



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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May 8, 2013

Ms. Jodi Golden, Executive Director
Indiana Education Savings Authority
One North Capitol Avenue, Suite 444
Indianapolis, IN 46204

Dear Ms. Golden:

We have received the audit report prepared by London Witte Group, LLC, Certified Public Accountants, for the period July 1, 2011 to June 30, 2012. Per the auditors' opinion, the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the financial statements included in the report present fairly, in all material respects, the financial position of the Indiana Education Savings Authority as of June 30, 2012, and the results of its operations and cash flows for the year then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a public record.

STATE BOARD OF ACCOUNTS

INDIANA EDUCATION SAVINGS AUTHORITY
(A Component Unit of the State of Indiana)

Financial Statements

Years Ended June 30, 2012 and 2011

INDIANA EDUCATION SAVINGS AUTHORITY
(A Component Unit of the State of Indiana)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
INDIANA EDUCATION SAVINGS AUTHORITY

We have audited the statements of net assets of the INDIANA EDUCATION SAVINGS AUTHORITY (A COMPONENT UNIT OF THE STATE OF INDIANA) as of June 30, 2012 and 2011, and the related statements of revenues, expenditures and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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. 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 audits provide 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 Indiana Education Savings Authority as of June 30, 2012 and 2011, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. Additional information is presented for purposes of further analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2012, on our consideration of the Indiana Education Savings Authority'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.

London Witte Group, LLC

October 12, 2012

INDIANA EDUCATION SAVINGS AUTHORITY
(A Component Unit of the State of Indiana)

Management Discussion and Analysis

June 30, 2012 and 2011

This section of the Indiana Education Savings Authority's (the Authority) annual financial report presents Management's discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Authority's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- As of June 30, 2012 there were 214,367 total participant accounts. There was an increase of the number of participant accounts of 20,490 during fiscal year 2012 and an increase of 24,167 participant accounts during fiscal year 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements and notes. The Authority is an instrumentality of the State of Indiana and follows the enterprise fund reporting; accordingly, the financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long term financial information about the activities and operations of the Authority. The purpose of the Authority is to manage, promote, and advertise the CollegeChoice 529. These statements are presented in a manner similar to a private business.

The Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets provide information about the Authority's financial status. The Statements of Net Assets include all of the Authority's assets and liabilities and the Statements of Revenues, Expenses and Changes in Net Assets report all of the revenues and expenses during the time period. The Statements of Cash Flows report the cash provided and used by operating activities. The financial statements also include notes that explain and support the information in the statements.

INDIANA EDUCATION SAVINGS AUTHORITY
(A Component Unit of the State of Indiana)

Management Discussion and Analysis

June 30, 2012 and 2011

FINANCIAL ANALYSIS OF THE AUTHORITY

The following table is a condensed summary of financial information for the year ended June 30, 2012, 2011 and 2010:

	2012	2011	2010
Net Assets			
Current assets	\$ 739,000	\$ 565,800	\$ 367,200
Total assets	739,000	565,800	367,200
Current liabilities	28,300	31,300	19,800
Total liabilities	28,300	31,300	19,800
Total Net Assets	710,700	534,500	347,400
Change in Net Assets			
Operating revenues	1,006,000	892,500	704,500
Operating expenses			
Marketing expense	(558,600)	(500,800)	(546,700)
Professional fees	(157,700)	(185,700)	(66,800)
Salaries, benefits, payroll taxes	(102,900)	(3,000)	-
Miscellaneous	(10,600)	(15,900)	(12,900)
Operating income (loss)	176,200	187,100	78,100
Interest Income	-	-	300
Other Income	-	-	300
Change in Net Assets	\$ 176,200	\$ 187,100	\$ 78,700

Note: Amounts rounded to nearest one hundred (\$100) dollars.

The components of current assets are cash and accounts receivable. Cash for 2012 has increased approximately \$166,700 due to operating revenues which surpassed operating expenses. The \$6,500 increase in 2012 accounts receivable was attributable to a higher value of daily net asset balances than in the prior year as of June 30th. Current liabilities are accounts payable.

Net assets are categorized as unrestricted and have increased approximately \$176,200 for the year ended June 30, 2012 and increased \$187,100 for the year ending June 30, 2011 as a result of operating income and losses. There are no outside restrictions placed on the use of the Authority's net assets and the Authority has no capital assets which require a restriction to be reported on net assets.

