

**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Mary Mosiman, CPA
Auditor of State

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Des Moines, Iowa 50319-0006

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NEWS RELEASE

FOR RELEASE

October 28, 2016

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Office of Treasurer of State, Iowa Educational Savings Plan Trust (Trust) for the year ended June 30, 2016.

The Trust was created by the General Assembly under Chapter 12D of the Code of Iowa to encourage and make possible the attainment of higher education by the greatest number of citizens of the state. The purpose of the Trust is to allow U.S. citizens to invest money for future payment of higher education costs for designated beneficiaries. At June 30, 2016, the Trust had 129,313 participants and 225,037 beneficiaries.

Mosiman reported additions totaling \$413,291,224 for the year ended June 30, 2016, a 16.0% decrease from the prior year. Additions included \$373,399,870 of contributions from participants, \$881,275 of administrative fees, investment income of \$3,989 and a net increase in fair value of investments of \$39,006,090. The increase in fair value of investments of \$39,006,090 during fiscal year 2016 is a decrease of \$79,536,093 compared to fiscal year 2015 as a result of changes in the financial market.

Deductions totaled \$325,371,961 for the year ended June 30, 2016, a 7.5% increase over the prior year, and included \$324,691,898 of distributions to participants and beneficiaries and \$680,063 of administrative expenses. The increase in deductions was mainly the result of an increase in distributions to beneficiaries for educational expenses.

A copy of the audit report is available for review in the Office of Treasurer of State, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1760-6550-0001>.

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**OFFICE OF TREASURER OF STATE
IOWA EDUCATIONAL SAVINGS PLAN TRUST**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2016

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**Office of Treasurer of State
Iowa Educational Savings Plan Trust**

Officials

Name

Title

State

Honorable Terry E. Branstad
David Roederer
Glen P. Dickinson

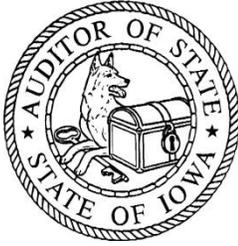
Governor
Director, Department of Management
Director, Legislative Services Agency

Agency

Honorable Michael L. Fitzgerald
Stefanie G. Devin
Karen Austin

Treasurer of State
Deputy
Deputy

**Office of Treasurer of State
Iowa Educational Savings Plan Trust**



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STATE OF IOWA**

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Des Moines, Iowa 50319-0006

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Independent Auditor's Report

To the Honorable Michael L. Fitzgerald, Treasurer of State:

Report on the Financial Statements

We have audited the accompanying financial statements of the Office of Treasurer of State, Iowa Educational Savings Plan Trust (Trust), as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the Trust's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Office of Treasurer of State, Iowa Educational Savings Plan Trust as of June 30, 2016, and the changes in its fiduciary net position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 1, the financial statements of the Office of Treasurer of State, Iowa Educational Savings Plan Trust are intended to present the financial position and results of operations of only the portion of the financial reporting entity of the State of Iowa attributable to the transactions of the Iowa Educational Savings Plan Trust. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2016 and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 8 and 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Office of Treasurer of State, Iowa Educational Savings Plan Trust's basic financial statements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2016 on our consideration of the Office of Treasurer of State, Iowa Educational Savings Plan Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Office of Treasurer of State, Iowa Educational Savings Plan Trust's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

October 20, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Office of Treasurer of State, Iowa Educational Savings Plan Trust (Trust) provides this Management's Discussion and Analysis of the Trust's annual financial statements. This narrative overview and analysis of the financial activities of the Trust is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the Trust's financial statements, which follow this section.

USING THESE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Trust's financial statements, which consist of the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position (pages 12 and 13). They also include the Notes to Financial Statements which begin on page 14. These financial statements provide information about the activities of the Trust as a whole and are based on the flow of economic resources measurement focus and the accrual basis of accounting. The flow of economic resources refers to all of the assets available to the Trust for the purpose of fulfilling its responsibilities to the other parties in the fiduciary relationship.

The financial statements are further described as follows:

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

The Statement of Changes in Fiduciary Net Position summarizes the additions to, deductions from and the net increase or decrease in fiduciary net position for the year.

