

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DISTRICT OF COLUMBIA

**COLLEGE SAVINGS PROGRAM TRUST
PARTICIPANT AND ADMINISTRATIVE FUNDS**

**Financial Statements
With Independent Auditors' Report
Fiscal Year Ended September 30, 2013**



**BLANCHE L. BRUCE
INTERIM INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



July 11, 2014

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray and Chairman Mendelson:

In connection with the audit of the District of Columbia's (the District) general purpose financial statements for fiscal year (FY) 2013, Regis and Associates, PC (Regis) submitted the enclosed final report on the District of Columbia College Savings Program Trust Participant and Administrative Funds (Funds) financial statements and accompanying independent auditors' report for year ended September 30, 2013, OIG Report No. 14-1-17AT.

Regis opined that the financial statements present fairly, in all material respects, the financial position of the Funds as of September 30, 2013, and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, Regis also issued its report on consideration of the Funds' internal control over financial reporting and on its tests of the Funds' compliance with certain provisions of laws, regulations, and contracts. Regis identified no deficiencies in internal control considered to be material weaknesses. A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis. Additionally, the results of tests performed by Regis disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Mayor Gray and Chairman Mendelson
D.C. College Savings Program Financial Statements and Independent
Auditors' Report for FY 2013
OIG No. 14-1-17AT – Final Report
July 11, 2014
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If you have questions or need additional information, please contact Ronald W. King,
Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Blanche L. Bruce
Interim Inspector General

BLB/ws

Enclosure

cc: See Distribution List

DISTRIBUTION:

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Mayor Gray and Chairman Mendelson
D.C. College Savings Program Financial Statements and Independent
Auditors' Report for FY 2013
OIG No. 14-1-17AT – Final Report
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The Honorable Barbara Mikulski, Chairwoman, Senate Committee on Appropriations
Attention: Kali Matalon (via email)
The Honorable Richard Shelby, Ranking Member, Senate Committee on Appropriations,
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**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF FINANCE AND TREASURY**

REPORT ON

**FINANCIAL STATEMENT AUDIT OF
THE DISTRICT OF COLUMBIA
COLLEGE SAVINGS PROGRAM TRUST
PARTICIPANT AND ADMINISTRATIVE FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2013



MANAGEMENT CONSULTANTS &
CERTIFIED PUBLIC ACCOUNTANTS

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF FINANCE AND TREASURY

REPORT ON

FINANCIAL STATEMENT AUDIT OF
THE DISTRICT OF COLUMBIA
COLLEGE SAVINGS PROGRAM TRUST
PARTICIPANT AND ADMINISTRATIVE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA
COLLEGE SAVINGS PROGRAM TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013**

The following presents our discussion and analysis of the financial performance of the Government of the District of Columbia's (the District) College Savings Program (Program) for the fiscal year ended September 30, 2013. This discussion and analysis should be read in conjunction with the financial statements and note disclosures.

Basic Financial Statements

The Program is accounted for as a private purpose trust fund of the District. The District has an overall fiduciary responsibility to program participants to administer the operations of the Program. In accordance with GASB 34, the Program's basic financial statements, which are reported on an accrual basis of accounting, are the: (a) Statement of Fiduciary Net Position and (b) Statement of Changes in Fiduciary Net Position.

The Statement of Fiduciary Net Position presents the assets, liabilities, and net assets of the Program.

The Statement of Changes in Fiduciary Net Position presents the additions to, and deductions from, the Program's net assets.

Financial Highlights

- Investments increased by \$61,684,998, or 27.59%
- Participant Contributions increased by \$9,057,209, or 25.08%
- Net Investment income increased by \$955,598, or 2.91%
- Distributions to participants increased by \$4,552,491, or 37.81%

Financial Analysis

Table 1-Statement of Fiduciary Net Position

	2013	2012	Variance	% Variance
Assets				
Receivables	\$ 262,748	\$ 305,186	\$ (42,438)	-13.91%
Investments	285,272,163	223,587,165	61,684,998	27.59%
Total Assets	285,534,911	223,892,351	61,642,560	27.53%
Liabilities				
Total Liabilities	277,667	327,634	(49,967)	-15.25%
Net Assets				
Net position held in trust for program participants	\$ 285,257,244	\$ 223,564,717	\$ 61,692,527	27.59%

The Program's primary asset was investments, which totaled \$285,272,163. Investments increased by 27.59% from 2012, due to a net increase in plan participants and overall positive performance in the market. The top three Program investments were: Calvert Social Index Fund, \$61,370,942; State Street Equity 500 Index Fund, \$47,550,606; and Acacia Principal Plus, \$44,580,146.