**INDIANA EDUCATION SAVINGS AUTHORITY
(A Component Unit of the State of Indiana)**

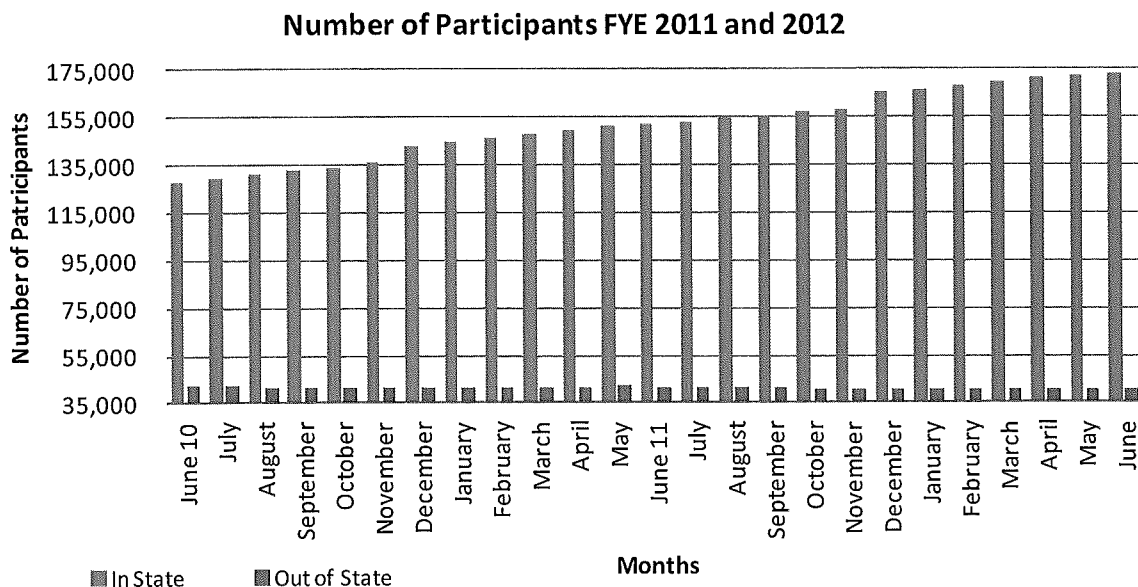
Management Discussion and Analysis

June 30, 2012 and 2011

Operating revenues consist of state authority fees paid by UPromise. Fee income increased approximately \$113,600 from 2012 compared to 2011; in 2011 it increased \$188,000 compared to 2010. The increase from 2011 is due an increase in the value of the daily net assets balances. UPromise pays the Authority based on the value of their daily net asset balances. This has led to an increase in revenues to the Authority.

The board of directors approved an increase in the operating budget for 2012 to include the salary, benefits, and payroll taxes of the Executive Director. While marketing expense increased slightly, professional fees decreased as a result of work done in the prior year on the new College Savings Bank contract and disclosure statement that went into effect during 2011. The largest component of professional fees were for consulting which accounted for \$123,000 in the current year due to costs associated with consultations on investments offered by the Authority.

The chart below details the change in the composition of the participants in the plan for each month during the years 2012 and 2011 between in state and out of state participants. As shown, the out of state participant numbers have stayed relatively constant while the growth in participants is occurring from in state.



INDIANA EDUCATION SAVINGS AUTHORITY
(A Component Unit of the State of Indiana)

Statements of Net Assets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 651,856	\$ 485,237
Accounts receivable	<u>87,095</u>	<u>80,574</u>
TOTAL CURRENT ASSETS	<u><u>738,951</u></u>	<u><u>565,811</u></u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	<u>28,279</u>	<u>31,345</u>
<u>NET ASSETS</u>		
Unrestricted	<u>710,672</u>	<u>534,466</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 738,951</u></u>	<u><u>\$ 565,811</u></u>

The accompanying notes are an integral part of these statements.