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

FINANCIAL ANALYSIS OF THE TRUST

During fiscal year 2016, the Trust received \$373,399,870 of contributions from participants and distributed \$324,691,898 to participants and beneficiaries.

At June 30, 2016, the total number of participants, beneficiaries and accounts by plan were as follows:

| | <u>Participants</u> | <u>Beneficiaries</u> | <u>Accounts</u> |
|-------------------------------|---------------------|----------------------|-----------------|
| College Savings Iowa 529 Plan | 113,993 | 198,520 | 239,467 |
| Iowa Advisor 529 Plan | 15,320 | 26,517 | 48,648 |
| Total | <u>129,313</u> | <u>225,037</u> | <u>288,115</u> |

The Trust's financial activity for the year ended June 30, 2016 resulted in an increase in fiduciary net position of \$87,919,263.

Condensed financial information as of and for the years ended June 30, 2016 and 2015 is as follows:

| | June 30, 2016 | June 30, 2015 |
|--|-------------------------|----------------------|
| Cash and investments | \$ 4,452,829,191 | 4,364,901,150 |
| Other assets | 8,510 | 8,488 |
| Capital assets, net | 246 | 3,206 |
| Total assets | 4,452,837,947 | 4,364,912,844 |
| Liabilities | 35,511 | 29,671 |
| Net position held for the payment of higher education costs for designated beneficiaries | <u>\$ 4,452,802,436</u> | <u>4,364,883,173</u> |

| | Year Ended June 30, 2016 | Year Ended June 30, 2015 |
|---|-----------------------------|-----------------------------|
| Additions: | | |
| Contributions | \$ 373,399,870 | 372,403,924 |
| Net increase in fair value of investments | 39,006,090 | 118,542,183 |
| Other | 885,264 | 856,600 |
| Total additions | <u>413,291,224</u> | <u>491,802,707</u> |
| Deductions: | | |
| Distributions | 324,691,898 | 301,692,489 |
| Administrative expenses | 680,063 | 856,875 |
| Total deductions | <u>325,371,961</u> | <u>302,549,364</u> |
| Net increase in net position | 87,919,263 | 189,253,343 |
| Net position beginning of year | <u>4,364,883,173</u> | <u>4,175,629,830</u> |
| Net position end of year | <u>\$ 4,452,802,436</u> | <u>4,364,883,173</u> |

Total additions decreased primarily due to the net increase in fair value of investments of \$39,006,090 in fiscal year 2016 compared to \$118,542,183 in fiscal year 2015. The decrease in the amount of increase in fair value of investments was due to changing market conditions. The increase in distributions of \$22,999,409 over the prior year is primarily due to beneficiaries withdrawing additional funds for educational expenses (see Schedule 4).

CONTACTING THE OFFICE OF TREASURER OF STATE, IOWA EDUCATIONAL SAVINGS PLAN TRUST

This financial report is designed to present users with a general overview of the Trust's finances and to demonstrate the Trust's accountability for the funds held in custody. If you have questions about the report or need additional financial information, please contact the Office of Treasurer of State, State Capitol Building, Des Moines, IA 50319.

**Office of Treasurer of State
Iowa Educational Savings Plan Trust**

Basic Financial Statements

Exhibit A

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Statement of Fiduciary Net Position

June 30, 2016

| | |
|---|--------------------------------|
| Assets | |
| Cash | \$ 1,629,833 |
| Investments | 4,451,199,358 |
| Prepaid expenses | 8,510 |
| Capital assets, net of accumulated depreciation | 246 |
| Total assets | <u>4,452,837,947</u> |
| Liabilities | |
| Accounts payable | <u>35,511</u> |
| Net position | |
| Held in trust for others | <u><u>\$ 4,452,802,436</u></u> |

See notes to financial statements.

