30, 2012, the IMB was incompliance with this limitation.

International Equity Pool – This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risk. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the IMB. As of June 30, 2012, the IMB was incompliance with this limitation.

<u>Deposit Risk</u>

The carrying value in the Administrative Account of cash on deposit with the State Treasurer's Office, which approximate estimated fair value, was $1,305,651 at June 30, 2012. The cash is pooled with other deposits from the State's agencies, departments, boards and commissions and is subject to coverage by the Federal Deposit Insurance Corporation (the "FDIC") or collateralized by securities held by the State or its agents in the State's name. Other cash deposits held in outside bank accounts were $1,329,530. Such deposits are insured by the FDIC or collateralized by the State or its agents in the State's name. Custodial credit risk in regard to deposits is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Program does not have a deposit policy for custodial credit risk. Program management does not believe any of its deposits are exposed to custodial credit risk.

Derivative Financial Instruments

The Prepaid Plan indirectly holds derivative financial instruments by its participation in an investment pool at the IMB in which futures contracts are the only derivative financial instrument held in the pool and represent less than 0.1% of the total pool's net asset value as of June 30, 2012. As the Program does not hold any direct investments in derivative financial instruments, no further disclosure or consideration of their impact on the Prepaid Plan's financial position and results of operations is required by Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

4. Accrued Contract Benefits Liability

The total actuarial present value of accrued contract benefits liability of $96,553,297 as of June 30, 2012, was based on the provision for contract benefits since inception of the Prepaid Tuition Plan. Current liabilities of $14,653,032 represent obligations that will become due within a year from June 30, 2012. Noncurrent liabilities of $81,900,265 represent obligations that will become due more than a year after June 30, 2012.

Under the actuarial evaluation, tuition and fees are assumed to increase an average of 9.5% for the 2013-14 through 2014-15 school years and 7.0% per year thereafter. Investments are assumed to earn 6.1% for the year ending June 30, 2013. Declining rates are assumed for each year through 2022 when the rate is assumed to be 4.5%. The rate is then assumed to be 4.5% for fiscal year 2023 and thereafter.

The accrued contract benefits liability at June 30, 2012, and changes for the fiscal year then ended are as follows:

Beginning balance, June 30, 2011	$ 99,498,015
Interest cost	6,077,970
Actuarial gain	(2,511,137)
Miscellaneous factors	21,839
Changes in actuarial assumptions	2,526,083
Tuition benefit payments and refunds	(9,059,473)
Ending balance, June 30, 2012	$ 96,553,297

The actuarial gain was the result of tuition increases for the 2012-13 school year being less than expected. Weighted average tuition had been assumed to increase 9.5% but instead increased 6.8%. Changes in actuarial assumptions were not favorable because investment return projections were lowered to reflect the uncertain economic times, and the estimated tuition growth for the 2014-15 school year was increased from 7.0% to 9.5%.

5. Tuition Contract Revenues and Tuition Contract Benefits and Expenses

The tuition contract revenues and tuition contract benefits and expenses represent current revenues and expenses of the Prepaid Plan. Such amounts are determined by the time value of money as a result of changes in actuarial assumptions year over year. Because the Prepaid Plan is closed to new enrollments, the revenues and expenses related to such accounts are determined directly and solely by actuarial assumptions, estimations, and economic factors, such as the actuarial interest rate, tuition growth projections, account cancellations, economic inflation, beneficiaries' choices of schools, and actual experience versus actuarial expectations. In any given year, fluctuations in actuarial assumptions and/or actual experience can significantly change revenues and expenses, and, under certain circumstances, create negative revenues and expenses. An actuarial gain in the accrued contract expense liability in the Administrative Account created negative tuition contract expenses for Fiscal Year 2012.