INDIANA EDUCATION SAVINGS AUTHORITY
(A Component Unit of the State of Indiana)

Statements of Revenue, Expenditures, and Changes in Net Assets

Years Ended June 30, 2012 and 2011

	Amount		Percent	
	2012	2011	2012	2011
OPERATING REVENUES				
Fee income	\$ 1,006,057	\$ 892,473	100.0	100.0
OPERATING EXPENDITURES				
Professional fees	157,726	185,703	15.7	20.8
Marketing / public relations	558,591	500,846	55.5	56.1
Salaries, benefits, and payroll taxes	102,913	3,462	10.2	0.4
Miscellaneous	10,621	15,401	1.1	1.7
TOTAL OPERATING EXPENSES	829,851	705,412	82.5	79.0
OPERATING INCOME (LOSS)	176,206	187,061	17.5	21.0
NET ASSETS, BEGINNING OF YEAR	534,466	347,405		
NET ASSETS, END OF YEAR	\$ 710,672	\$ 534,466		

The accompanying notes are an integral part of these statements.

INDIANA EDUCATION SAVINGS AUTHORITY
(A Component Unit of the State of Indiana)

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants	\$ 999,536	\$ 875,389
Cash paid to vendors	<u>(832,917)</u>	<u>(693,894)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>166,619</u>	<u>181,495</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	166,619	181,495
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>485,237</u>	<u>303,742</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 651,856</u>	<u>\$ 485,237</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 176,206	\$ 187,061
Decrease (increase) in assets		
Accounts receivable	(6,521)	(17,083)
Increase (decrease) in liabilities		
Accounts payable	<u>(3,066)</u>	<u>11,517</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 166,619</u>	<u>\$ 181,495</u>

The accompanying notes are an integral part of these statements.

INDIANA EDUCATION SAVINGS AUTHORITY

(A Component Unit of the State of Indiana)

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

(1) Summary of significant accounting policies

The significant policies followed by the Indiana Education Savings Authority are summarized as follows:

Nature of operations - The Indiana Education Savings Authority is an instrumentality of the State of Indiana created in 1996 by the Indiana General Assembly in I.C. 21-9. The purpose of the Indiana Education Savings Authority (the Authority) is to implement, promote and administer education savings programs for residents of the State of Indiana. The Authority established the CollegeChoice 529 Investment Plan.

The CollegeChoice 529 Investment Plan, an IRS Section 529 plan, provides a vehicle for saving funds on a tax exempt basis, for use in paying qualified higher education expenses. The earnings of the owner's account are exempt from federal taxation. The CollegeChoice 529 Investment Plan Trust was created to receive, invest and disburse funds for the benefit of the account beneficiaries.

The financial statements of the Indiana Education Savings Authority are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Authority is required to implement GASB 34 with these financial statements. The aspects of financial statements content and format, as prescribed by GASB Statement 34, have been implemented in the financial statements, effective for the year ended June 30, 2005.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of these notes are organized to provide explanations, including required disclosures, of the Authority's financial activities for the years ended June 30, 2012 and 2011.

Revenue recognition - The Authority receives a one-tenth of one percent (.1%) fee based on the ending daily net asset value for each account in the Advisor plan. Fees are received monthly and are recognized in the period earned.

Cash and cash equivalents - The Authority considers cash and cash equivalents to be cash on hand, in bank accounts, and highly liquid investments with an original maturity of three months or less. At times, such cash may be in excess of the FDIC insurance limit.

INDIANA EDUCATION SAVINGS AUTHORITY
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Notes to Financial Statements

Years Ended June 30, 2012 and 2011

(1) Summary of significant accounting policies (continued)

Advertising - Advertising costs are expensed when incurred. Advertising expenditures for the years ended June 30, 2012 and 2011 were \$558,591 and \$500,846, respectively.

Accounts Receivable- The Authority carries accounts receivable at cost. They represent amounts due from UPromise for revenue earned on CollegeChoice investment plant account balances prior to year end. There is no allowance for doubtful accounts, as historically revenues due from investment management companies have been collected in their entirety.

Net Assets – The Authority’s resources are classified for accounting and financial reporting purposes as unrestricted. The net assets are available for use by the Authority.

Operating Revenues – Revenues are classified as either operating or nonoperating. Operating revenues are state authority fees received from UPromise. All other items are considered nonoperating.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events – Subsequent events have been evaluated through October 12, 2012, which is the date the financial statements were available to be issued.