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2016

| | |
|---|--------------------------------|
| Additions: | |
| Contributions from participants | \$ 373,399,870 |
| Net increase in fair value of investments | 39,006,090 |
| Administrative fees | 881,275 |
| Investment income | 3,989 |
| Total additions | <u>413,291,224</u> |
| Deductions: | |
| Distributions to participants and beneficiaries | 324,691,898 |
| Administrative expenses: | |
| Salaries | 156,947 |
| Travel | 8,541 |
| Supplies | 6,315 |
| Contractual services for outside consultants and independent contractors | 85,093 |
| Other contractual services | 65,653 |
| Marketing | 354,554 |
| Depreciation | 2,960 |
| Total deductions | <u>325,371,961</u> |
| Net increase in fiduciary net position | 87,919,263 |
| Net position beginning of year | <u>4,364,883,173</u> |
| Net position end of year | <u><u>\$ 4,452,802,436</u></u> |

See notes to financial statements.

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The Iowa Educational Savings Plan Trust (Trust) is a part of the Office of Treasurer of State of Iowa. The Trust was created by the General Assembly under Chapter 12D of the Code of Iowa, with the Treasurer of State as the trustee. According to Chapter 12D of the Code of Iowa, the General Assembly finds the general welfare and well-being of the state are directly related to educational levels and skills of the citizens of the state and a vital and valid public purpose is served by the creation and implementation of programs which encourage and make possible the attainment of higher education by the greatest number of citizens of the state.

The purpose of the Trust is to allow participants to invest money for future payment of higher education costs for designated beneficiaries.

Two 529 plans are administered under the Trust. The College Savings Iowa 529 Plan was established in 1998 to be sold directly to the public. The Iowa Advisor 529 Plan was established in 2006 to be sold through financial advisors.

The financial statements of the Trust have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Trust has included all funds, organizations, agencies, boards, commissions and authorities. The Trust has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Trust are such that exclusion would cause the Trust's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Trust to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Trust. The Trust has no component units which meet the Governmental Accounting Standards Board criteria.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Trust is accounted for using the economic resources measurement focus and the accrual basis of accounting. Additions are recorded when earned and deductions are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Trust is a fiduciary fund type and is classified as a private purpose trust for financial statement purposes. A private purpose trust is used to report a trust arrangement under which principal and income benefit individuals, private organizations or other governments. The Trust is used to account for resources which may be expended only for higher education costs of designated beneficiaries.

C. Capital Assets

Capital assets are defined by the Trust as assets with initial, individual costs in excess of \$5,000. Such assets are recorded at historical cost. Depreciation of all exhaustible assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Capital assets are depreciated over a five year life.

The cost of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

(2) Deposits and Investments

The Trust's cash and investments are not bank deposits and are not insured by federal depository insurance or any other government agency. Investments are stated at fair value. Due to the nature of investments in mutual funds, there is no assurance the accounts under the Trust will generate any specific rate of return and there is no assurance the accounts will not decrease in value. Mutual funds are not subject to risk categorization.

Although money contributed to the Trust is invested in portfolios which hold mutual funds, neither the Trust nor any of its portfolios is itself a mutual fund. Each portfolio invests in one or more mutual funds, which are actively traded publicly.

The portfolios' investments valuation is based on the fair value hierarchy established by generally accepted accounting principles, based on the valuation inputs used, to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2016, the portfolios' investments were classified as Level 1.

College Savings Iowa 529 Plan

The Office of Treasurer of State has an agreement with the Vanguard Group to invest funds for the Trust in specified investment portfolios. The Trust's investments at June 30, 2016 are all invested in portfolios which hold Vanguard mutual funds for the College Savings Iowa 529 Plan.

The Office of Treasurer of State has established four age-based savings tracks and ten individual portfolios for the participant to select from. For the age-based savings tracks, participant accounts will be exchanged (units held will be exchanged for a number of units of equal value) for the next portfolio in the year the beneficiary reaches the minimum qualifying age in the next portfolio.

| Ages | Savings Track A | Savings Track B | Savings Track C | Savings Track D |
|-------------------|-------------------|---------------------|---------------------|---------------------|
| Age 5 and younger | Aggressive Growth | Aggressive Growth | Growth | Moderate Growth |
| Age 6 through 10 | Aggressive Growth | Growth | Moderate Growth | Conservative Growth |
| Age 11 through 15 | Growth | Moderate Growth | Conservative Growth | Income |
| Age 16 through 18 | Moderate Growth | Conservative Growth | Income | Conservative Income |
| Age 19 and older | Income | Conservative Income | Money Market | Money Market |