The following represents components of tuition contract revenues and tuition contract benefits and expenses reported on the Statement of Revenues, Expenses and Changes in Net (Deficit) Assets for the Year Ended June 30, 2012:

Tuition contract revenues	
Actuarially estimated tuition contract revenues for Fiscal Year 2012	$ 85,299
Increase in tuition contracts receivable due to changes in actuarial assumptions	3,967
Decline in tuition contracts receivable due to account cancellations during the year	(4,131)
Tuition contract revenues for Fiscal Year 2012 (an actuarial gain on tuition contracts receivable)	$ 85,135

<u>Tuition contract benefits</u>

Interest growth in actuarially estimated tuition contract benefits for Fiscal Year 2012	$ 6,077,970
Decline in accrued contract benefits liability due to lower tuition growth than estimated for the 2012-13 school year	(2,511,137)
Increase in accrued contract benefits liability due to changes in various actuarial assumptions at June 30, 2012	2,526,083
Increase in accrued contract benefits liability due to miscellaneous factors	21,839
Tuition contract benefits for Fiscal Year 2012 (an actuarial loss on accrued contract benefits liability)	$ 6,114,755

<u>Tuition contract expenses</u>

Interest growth in actuarially estimated tuition contract expenses for Fiscal Year 2012	$ 50,085
Decrease in accrued contract expense liability due to assumed actuarial payments during Fiscal Year 2012	(152,163)
Decrease in accrued contract expense liability due to changes in various actuarial assumptions at June 30, 2012	(2,571)
Decrease in accrued contract benefits liability due to account cancellations and miscellaneous factors	(41,697)
Tuition contract expenses for Fiscal Year 2012 (an actuarial gain on accrued contract benefits liability)	$ (146,346)

6. Compensated Absences, Retirement Benefit Plans, and Other Postemployment Benefits

As mentioned in Note 2, the Program adopted GASB 45 on July 1, 2007, which provides guidance on all aspects of other postemployment benefit reporting by employers. Adoption of the new standard removes the sick leave element from compensated absences and moves it to a new balance sheet item, "other postemployment benefits," which includes additional calculations for retiree health insurance premiums. Following is a discussion of compensated absences, retirement benefit plans, and other postemployment benefits.

Compensated Absences

The accruals for compensated absences represent obligations that may arise for earned but unused annual leave as of June 30, 2012. Current liabilities of $64,916 represent obligations for compensated absences that can become due within a year from June 30, 2012.

The accrued compensated absences liability at June 30, 2012, and changes for the fiscal year then ended are as follows:

Beginning balance, June 30, 2011	$ 33,698
Addition: Annual leave earned	42,283
Addition: Employees added to payroll	27,692
Reduction: Annual leave used	(36,469)
Reduction: Employees deleted from payroll	(2,288)
Ending balance, June 30, 2012	$ 64,916

Retirement Plan Description

The Program contributes to the PERS, a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board ("CPRB") pursuant to Chapter 5, Article 10D of the West Virginia Code. The PERS provides retirement, disability and death benefits to plan members and beneficiaries. The CPRB issues a publicly available financial report that includes financial statements and required supplementary information for the PERS. That report can be obtained by writing to CPRB, 4101 MacCorkle Avenue Southeast, Charleston,WV 25304.

Retirement Plan Funding Policy

Eligible employees are required to contribute 4.5% of their annual covered salary, and during the current fiscal year the Program was required to contribute 14.5% of covered employees' salaries to the PERS. The contribution requirements of eligible employees and the Program are established and may be amended by the CPRB. The Program's contributions to the PERS were $58,744, $38,011 and $33,098 for the years ended June 30, 2012, 2011 and 2010, respectively, equal to the required contributions for the period.

Other Postemployment Benefits Plan Description

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

Other Postemployment Benefits Plan Funding Policy

The State Code requires the OPEB Plan to bill the participating employers 100.0% of the Annual Required Contribution ("ARC"), an amount actuarially determined in accordance with the parameters of

GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month. The latest OPEB actuarial valuation was performed as of June 30, 2011, and the ARC amounts were applied prospectively to the fiscal year beginning July 1, 2011.

The Program's ARC to the OPEB Plan for the year ended June 30, 2012 was $89,373. During the year, the Program paid $16,199 in ARC. The remaining ARC amount of $73,174 was neither billed nor paid and is recorded as additional noncurrent other postemployment benefits liability as of June 30, 2012.

7. Transactions with State Treasurer's Office

The State Treasurer's Office provides various administrative services at no cost to the Program and pays certain administrative costs on behalf of the Program. Such administrative services and costs were not determinable for the year ended June 30, 2012 because they were blended in with the overall operations of the State Treasurer's Office.

8. Risk Management

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

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

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

9. Net Assets Deficiency

The Prepaid Tuition Plan has a net assets deficiency of approximately $16.3 million as of June 30, 2012. This deficiency was largely caused by investment losses in fiscal years 2002, 2008 and 2009, unexpected tuition increases in the 2002-2003 and 2004-05 school years, changes in prior years of estimates of future investment rate of return and tuition growth, and significant adjustments in actuarial assumptions in fiscal year 2008.

