

**Future Scholar  
529 College Savings Plan  
Direct Program**

Financial Statements  
June 30, 2015

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## **Management's Discussion and Analysis (unaudited)**

As investment manager of the Future Scholar 529 College Savings Plan Direct Program (the Program), Columbia Management Investment Advisers, LLC (Columbia) provides readers of the financial statements of the Program with this discussion and analysis of the Program's financial performance for the year ended June 30, 2015. You should consider the information presented in this section in conjunction with the Program's financial statements and notes to financial statements. The Program is comprised of 17 investment portfolios (the Portfolios) in which participants may invest.

### **Financial Highlights**

The Program had an inflow of \$64.1 million in net contributions from participants during the year ended June 30, 2015.

The Program had an increase of \$25.6 million from investment operations during the year.

### **Overview of the Financial Statements**

The Program's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Government*, as amended.

This report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements are composed of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position and Notes to Financial Statements that explain some of the information in the financial statements and provide more detailed information.

The Statement of Fiduciary Net Position presents information on the Program's assets and liabilities. The difference between assets and liabilities is the net position as of June 30, 2015. The Program's financial statements are prepared using the accrual basis of accounting. Contributions and redemptions are recognized on trade date; expenses and liabilities are recognized when services are provided, regardless of when cash is disbursed.

The Statement of Changes in Fiduciary Net Position presents information showing how the Program's net position changed during the year. Changes in net position are recorded as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future years.

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

## Management's Discussion and Analysis, continued (unaudited)

### Financial Analysis

**Net Position.** The following is a condensed Statement of Fiduciary Net Position for the Portfolios as of June 30, 2015 and June 30, 2014.

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Investments	\$791,819,675	\$702,350,920
Cash, receivables and other assets	938,265	1,034,971
<b>Total Assets</b>	<b><u>\$792,757,940</u></b>	<b><u>\$703,385,891</u></b>
Payables	990,432	1,067,280
<b>Total Liabilities</b>	<b><u>\$ 990,432</u></b>	<b><u>\$ 1,067,280</u></b>
<b>Total Net Position</b>	<b><u>\$791,767,508</u></b>	<b><u>\$702,318,611</u></b>

Net position represent cumulative contributions from participants plus net changes from operations less withdrawals.

The investments in the 17 Portfolios of the Program comprise 99.9% of total assets. Other assets consist of cash, receivables for securities sold, receivables for units sold and receivables for accrued income. Liabilities consist of payables for securities purchased, payable for units redeemed, payables for distributions of net investment income and other liabilities.

**Changes in Net Position.** The following is a condensed Statement of Changes in Fiduciary Net Position for the Portfolios for the year ended June 30, 2015 and the year ended June 30, 2014.

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Additions:		
Contributions	\$273,499,735	\$221,269,242
Net change in appreciation (depreciation) in value of investments	693,889	61,217,391
Net realized gain (loss)	2,476,869	11,292,846
Capital gains distributions from underlying fund shares	8,019,400	4,932,351
Dividend and interest income	14,435,990	11,633,020
<b>Total Additions</b>	<b><u>\$299,125,883</u></b>	<b><u>\$310,344,850</u></b>
Deductions:		
Withdrawals	209,410,604	171,520,625
Distributions of net investment income	266,382	341,184
<b>Total Deductions</b>	<b><u>\$209,676,986</u></b>	<b><u>\$171,861,809</u></b>
<b>Change in Net Position</b>	<b><u>89,448,897</u></b>	<b><u>138,483,041</u></b>
Net Position, Beginning of Period	702,318,611	563,835,570
<b>Net Position, End of Period</b>	<b><u>\$791,767,508</u></b>	<b><u>\$702,318,611</u></b>



## **Independent Auditor's Report**

To the Office of the State Treasurer of the State of South Carolina, and Columbia Management Investment Distributors, Inc. and Columbia Management Investment Advisers, LLC (collectively the "Program Manager")