At June 30, 2016, the College Savings Iowa 529 Plan had investments in the following portfolios:

| Investment Portfolio | Fair Value at June 30, 2016 |
|---------------------------|--------------------------------|
| Aggressive Growth | \$ 823,187,115 |
| Growth | 971,274,341 |
| Moderate Growth | 883,059,814 |
| Conservative Growth | 428,011,345 |
| Income | 412,812,403 |
| Conservative Income | 187,665,694 |
| Money Market | 240,611,699 |
| Bond Index | 47,343,754 |
| Domestic Stock Index | 161,591,306 |
| International Stock Index | 22,108,224 |
| Total | \$ 4,177,665,695 |

Iowa Advisor 529 Plan

Accounts for the Iowa Advisor 529 Plan are invested at the direction of the account owner with the assistance of a financial advisor.

The Office of Treasurer of State has an agreement with Voya Investment Management Co. LLC (Voya IM) to invest funds for the Iowa Educational Savings Plan Trust in specified investment portfolios. Currently, account owners in the Iowa Advisor 529 Plan have 23 investment options, all of which are managed by Voya IM.

The options include 11 single fund options which invest in mutual funds, 5 investment options for the static allocation option (investments remain in the same investment option), 5 age-based options (the investments automatically become more conservative as the child ages) and 2 index options. The index options portfolios are not open to new investments.

At June 30, 2016, the Iowa Advisor 529 Plan had investments in the following portfolios:

| Investment Portfolio | Fair Value at June 30, 2016 |
|---|--------------------------------|
| IAdvisor 529 Aggressive | \$ 61,010,168 |
| IAdvisor 529 Growth | 66,363,728 |
| IAdvisor 529 Moderate | 20,838,361 |
| IAdvisor 529 Conservative | 5,590,641 |
| IAdvisor 529 Ultra-Conservative | 1,379,566 |
| IAdvisor 529 Age 0-5 Option | 10,609,825 |
| IAdvisor 529 Age 6-10 Option | 10,048,824 |
| IAdvisor 529 Age 11-15 Option | 12,181,039 |
| IAdvisor 529 Age 16-17 Option | 4,656,764 |
| IAdvisor 529 Age 18+ Option | 2,887,125 |
| Voya Large Cap Value | 6,819,093 |
| Voya Large Cap Growth | 19,119,219 |
| Voya Mid Cap Opportunities | 7,809,698 |
| Voya Multi-Manager Mid Cap Value | 3,779,088 |
| Voya Small Company | 4,914,079 |
| VY Clarion Global Real Estate | 446,798 |
| VY BlackRock Inflation Protected Bond | 2,669,937 |
| Voya Intermediate Bond | 6,027,835 |
| Voya Short Term Bond | 688,638 |
| Voya Money Market | 5,801,098 |
| Voya International Index | 2,316,038 |
| Voya US Stock Index | 12,123,985 |
| Voya Multi-Manager International Equity | 5,452,116 |
| Total | \$ 273,533,663 |

Credit Risk – Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment.

The various investment portfolios hold mutual funds, most of which contain investments not subject to credit risk. Certain portfolios hold mutual funds which contain investments subject to credit risk disclosure. However, the various investment portfolios are unrated.

Concentration of Credit Risk – The various portfolios hold mutual funds and, accordingly, disclosure of concentration of credit risk is not applicable.

Interest Rate Risk – Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the applicable portfolios using the effective duration methodology, which is widely used in the management of fixed income portfolios because it quantifies to a much greater degree the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve.