(2) Payments made on behalf of The Authority

The Indiana Board for Depositories (Board) is allowed through legislation to pay expenses of the Indiana Education Savings Authority through the year 2021. The Board currently pays the entire lease payment for office space that the Board and the Authority share. In prior years, the Board also paid the salary of the executive director and some legal fees for the Authority. These expenses were \$5,317 for 2012 and \$96,360 for 2011.

INDIANA EDUCATION SAVINGS AUTHORITY
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Notes to Financial Statements

Years Ended June 30, 2012 and 2011

(3) Commitment and concentration

On August 14 2008, the Authority signed a ten year service agreement with UPromise, which designates UPromise Asset Management as the primary provider of investment and administrative services for the CollegeChoice 529 Investment Plan, as well as, the trustee for the CollegeChoice 529 Investment Plan Trust. In exchange, UPromise committed to spend a minimum amount to market the Program for each of the years until the agreement's expiration. The agreement with UPromise states that they will spend a minimum of \$150,000 per calendar year plus a cost of living adjustment on marketing. UPromise will also provide foundation materials such as disclosure statements and enrollment forms and kits that will not be charged against the commitment. UPromise committed to spend \$163,500 and \$161,500 for the years ending December 31, 2012 and 2011, respectively. UPromise spent all budgeted funds in 2011 and has spent \$70,400 through June 30, 2012.

On December 14, 2010, the Authority signed a contract with College Savings Bank (CSB) to serve as the administrator of FDIC insured Certificate of Deposit products that the Authority will now offer through the CollegeChoice 529 Investment Plan. The contract period is five years as of the earlier of March 1, 2011 or the date on which all conditions have been satisfied or waived. The CollegeChoice CD 529 plan was officially launched on April 15, 2011. Per the contract, the Authority designates CSB as program manager of the CSB Plan and depository for the purpose of facilitating the receipt, investment, and distribution of funds contributed to the Accounts. CSB also commits to developing a marketing plan on an annual basis with the Authority. CSB will assume the cost of preparing and executing the agreed upon annual marketing plan including all out of pocket expenses. CSB is committed to spend through the one year anniversary date of the CSD Plan start date a minimum of \$150,000. In subsequent years, CSB will continue to provide value added marketing to the CSB Plan and spend a minimum dollar amount equal to 25 basis points (.0025) times CD deposits from the prior year's account originations. CSB has spent \$198,462 for marketing costs for the year ending June 30, 2012.

(4) Pension plan

Employer contributions for the years ended June 30, 2012 and 2011 were \$9,118 and \$0, respectively. In prior years, the Board for Depositories paid all salary and related benefits for the Executive Director. Separate information concerning the accumulated benefit obligation and actuarially determined benefit obligation is not material to the financial position of the Authority and, accordingly, is not presented.

INDIANA EDUCATION SAVINGS AUTHORITY
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Notes to Financial Statements

Years Ended June 30, 2012 and 2011

(4) Pension plan (continued)

The plan is a contributory defined benefit plan. Indiana Public Retirement System (INPRS) retirement benefits vest after 10 years of service. Effective July 1, 1995, Senate Bill 74 enabled INPRS members to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. An employee may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the employee's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions are met, an employee may retire with 100% of the defined pension at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the employee's highest five years of employment earning. Employees who retire between the age of 50 and 65 with 15 or more years of service receive a pension benefit ranging from 44.0% to 98.8% of the pension benefit described above.

In addition, the State contributes the employee contribution equal to 3% of the compensation to an annuity savings account. These accumulated employee contributions and allocated interest income are maintained by INPRS in a separate system-wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive their balance in the savings account.

October 12, 2012

To the Board of Directors of
Indiana Education Savings Authority

We have audited the financial statements of Indiana Education Savings Authority as of and for the year ended June 30, 2012, and have issued our report thereon, dated . We conducted our audits in accordance with generally accepted auditing standards and the government auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low that it was not necessary to perform tests of the Authority's compliance with such provisions of laws, regulations, contracts, and grants.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

There is an absence of appropriate segregation of duties in certain accounting areas consistent with control objectives. However, the hiring of additional employees in order to segregate the duties may not be economically practical for the benefit to be derived.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might have reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information of the audit committee, management, and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

London Witte Group, LLC

London Witte Group, LLC