We have audited the accompanying statement of fiduciary net position as of June 30, 2015 and the related statement of changes in fiduciary net position for each of the two years in the period then ended of the Future Scholar 529 College Savings Plan Direct Program ("Program") comprised of the Portfolios (individually a "Portfolio" and collectively the "Portfolios") as listed in the statement of fiduciary net position and related statements of changes in fiduciary net position (collectively the "financial statements"), and the related notes to the financial statements, which collectively comprise the Program's basic financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on the 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 *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 our 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, we consider internal control relevant to the Program'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 Program'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***



In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each Portfolio at June 30, 2015, and the respective changes in its net position for each of the two years in the period then ended in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2015 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts 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 Program's internal control over financial reporting and compliance.

***Other Matter***

The accompanying management's discussion and analysis on pages 1 through 2 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As discussed in Note 1, the financial statements present only the Portfolios and do not purport to, and do not, present fairly the fiduciary net position or changes in fiduciary net position of the South Carolina College Investment Trust Fund, the Future Scholar 529 College Savings Plan Financial Advisor Program or the State of South Carolina.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program's basic financial statements. The computation of net asset value on the statement of fiduciary net position and the combined totals on the statement of fiduciary net position and statements of changes in fiduciary net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the



computation of net asset value on the statement of fiduciary net position and the combined totals on the statement of fiduciary net position and the statements of changes in fiduciary net position are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

September 21, 2015

Future Scholar 529 College Savings Plan Direct Program  
Statement of Fiduciary Net Position  
June 30, 2015

	<b>Future Scholar Aggressive Growth Portfolio</b>	<b>Future Scholar Growth Portfolio</b>	<b>Future Scholar Moderate Growth Portfolio</b>
<b>Assets</b>			
Investments, at value	\$ 154,661,827	\$ 119,149,826	\$ 133,223,940
Cash	-	5,000	-
Receivable for securities sold	-	-	-
Receivable for units sold	93,870	41,669	25,589
Receivable for accrued income	21,397	40,591	97,710
Other assets	-	-	40,844
Total assets	<u>154,777,094</u>	<u>119,237,086</u>	<u>133,388,083</u>
<b>Liabilities</b>			
Due to custodian	-	-	-
Payable for securities purchased	65,090	57,473	103,299
Payable for units redeemed	50,177	29,787	20,000
Payable for distributions of net investment income	-	-	-
Other liabilities	41,401	50,282	-
Total liabilities	<u>156,668</u>	<u>137,542</u>	<u>123,299</u>
<b>Net position</b>	<u>\$ 154,620,426</u>	<u>\$ 119,099,544</u>	<u>\$ 133,264,784</u>
Units outstanding	<u>6,653,136</u>	<u>5,241,756</u>	<u>6,152,453</u>
Value per unit	<u>\$ 23.24</u>	<u>\$ 22.72</u>	<u>\$ 21.66</u>

The accompanying Notes to Financial Statements are an integral part of this statement.



Future Scholar 529 College Savings Plan Direct Program  
Statement of Fiduciary Net Position  
June 30, 2015

	<b>Future Scholar Moderate Portfolio</b>	<b>Future Scholar Moderately Conservative Portfolio</b>	<b>Future Scholar Conservative Portfolio</b>
<b>Assets</b>			
Investments, at value	\$ 129,581,482	\$ 63,050,461	\$ 60,021,358
Cash	-	-	-
Receivable for securities sold	-	-	-
Receivable for units sold	46,348	20,211	56,375
Receivable for accrued income	108,152	58,069	52,040
Other assets	-	-	-
Total assets	<u>129,735,982</u>	<u>63,128,741</u>	<u>60,129,773</u>
<b>Liabilities</b>			
Due to custodian	-	3,874	-
Payable for securities purchased	153,400	72,011	78,259
Payable for units redeemed	1,100	11,586	30,156
Payable for distributions of net investment income	-	-	-
Other liabilities	-	-	-
Total liabilities	<u>154,500</u>	<u>87,471</u>	<u>108,415</u>
<b>Net position</b>	<u>\$ 129,581,482</u>	<u>\$ 63,041,270</u>	<u>\$ 60,021,358</u>
Units outstanding	<u>6,254,782</u>	<u>3,535,607</u>	<u>3,875,184</u>
Value per unit	<u>\$ 20.72</u>	<u>\$ 17.83</u>	<u>\$ 15.49</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Fiduciary Net Position  
June 30, 2015