A significant portion of the Program's liabilities represents amounts owed to portfolio management firms for investment activities during the fiscal year. As of the year ended September 30, 2013, the payables totaled \$277,667.

Table 2-Statement of Changes in Fiduciary Net Position

	2013	2012	Variance	% Variance
Additions				
Contributions	\$ 45,170,547	\$ 36,113,338	\$ 9,057,209	25.08%
Net Investment Income	33,763,991	32,808,393	955,598	2.91%
Total Additions	78,934,538	68,921,731	10,012,807	14.53%
Deductions				
Distributions to participants	16,593,409	12,040,918	4,552,491	37.81%
Other Expenses	648,602	557,353	91,249	16.37%
Total Deductions	17,242,011	12,598,271	4,643,740	36.86%
Net Increase	\$ 61,692,527	\$ 56,323,460	\$ 5,369,067	9.53%

The Program's contributions increased by \$9,057,209, or 25.08%. The Program had an increase in participants from 13,808 in 2012, to 15,301 in 2013.

The Program had net investment income of \$33,763,991 in 2013, which is a 2.91% increase from 2012.

Distributions to participants in 2013 were \$16,593,409, a 37.81% increase from 2012.



INDEPENDENT AUDITORS' REPORT

To the Trustee of
The District of Columbia College Savings Program

We have audited the accompanying Statements of Fiduciary Net Position of the District of Columbia 529 College Savings Program's (the Program) Participant and Administrative Funds as of September 30, 2013, and the related Statement of Changes in Fiduciary Net Position for the year then ended. These financial statements are the responsibility of the Program's management, (Government of the District of Columbia, Office of Finance and Treasury). Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of investments owned as of September 30, 2013, by correspondence with the transfer agent of the underlying mutual funds. An audit also includes 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 financial position of the District of Columbia College Savings and Investment Program's Participant and Administrative Funds as of September 30, 2013; and changes in net assets of Participant and Administrative Funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report, dated January 14, 2014, on our consideration of the District of Columbia College Savings and Investment Program's Participant and Administrative Funds internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1 and 2 is not a required part of the financial statements, but supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information, and express no opinion on it.

Regis & Associates, PC

Regis & Associates, PC
Washington, DC

January 14, 2014

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
COLLEGE SAVINGS PROGRAM TRUST
PARTICIPANT FUND
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2013**

Assets	
Receivables	
Accrued Interest and Dividends Receivable	\$ 115,094
Receivable for Investments Sold	8,669
Receivables for Fund Shares Sold	138,985
Total Receivables	<u>262,748</u>
Investments	
Equity	197,089,296
Fixed Income	88,182,867
Total Investments	<u>285,272,163</u>
Total Assets	<u>\$ 285,534,911</u>
Liabilities	
Accounts payable for net investments purchased	251,742
Accrued Expenses	14,298
Due to D.C Government-Administrative Fund	11,627
Total Liabilities	<u>277,667</u>
Net position held in trust for Program participants	<u>\$ 285,257,244</u>

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
COLLEGE SAVINGS PROGRAM TRUST
PARTICIPANT FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Additions	
Contributions	\$ 45,170,547
Investment Income	
Net appreciation in fair value of investments	31,915,604
Interest and Dividends	4,313,436
Less Investment Expenses	(2,465,049)
Net Investment Income	<u>33,763,991</u>
Total additions	<u>78,934,538</u>
Deductions	
Deductions	
Distributions to participants	16,593,409
Administrative Expenses	385,579
Maintenance Expenses	263,023
Total Deductions	<u>17,242,011</u>
Net Increase	61,692,527
Net position held in trust for Program participants	
Beginning of year	\$223,564,717
End of year	<u>\$285,257,244</u>

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
COLLEGE SAVINGS PROGRAM TRUST
ADMINISTRATIVE FUND
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2013**

ASSETS	
Investment	
Fixed Income	\$330,969
Due from Program Manager	325
Due from Participant Fund	11,627
Total Assets	<u>\$342,921</u>
Net position held in trust for administrative expenses	<u>\$342,921</u>

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
COLLEGE SAVINGS PROGRAM TRUST
ADMINISTRATIVE FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<i>ADDITIONS</i>	
Administrative Fees	\$ 118,070
Maintenance Fees	71,730
Net Investment Income	14,019
Total additions	203,819
<i>DEDUCTIONS</i>	
Professional Fees	196,589
Net Decrease	7,230
Net position held in trust for administrative expense	
Beginning of year	335,691
End of year	<u>\$342,921</u>

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
COLLEGE SAVINGS PROGRAM TRUST
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 ORGANIZATION AND PURPOSE