The Program's ability to pay obligations of the Prepaid Tuition Plan is dependent on long-term investment programs and adequate levels of future cash flows. Management sought and received support from the State Legislature in the form of a pledge of assets from the State Unclaimed Property Trust Fund to support payment of Prepaid Tuition Plan benefits. In March 2003, the Legislature created the Prepaid Tuition Trust Escrow Account to guarantee payment of Prepaid Tuition Plan contracts. Under the legislation, the Escrow Account will receive transfers of $1,000,000 from the State Unclaimed Property Trust Fund each year there is an actuarially determined unfunded liability of the Prepaid Tuition Plan. An additional one-time transfer of $8,000,000 from the Unclaimed Property Trust Fund was authorized for July 2009. All earnings on the transferred funds will remain in the Escrow Account. In the event the Prepaid Tuition Plan is unable to cover the amount of money needed to meet its current obligations, funds may be withdrawn from the Escrow Account to meet those obligations. Beginning in December 2003, funds totaling $14,254,008 have been transferred to the Escrow Account because the Prepaid Tuition Plan had actuarial deficits in fiscal years 2003-11. The funds were invested and have had a net investment gain of $868,894 for the nine years ended June 30, 2012, leaving the account with a balance of $15,122,902 at June 30, 2012. There was $1,000,000 transferred in fiscal year 2012 because of the actuarial unfunded liability at the end of fiscal year 2011. Because there was an actuarially determined unfunded liability of approximately $16.3 million in the Prepaid Tuition Plan as of June 30, 2012, an additional $1,000,000 is expected to be transferred from the Unclaimed Property Trust Fund to the Escrow Account on or before December 15, 2012, in accordance with the provisions enacted by the Legislature. Funds transferred or to be transferred into the Escrow Account do not affect the actuarial valuation of the Prepaid Tuition Plan and are not included in the Prepaid Tuition Plan's basic financial statements. The State reports the Escrow Account in the general fund in its financial statements as unrestricted cash.

Effective March 8, 2003, the West Virginia Legislature closed the Prepaid Tuition Plan to new contracts until the Legislature authorizes the plan to reopen. According to State Code (§18-30-6 (g)), closing the plan to new contracts shall not mean that the Prepaid Tuition Plan is closed and shall not affect any contracts in effect on March 8, 2003. Contract holders will continue to pay any amounts due, and the Prepaid Tuition Plan will continue to pay all benefits due. It is unknown what effect, if any, the closure to new enrollment will have on the financial position of the Prepaid Tuition Plan.

Management believes that the Prepaid Tuition Plan will continue to have sufficient liquid resources to meet its obligations as they become due through June 30, 2013. The accompanying financial statements do not reflect any adjustments that might result should management's actions to eliminate the net assets deficiency fail to be successful.

10. Significant Accounting Policies - Savings Plan

Basis of Accounting

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

Revenues mainly are derived from investment income. Expenses consist primarily of investment expenses and administrative costs associated with the Savings Plan.

Security Transactions and Investment Income

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

Security Valuation

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

The Savings Plan contains a guaranteed investment contract named the SMART529 Stable Value Fund. This fund is managed by INVESCO International. The contract has a guaranteed interest rate that resets quarterly. Following the guidance and provisions of Governmental Accounting Standards Board Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the guaranteed investment contract is a nonparticipating contract in which the redemption terms of the contract do not consider current market rates. The nonparticipating guaranteed investment contract is valued at contract value (i.e., cost plus accrued interest) as required under the current governmental accounting standards.

Units

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

Expenses

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

Investments

Hartford Life invests and manages the Savings Plan investments in 55 different portfolios. Each portfolio, in turn, is either a mutual fund or contains multiple mutual funds. Investments are reported at fair value, which is the same as the value of the pool shares, and are accounted for by the Savings Plan accordingly, with changes in the fair value included in investment earnings.