Certain investment portfolios of the College Savings Iowa 529 Plan and the Iowa Advisor 529 Plan contain underlying fixed income investments subject to interest rate risk disclosure. The exposure is summarized using the effective duration methodology, as follows:

| College Savings Iowa 529 Plan Investment Portfolio | Underlying Fixed Income Funds | | | | | Fair Value of Funds at June 30, 2016 |
|--|----------------------------------|-------------------------------------|----------------------------|-----------------------------------|----------------------|--------------------------------------|
| | Vanguard | | | | | |
| | Short-term Inflation | | | | | |
| | Vanguard Total Bond Market Index | Vanguard Total Bond Market II Index | Protected Securities Index | Vanguard International Bond Index | | |
| Growth | \$ - | 136,787,232 | - | 58,696,817 | 195,484,049 | |
| Moderate Growth | - | 239,203,812 | - | 102,881,987 | 342,085,799 | |
| Conservative Growth | - | 175,634,623 | - | 75,528,367 | 251,162,990 | |
| Income | - | 231,759,386 | - | 99,630,692 | 331,390,078 | |
| Conservative Income Bond Index | - | 64,802,562 | 33,695,694 | 42,387,284 | 140,885,540 | |
| | 47,343,754 | - | - | - | 47,343,754 | |
| Total | \$ 47,343,754 | 848,187,615 | 33,695,694 | 379,125,147 | 1,308,352,210 | |
| Effective Duration (Years) as of June 30, 2016: | | <u>5.8</u> | <u>5.8</u> | <u>2.5</u> | <u>7.9</u> | |

| Iowa Advisor 529 Plan Investment Portfolio | Underlying Fixed Income Funds | | | | | | | | Fair Value of Funds at June 30, 2016 |
|---|--|-----------------------|---------------------------|-----------------------------|---------------------------|------------------------------|---------------------------------|----------------------------|--------------------------------------|
| | VY BlackRock Inflation Protected Bond Fund | Voya Global Bond Fund | Voya High Yield Bond Fund | Voya Intermediate Bond Fund | Voya Short Term Bond Fund | Voya Floating Rate Bond Fund | Voya Limited Maturity Bond fund | VY Goldman Sachs Bond Fund | |
| IAdvisor 529 Aggressive | \$ - | 1,205,544 | 607,343 | 5,444,544 | - | 605,536 | - | 1,207,897 | 9,070,864 |
| IAdvisor 529 Growth | 1,317,181 | 1,971,659 | 1,324,373 | 11,872,532 | 1,317,806 | 1,320,446 | - | 3,950,977 | 23,074,974 |
| IAdvisor 529 Moderate | 1,037,664 | 621,307 | 625,988 | 4,156,913 | 1,868,683 | 624,138 | - | 2,490,041 | 11,424,734 |
| IAdvisor 529 Conservative | 278,716 | 278,138 | 224,179 | 1,116,527 | 1,394,230 | 223,520 | 278,885 | 390,146 | 4,184,341 |
| IAdvisor 529 Ultra-Conservative | 96,540 | 96,340 | 55,460 | 276,231 | 372,535 | 55,298 | 137,995 | 220,630 | 1,311,029 |
| IAdvisor Age 0-5 Option | - | 209,532 | 105,554 | 946,274 | - | 105,242 | - | 209,941 | 1,576,543 |
| IAdvisor Age 6-10 Option | 200,289 | 299,810 | 201,376 | 1,805,304 | 200,383 | 200,782 | - | 600,784 | 3,508,728 |
| IAdvisor Age 11-15 Option | 604,862 | 362,164 | 364,876 | 2,423,044 | 1,089,253 | 363,804 | - | 1,451,460 | 6,659,463 |
| IAdvisor Age 16-17 Option | 232,247 | 231,766 | 186,799 | 930,370 | 1,161,773 | 186,252 | 232,388 | 325,099 | 3,486,694 |
| IAdvisor Age 18+ Option | 201,936 | 201,519 | 116,009 | 577,807 | 779,249 | 115,671 | 288,652 | 461,501 | 2,742,344 |
| VY BlackRock Inflation Protected Bond | 2,671,926 | - | - | - | - | - | - | - | 2,671,926 |
| Voya Intermediate Bond | - | - | - | 6,031,015 | - | - | - | - | 6,031,015 |
| Voya Short Term Bond | - | - | - | - | 689,493 | - | - | - | 689,493 |
| Total | \$ 6,641,361 | 5,477,779 | 3,811,957 | 35,580,561 | 8,873,405 | 3,800,689 | 937,920 | 11,308,476 | 76,432,148 |
| Effective Duration (Years) as of June 30, 2016: | <u>7.68</u> | <u>7.00</u> | <u>3.94</u> | <u>5.08</u> | <u>1.89</u> | <u>0.16</u> | <u>1.88</u> | <u>4.92</u> | |