The District of Columbia College Savings Program (the Program) was created by D.C. Law 47-4501 et seq., as amended, and pursuant to D.C. Regulations, 49 DCR 9859, dated November 1, 2002, made final at D.C. Mun. Regs, title 9 sec. 155 (2004), as a Trust of the District of Columbia government (District). The Program enables participants to save for qualified higher education expenses. The Chief Financial Officer of the District of Columbia or his/her designee is the Trustee of the Plan. The current designee is the D.C Treasurer. The Trustee is responsible for entering into contracts for program management services, adopting program administration rules and regulations, and establishing investment policies. Since the Program's inception, the Trustee has contracted with Calvert Investment Management Inc. (Calvert) to perform recordkeeping, administrative and custodial services, investment management, marketing, and customer services. Calvert subcontracted the responsibility of the recordkeeping and related services of the Program to National Financial Data Services, a subsidiary of State Street Bank and Trust Company.

The Program is available to both District of Columbia and non-District of Columbia residents. It is a qualified tuition program that allows participants to make contributions into twelve different investment options. The account balance limit is \$260,000 per beneficiary. Accounts are subject to market investment risk, except for those that are invested in the Acacia Principal Plus product, which focuses on protecting the invested principal. As of September 30, 2013, the Plan had 15,301 participants, with a net asset value of approximately \$285,272,163. Fees and expenses of the program are paid by each account owner, and vary according to the Fund, in which they are invested.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Government Accounting Standards Board (GASB), and the Financial Accounting Standards Board (FASB).

Reporting Entity

The accompanying financial statements report the fiduciary assets, and the changes in fiduciary net assets of, and for the fiscal year ended September 30, 2013. For financial reporting purposes, the Program includes all funds over which the Program exercises, or has the ability to exercise oversight authority.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Program reports the activity of the District of Columbia College Savings 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 governments. The financial statements of the 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.

Portfolio investments in the Underlying Funds are valued at the closing net asset value per share (unit) of each Underlying Fund on the day of valuation. The Stability of Principal Portfolio is valued in accordance with the terms of the funding agreement, inclusive of accrued interest.

Security transactions, normally in shares of the Underlying Funds, are accounted for on the trade date. Realized gains and losses are reported on the identified cost basis. Income and capital gains distributions, if any, from investments in the Underlying Funds are recorded on the ex-dividend date. Expenses included in the accompanying financial statements reflect the expenses of each Portfolio, and do not include any expenses associated with the Underlying Funds.

Units represent the beneficial interest of each participant in the net assets of a Portfolio. Contributions to, and distributions from, the Portfolios are subject to terms and limitations defined in the Participation Agreement between the participant and the Trust. Contributions and distributions are recorded upon receipt of the participant's instructions in good order, based on the next determined net asset value per unit. Net investment income and net realized gains accumulate in the net asset value of each Portfolio (with the exception of Acacia Principal Plus product) and are not separately distributed to participants. To maintain a stable value, dividends from net investment income are accrued daily and paid monthly by Acacia Principal Plus product.

Income Tax Status

The Program is exempt from federal taxes in accordance with Section 529 of the Internal Revenue Code. D.C. resident participants are exempt from state and local taxes when earnings from the Program are used for qualified expenses. Non-D.C. residents may be subject to state and local taxes in their jurisdiction.

NOTE 3 INVESTMENTS

At September 30, 2013, the Program held the following aggregate investments, which are stated at aggregate fair value, based on quoted market prices:

	Aggregate Cost	Aggregate Fair Value	Unrealized Appreciation/ Depreciation
Domestic Stock Funds			
Calvert Equity Portfolio	\$ 16,285,189	\$ 22,060,130	\$ 5,774,941
Calvert Social Index Fund	40,663,540	61,320,942	20,657,402
State Street Equity 500 Index Fund-	36,583,234	47,550,606	10,967,372
Calvert Capital Accumulation Fund	5,469,315	7,841,894	2,372,579
Calvert Small Cap Value Fund	10,512,582	15,931,405	5,418,823
Calvert Balanced Fund	6,757,561	9,169,649	2,412,088
International Stock Funds			
Calvert International Equity Fund	27,596,525	33,214,670	5,618,145
Bond Funds			
Calvert Income Fund	6,117,599	6,240,701	123,102
Calvert Bond Portfolio	37,184,689	37,362,020	177,331
Cash (Funding Agreement)			
Acacia Principal Plus	44,580,146	44,580,146	-
	\$ 231,750,380	\$ 285,272,163	\$ 53,521,783

The net appreciation in the fair value of the investments in the financial statements consists of the following at September 30, 2013:

Net Unrealized Gain		\$ 26,667,623
Net Realized Gain		5,247,981
Total		<u>\$ 31,915,604</u>

The net appreciation represents the change in the market value from the prior year.