The following represents a calculation of the net increase in the fair value of investments during the year ended June 30, 2012:

Fair value at end of year	$ 1,624,169,584
Less cost of investments purchased during year	(252,523,532)
Plus cost of investments redeemed during year	159,998,212
Less fair value at beginning of year	(1,571,524,223)
Change in fair value of investments during year	$ (39,879,959)

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

Related Parties and Fund Managers and Advisors

SMART529 WV Direct College Savings Plan & The Hartford SMART529 College Savings Plan

Except for the SMART529 Stable Value Portfolio and the Vanguard 500 Index Fund, underlying funds in the Savings Plan's SMART529 WV Direct College Savings Plan are managed by Hartford Investment Financial Services, LLC ("HIFSCO"), which is a wholly owned indirect subsidiary of The Hartford, Hartford Life's parent company. The SMART529 Stable Value Portfolios are managed by INVESCO Institutional (N.A.), Inc. HIFSCO supervises the investment activities of the investment sub-advisors below. The Vanguard Group, Inc. ("Vanguard") serves as advisor to Vanguard 500 Index Fund through its Quantitative Equity Group.

Except for the SMART529 Stable Value Portfolio, the Goldman Sachs Large Cap Value Fund, the MFS Global Equity Fund, the MFS Total Return Fund, and the MFS Value Fund, underlying funds in The Hartford SMART529 College Savings Plan are managed by Hartford Investment Management Company ("HIMCO") is a wholly owned subsidiary of The Hartford. Goldman Sachs Asset Management, L.P., an affiliate of Goldman Sachs & Co., is the investment advisor to the Goldman Sachs Large Cap Value Fund. Massachusetts Financial Services Company is the investment advisor for MFS Global Equity Fund, the MFS Total Return Fund, and the MFS Value Fund.

Wellington Management Company, LLP ("Wellington Management") is investment sub-advisor to The Hartford Total Return Bond Fund, The Hartford Floating Rate Fund, The Hartford Inflation Plus Fund, The Hartford High Yield Fund, The Hartford Small/Mid Cap Equity Fund, The Hartford Corporate Opportunities Fund, The Hartford Capital Appreciation Fund, The Hartford Small Cap Growth Fund, The

Hartford MidCap Fund, The Hartford MidCap Value Fund, The Hartford Dividend and Growth Fund, The Hartford Growth Opportunities Fund, The Hartford Capital Appreciation Fund, The Hartford Small Company Fund, The Hartford Value Fund, The Hartford Equity Income Fund, The Hartford Fundamental Growth Fund, The Hartford International Opportunities Fund, The Hartford International Small Company Fund, The Hartford Global Research Fund, The Hartford International Value Fund, and The Hartford Global All Asset Fund.

SMART529 Select College Savings Plan Dimensional Fund Advisors Inc. is investment advisor to the underlying DFA portfolios in the SMART529 Select College Savings Plan. Hartford Securities Distribution Company, Inc. ("HSD") is a wholly owned subsidiary of The Hartford and a registered broker-dealer. HSD is engaged in the SMART529 distribution activities which includes marketing, distribution and clearing of shares through broker-dealers, financing distribution costs, supervising the activities of the transfer agent, and maintaining financial books and records.

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

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Other Financial Information

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

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

Deposits Disclosure

Form 7

June 30, 2012

	Carrying Amount	**Restricted Carrying Amount**	**Total Carrying Amount**	**Bank Balance**	**Insured Amount**	**Collateralized Amount**	**Uncollateralized Amount**
Cash with Treasurer	$1,305,651	$ -	$1,305,651	$ -	$ -	$ -	$ -
Cash in outside bank account	-	-	-	1,329,530	1,329,530	-	-
Total	$1,305,651	$ -	$1,305,651 (1)	$1,329,530 (1)	$1,329,530	$ -	$ -

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

Cash with Treasurer	$ 1,305,651
Cash in outside bank account managed by Hartford Life	1,329,530
	$ 2,635,181

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

Investments Disclosure

Form 8

June 30, 2012

	Amount Unrestricted	Reported Amount	Fair Value	Investment Earnings (Loss) Not Posted to FIMS as of 6/30/12
West Virginia Investment Management Board Investment Pool:				
Short-term Fixed Income Pool	$ 1,003,875	$ 1,003,875	$ 1,003,875	$ 28
Core Fixed Income Pool	39,608,314	39,608,314	39,608,314	35,910
Large Cap Domestic Pool	20,019,491	20,019,491	20,019,491	723,076
Non-large Cap Domestic Pool	4,532,047	4,532,047	4,532,047	136,157
International Nonqualified Pool	4,303,550	4,303,550	4,303,550	278,274
International Equity Pool	8,354,182	8,354,182	8,354,182	423,540
Total investments	$ 77,821,459 (1)	$ 77,821,459 (1)	$ 77,821,459 (1)	1,596,985
Interest earnings on outside bank account managed by Hartford Life				2,769
				$ 1,599,754

(1) Agrees to the audited statement of net assets.