	<b>Future Scholar College Portfolio</b>	<b>Future Scholar Large Cap Index Portfolio</b>	<b>Future Scholar Mid Cap Index Portfolio</b>
<b>Assets</b>			
Investments, at value	\$ 11,289,255	\$ 31,992,401	\$ 25,947,271
Cash	-	-	-
Receivable for securities sold	-	-	8,662
Receivable for units sold	18,758	5,730	5,363
Receivable for accrued income	11,044	-	-
Other assets	-	-	-
Total assets	<u>11,319,057</u>	<u>31,998,131</u>	<u>25,961,296</u>
<b>Liabilities</b>			
Due to custodian	-	-	-
Payable for securities purchased	15,041	3,577	-
Payable for units redeemed	14,761	2,153	14,025
Payable for distributions of net investment income	-	-	-
Other liabilities	-	-	-
Total liabilities	<u>29,802</u>	<u>5,730</u>	<u>14,025</u>
<b>Net position</b>	<u>\$ 11,289,255</u>	<u>\$ 31,992,401</u>	<u>\$ 25,947,271</u>
Units outstanding	<u>1,118,816</u>	<u>1,430,338</u>	<u>798,517</u>
Value per unit	<u>\$ 10.09</u>	<u>\$ 22.37</u>	<u>\$ 32.49</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Fiduciary Net Position  
June 30, 2015

	<b>Future Scholar Small Cap Index Portfolio</b>	<b>Future Scholar International Equity Index Portfolio</b>	<b>Future Scholar Bond Index Portfolio</b>
<b>Assets</b>			
Investments, at value	\$ 10,570,329	\$ 4,261,592	\$ 1,157,519
Cash	-	-	-
Receivable for securities sold	3,582	-	8,950
Receivable for units sold	936	10,629	-
Receivable for accrued income	-	-	2,240
Other assets	-	-	-
Total assets	10,574,847	4,272,221	1,168,709
<b>Liabilities</b>			
Due to custodian	-	-	-
Payable for securities purchased	-	10,629	2,240
Payable for units redeemed	4,518	-	8,950
Payable for distributions of net investment income	-	-	-
Other liabilities	-	2,561	227
Total liabilities	4,518	13,190	11,417
<b>Net position</b>	<b>\$ 10,570,329</b>	<b>\$ 4,259,031</b>	<b>\$ 1,157,292</b>
Units outstanding	451,309	344,883	111,971
Value per unit	<b>\$ 23.42</b>	<b>\$ 12.35</b>	<b>\$ 10.34</b>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Fiduciary Net Position  
June 30, 2015

	<b>Future Scholar Short Term Bond Index Portfolio</b>	<b>Future Scholar TIPS Bond ETF Portfolio</b>	<b>Future Scholar Ultra Short Term Bond Portfolio</b>
<b>Assets</b>			
Investments, at value	\$ 1,976,609	\$ 494,813	\$ 452,650
Cash	-	161	-
Receivable for securities sold	-	-	-
Receivable for units sold	9,416	17	-
Receivable for accrued income	1,959	-	102
Other assets	-	-	41
Total assets	<u>1,987,984</u>	<u>494,991</u>	<u>452,793</u>
<b>Liabilities</b>			
Due to custodian	-	-	-
Payable for securities purchased	1,959	-	102
Payable for units redeemed	-	-	-
Payable for distributions of net investment income	-	-	-
Other liabilities	-	-	-
Total liabilities	<u>1,959</u>	<u>-</u>	<u>102</u>
<b>Net position</b>	<u>\$ 1,986,025</u>	<u>\$ 494,991</u>	<u>\$ 452,691</u>
Units outstanding	<u>193,596</u>	<u>51,860</u>	<u>44,813</u>
Value per unit	<u>\$ 10.26</u>	<u>\$ 9.54</u>	<u>\$ 10.10</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Fiduciary Net Position  
June 30, 2015