(3) Participant Contributions

Any United States citizen age 18 years or older with a valid social security number and a desire to save for the future educational expenses of a young person may be a participant. The amount a participant may contribute is unlimited, except no contribution may cause the aggregate balance of all accounts held on behalf of a single beneficiary to exceed \$320,000 (in 2016). The minimum amount of any one contribution is \$25 (\$15 when investing through a payroll deduction plan) under the College Savings Iowa 529 Plan and \$50 (\$25 when investing through a payroll deduction plan) under the Iowa Advisor 529 Plan. Contributions are not required to be made each year.

Participant contributions up to \$3,188 per account in 2016 are deductible for State of Iowa income tax purposes. Earnings are tax exempt for state income tax purposes. A similar federal tax deduction does not exist for the participant's contributions. Earnings are exempt for federal income tax purposes if funds are spent for specified qualified higher education expenses. Earnings on non-qualified withdrawals are subject to federal income tax and a 10% federal penalty, as well as applicable state and local income tax.

(4) Capital Assets

A summary of capital assets activity for the year ended June 30, 2016 is as follows:

| | <hr/> | | | |
|-------------------------------|-----------|-----------|-----------|----------|
| | Balance | | | Balance |
| | Beginning | | | End |
| | of Year | Additions | Deletions | of Year |
| | <hr/> | | | |
| Equipment | \$ 79,851 | - | - | 79,851 |
| Less accumulated depreciation | (76,645) | (2,960) | - | (79,605) |
| Capital assets, net | <hr/> | | | <hr/> |
| | \$ 3,206 | (2,960) | - | 246 |

(5) Administrative Fees

Chapter 12D.2(14) of the Code of Iowa allows the Treasurer of State, as trustee, to establish, impose and collect administrative fees and charges in connection with transactions of the Trust. The assets of the Trust shall at all times be preserved, invested and expended solely and only for the purposes of the Trust and shall be held in trust for the participants and beneficiaries. The assets of the Trust shall not be transferred or used by the state for any purposes other than the purposes of the Trust.

Vanguard provides an agreed upon annual payment to the Treasurer of State for the College Savings Iowa 529 Plan. The payment is adjusted annually by the Consumer Price Index. For the Iowa Advisor 529 Plan, Voya IM provides an administrative fee of .10% of assets under management, effective when assets under management reached \$200 million or January 1, 2015, whichever came first. When assets under management reach \$500 million, Voya IM will provide a fee of .125% of assets under management. The administrative fees received by the Treasurer of State for fiscal year 2016 totaled \$881,275.

(6) New Accounting Pronouncement

The Iowa Educational Savings Plan Trust adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities in the financial statements. Adoption did not have a significant impact on amounts reported or disclosed.

**Office of Treasurer of State
Iowa Educational Savings Plan Trust**

Supplementary Information

Schedule 1

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Combining Schedule of Fiduciary Net Position

June 30, 2016

| | College Savings | Iowa Advisor | Administrative | |
|--|------------------|--------------|----------------|---------------|
| | Iowa 529 Plan | 529 Plan | Account | Total |
| Assets | | | | |
| Cash | \$ - | - | 1,629,833 | 1,629,833 |
| Investments | 4,177,665,695 | 273,533,663 | - | 4,451,199,358 |
| Prepaid expenses | - | - | 8,510 | 8,510 |
| Capital assets, net of accumulated depreciation | - | - | 246 | 246 |
| Total assets | 4,177,665,695 | 273,533,663 | 1,638,589 | 4,452,837,947 |
| Liabilities | | | | |
| Accounts payable | - | - | 35,511 | 35,511 |
| Net position | | | | |
| Held in trust for others | \$ 4,177,665,695 | 273,533,663 | 1,603,078 | 4,452,802,436 |

See accompanying independent auditor's report.