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

Deposits and Investments Disclosure

Form 8A

June 30, 2012

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

Deposits		
Cash and cash equivalents as reported on statement of net assets	$ 2,635,181	(1)
Less cash equivalents disclosed as investments	-	
Carrying amount of deposits as disclosed on Form 7	$ 2,635,181	
Investments		
Investments as reported on statement of net assets	$ 77,821,459	(1)
Add cash equivalents disclosed as investments	-	
Reported amount of investments as disclosed on Form 8	$ 77,821,459	

(1) Agrees to the audited statement of net assets.

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

Schedules of Receivables (Other than State Agencies)

Form 9

June 30, 2012

Total accounts receivable as of June 30, 2012	$ 1,228,834	
Less allowance for doubtful accounts	-	
Net receivable	$ 1,228,834	(1)
Net amount not expected to be collected within one year	$ 1,228,834	(1)

(1) Derived from the audited statement of net assets, as follows:

Current assets:	
Tuition contracts receivable	$ 363,275
Other receivables	85,758
	449,033
Noncurrent assets: Tuition contracts receivable	779,801
	$ 1,228,834

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

Schedule of Accounts Receivable from Other State Agencies (1)

Form 10

June 30, 2012

Receivable From Agency Name	**Gross Amount**	**Allowance for Doubtful Accounts**	**Net Amount**
Primary government (general fund)	$ 69,598		$ 69,598 (1)
Total	$ 69,598	$ -	$ 69,598

(1) Derived from audited statement of net assets.

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

Changes in Long-Term Obligations—Compensated Absences & Other Postemployment Benefits

Form 13

June 30, 2012

Type of Debt	Final Maturity Date	Balance as Reported June 30, 2011	Debt Issued	Debt Paid	Other Changes	Balance June 30, 2012
Compensated absences	Unknown	$ 33,698	$ 69,975	$ (38,757)	$ -	$ 64,916 (1)

(1) Derived from the audited statement of net assets, as follows:

Current liabilities: compensated absences	$ 64,916

Type of Debt	Final Maturity Date	Balance as Reported June 30, 2011	Debt Issued	Debt Paid	Balance June 30, 2012
Other postemployment benefits	Unknown	$ 107,459	$ 89,373	$ (16,199)	$ 180,633 (2)

(2) Derived from the audited statement of net assets, as follows:

Noncurrent liabilities: Other postemployment benefits	$ 180,633

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

Transfers In/Out

Form 15

June 30, 2012

Appropriations of $147,163 were approved during the regular legislative session in 2011 from the general revenue fund to the State Treasurer's Office to be expended for the administration of the Prepaid Tuition Plan in Fiscal Year 2012 (FIMS Fund 0126-2012-1300-692).

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

Investments Disclosure

Form 8

June 30, 2012

	Amount Restricted	Reported Amount	Fair Value
Investments with Hartford Life	$ 1,624,169,584 (1)	$ 1,624,169,584 (1)	$ 1,624,169,584 (1)

(1) Agrees to the audited statement of fiduciary net assets.

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

Schedules of Receivables (Other than State Agencies)

Form 9

June 30, 2012

Total accounts receivable as of June 30, 2012	$ 2,063,904	
Less allowance for doubtful accounts	-	
Net receivable	$ 2,063,904	(1)
Net amount not expected to be collected within one year	$ -	(1)

(1) Derived from the audited statement of fiduciary net assets, as follows:

Receivables for units and securities sold	$ 1,438,567
Dividend receivables	625,337
	$ 2,063,904

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
West Virginia College Prepaid Tuition and Saving Program
Charleston, West Virginia

We have audited the financial statements of business-type activities of the enterprise funds and the fiduciary fund of the West Virginia College Prepaid Tuition and Saving Program (the "Program"), as of and for the year ended June 30, 2012, which collectively comprise the Program's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 7, 2013 (which expresses an unqualified opinion and includes an explanatory paragraph relating to management's estimate of the fair value of investments). 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.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Audit Committee of the Board of Trustees, management, and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

January 7, 2013