The Program's investments, which are uninsured and unregistered and are held by counterparty in the Program's name, are also subject to certain credit, interest rate, and foreign currency risks.

Credit Risk is the risk that an issuer of an investment will not fulfill its obligations. The Program does not invest in debt securities that have an overall quality which is less than BBB as rated by Moody's or Standard & Pools. The primary credit ratings of the Program's debt securities are as follows:

Fund	Credit Ratings
Calvert Bond Portfolio	A/A/A, BBB/Baa/BBB
Calvert Income Fund	A/A/A, BBB/Baa/BBB
Acacia Principle Plus	AAA, AA, A, BBB

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Program does not invest in any investment account that has an average maturity exceeding ten years for its Bond Mutual Funds. The interest rate sensitivity, defined as duration, for each fund is as follows:

Fund	Average Duration
Calvert Bond Portfolio	5.87 years
Calvert Income Fund	6.08 years
Acacia Principle Plus	7.12 years

Calvert Income Fund actively manages duration so that it will differ from the benchmark. The Acacia product's duration is typically tied to the projected long-term duration of the Program. However, the respective Fund's prospectus provides greater detail about the investment strategies and practices of the fund, in compliance with federal regulations and specifically, the Form N-1A of the Investment Company Act of 1940, which focuses on disclosure to the investing public, of information about the fund and its investment objectives, as well as on investment company structure and operations.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment in a foreign financial institution. The Program does not have a formal policy for limiting its exposure to changes in exchange rates. The investment fund that invests primarily in foreign financial institutions is the Calvert International Equity Fund. The Fund has various currency denominations. The primary currency denominations are Euro, Yen, and British pound.

NOTE 4 ADMINISTRATIVE AND MAINTENANCE FEES

Account owners are charged certain fees that are used to pay reasonable and necessary operating and maintenance expenses incurred by the Program. The fees collected are still considered assets of the Program. The Program Manager remits a portion of the fees collected to the District, who maintains the fees in a separate administrative fund account. In Fiscal Year 2013, total administrative fees assessed to account owners were \$385,579. The District's portion of the fees was \$128,527. As of September 30, 2013, the total amount not remitted to the District was \$11,627.

The Program also assesses an annual maintenance fee and a separate enrollment fee to new account owners. The maintenance fee is \$15 for District residents, and \$30 for non-residents. The enrollment fee is \$25 for non District residents. The District receives \$5 per account for each assessed fee. During the fiscal year, the maintenance and enrollment fees totaled \$263,023. The District's portion of the fees was \$69,980 and \$1,750, respectively.

The District did incur administrative expenses of \$196,589 in Fiscal Year 2013. The expenses were for the compilation and audit of the Program's financial statements. At year-end, the Program had an administrative net position balance of \$342,921.

NOTE 5 INVESTMENT EXPENSES

Investment expenses represent the operating expenses and load fees paid to the broker dealers. The fees charged by the investment funds for operating expenses and load fees are reflected in the net appreciation in fair value of investments amount in the statement of changes in fiduciary net position. Operating expenses ratios ranged from 0.15% to 2.01% of the fund's average daily net asset value.

NOTE 6 RELATED PARTY TRANSACTIONS

All of the Program's investments are invested in funds or portfolios that are managed either by the Program Manager; the Program Manager's parent company, Acacia Life; or State Street. The market value of those funds totaled \$285,272,163, as of September 30, 2013.

NOTE 7 RISKS AND UNCERTAINTIES

The Plan invests in investment securities that are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible, that changes in the values of the investment securities will occur in the near term, and that such changes could materially affect participants' account balances and the amounts reported in the Statement of Fiduciary Net Position.



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

To the Trustee of
The District of Columbia College Savings Program

We have audited the financial statements of the District of Columbia College Savings and Investment Program's (the Program) Participant and Administrative Funds as of September 30, 2013, and have issued our report thereon, dated January 14, 2014. 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

In planning and performing our audit, we considered the District of Columbia College Savings and Investment Program's Participant and Administrative Funds 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 District of Columbia College Savings and Investment Program's Participant and Administrative Funds internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's Participant and Administrative Funds 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 District of Columbia College Savings and Investment Program's Participant and Administrative Funds financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the District of Columbia College Savings and Investment Program, and is not intended to be, and should not be used by anyone other than the specified party.

Regis & Associates, PC

Regis & Associates, PC
Washington, DC

January 14, 2014