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Combining Schedule of Changes in Fiduciary Net Position

Year ended June 30, 2016

| | College Savings Iowa 529 Plan | Iowa Advisor 529 Plan | Administrative Account | Total |
|--|----------------------------------|--------------------------|---------------------------|----------------------|
| Additions: | | | | |
| Contributions from participants | \$ 330,557,985 | 42,841,885 | - | 373,399,870 |
| Net increase (decrease) in fair value of investments | 40,734,057 | (1,727,967) | - | 39,006,090 |
| Administrative fees | - | - | 881,275 | 881,275 |
| Investment income | - | - | 3,989 | 3,989 |
| Total additions | 371,292,042 | 41,113,918 | 885,264 | 413,291,224 |
| Deductions: | | | | |
| Distributions to participants and beneficiaries | 307,258,219 | 17,433,679 | - | 324,691,898 |
| Administrative expenses: | | | | |
| Salaries | - | - | 156,947 | 156,947 |
| Travel | - | - | 8,541 | 8,541 |
| Supplies | - | - | 6,315 | 6,315 |
| Contractual services for outside consultants and independent contractors | - | - | 85,093 | 85,093 |
| Other contractual services | - | - | 65,653 | 65,653 |
| Marketing | - | - | 354,554 | 354,554 |
| Depreciation | - | - | 2,960 | 2,960 |
| Total deductions | 307,258,219 | 17,433,679 | 680,063 | 325,371,961 |
| Net increase in fiduciary net position | 64,033,823 | 23,680,239 | 205,201 | 87,919,263 |
| Net position beginning of year | 4,113,631,872 | 249,853,424 | 1,397,877 | 4,364,883,173 |
| Net position end of year | \$ 4,177,665,695 | 273,533,663 | 1,603,078 | 4,452,802,436 |

See accompanying independent auditor's report.

Schedule 3

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Summary of Expenses for Outside Consultants and Independent Contractors

Year ended June 30, 2016

| Type of Service | Amount |
|-----------------------------|------------------|
| Legal consulting services | \$ 32,434 |
| Other professional services | 52,659 |
| Total | <u>\$ 85,093</u> |

See accompanying independent auditor's report.

Office of Treasurer of State
Iowa Educational Savings Plan Trust

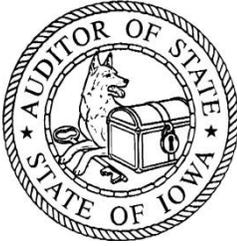
Summary of Distributions to Participants and Beneficiaries

Year ended June 30, 2016

| Type of Distribution | College Savings Iowa 529 Plan | Iowa Advisor 529 Plan | Total |
|---|----------------------------------|--------------------------|--------------------|
| Qualified withdrawals for educational expenses of beneficiaries | \$ 277,675,066 | 4,322,486 | 281,997,552 |
| Rollover withdrawals to other qualified state tuition plans | 20,549,599 | 2,559,096 | 23,108,695 |
| Non-qualified withdrawals | 9,033,554 | 10,552,097 | 19,585,651 |
| Total | <u>\$ 307,258,219</u> | <u>17,433,679</u> | <u>324,691,898</u> |

See accompanying independent auditor's report.

**Office of Treasurer of State
Iowa Educational Savings Plan Trust**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Michael L. Fitzgerald, Treasurer of State:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Office of Treasurer of State, Iowa Educational Savings Plan Trust, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated October 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office of Treasurer of State, Iowa Educational Savings Plan Trust's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office of Treasurer of State, Iowa Educational Savings Plan Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office of Treasurer of State, Iowa Educational Savings Plan Trust's internal control.

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

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

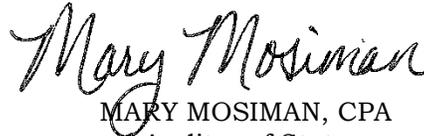
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office of Treasurer of State, Iowa Educational Savings Plan Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Office of Treasurer of State, Iowa Educational Savings Plan Trust during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

October 20, 2016

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Staff

This audit was performed by:

Tammy A. Hollingsworth, CIA, Manager
Brandon J. Vogel, Senior Auditor II
Marcus B. Johnson, Staff Auditor
Alex D. Dau, Assistant Auditor
Eileen D. Loomis, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State