	<b>Future Scholar Legacy Capital Preservation Portfolio</b>	<b>Future Scholar Bank Deposit Portfolio</b>	<b>Total Future Scholar 529 Savings Plan Direct Program (a)</b>
<b>Assets</b>			
Investments, at value	\$ 34,241,903	\$ 9,746,439	\$ 791,819,675
Cash	-	-	5,161
Receivable for securities sold	-	-	21,194
Receivable for units sold	60,659	80,992	476,562
Receivable for accrued income	142	1,017	394,463
Other assets	-	-	40,885
Total assets	<u>34,302,704</u>	<u>9,828,448</u>	<u>792,757,940</u>
<b>Liabilities</b>			
Due to custodian	-	-	3,874
Payable for securities purchased	3,643	56,395	623,118
Payable for units redeemed	36,380	23,582	247,175
Payable for distributions of net investment income	20,779	1,015	21,794
Other liabilities	-	-	94,471
Total liabilities	<u>60,802</u>	<u>80,992</u>	<u>990,432</u>
Net position	<u>\$ 34,241,902</u>	<u>\$ 9,747,456</u>	<u>\$ 791,767,508</u>
Units outstanding	<u>34,241,898</u>	<u>9,747,456</u>	
Value per unit	<u>\$ 1.00</u>	<u>\$ 1.00</u>	

(a) Supplementary data

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Changes in Fiduciary Net Position

	<u>Future Scholar Aggressive Growth Portfolio</u>		<u>Future Scholar Growth Portfolio</u>	
	<u>Year ended June 30, 2015</u>	<u>Year ended June 30, 2014</u>	<u>Year ended June 30, 2015</u>	<u>Year ended June 30, 2014</u>
<b>Additions</b>				
Contributions - units sold	\$ 30,020,673	\$ 24,082,288	\$ 39,099,338	\$ 30,900,271
<b>Increase (Decrease) from investment operations</b>				
Dividend income	3,105,913	2,813,676	2,421,788	2,022,142
Interest income	-	-	-	-
Net realized gain (loss)	1,596,183	4,551,781	445,781	2,194,693
Capital gain distributions from underlying fund shares	2,055,531	1,252,650	1,318,256	784,472
Net change in appreciation (depreciation) in value of investments	<u>(568,497)</u>	<u>16,544,020</u>	<u>351,022</u>	<u>11,867,624</u>
Net increase (decrease) in net assets resulting from operations	<u>6,189,130</u>	<u>25,162,127</u>	<u>4,536,847</u>	<u>16,868,931</u>
Total additions	<u>36,209,803</u>	<u>49,244,415</u>	<u>43,636,185</u>	<u>47,769,202</u>
<b>Deductions</b>				
Withdrawals - units redeemed	\$ 28,358,434	\$ 22,815,589	\$ 33,404,204	\$ 23,581,564
Distributions of net investment income	-	-	-	-
Total deductions	<u>28,358,434</u>	<u>22,815,589</u>	<u>33,404,204</u>	<u>23,581,564</u>
Net increase (decrease)	\$ 7,851,369	\$ 26,428,826	\$ 10,231,981	\$ 24,187,638
Net position at beginning of year	<u>146,769,057</u>	<u>120,340,231</u>	<u>108,867,563</u>	<u>84,679,925</u>
Net position at end of year	<u>\$ 154,620,426</u>	<u>\$ 146,769,057</u>	<u>\$ 119,099,544</u>	<u>\$ 108,867,563</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Changes in Fiduciary Net Position

	<u>Future Scholar Moderate Growth Portfolio</u>		<u>Future Scholar Moderate Portfolio</u>	
	<u>Year ended June 30, 2015</u>	<u>Year ended June 30, 2014</u>	<u>Year ended June 30, 2015</u>	<u>Year ended June 30, 2014</u>
<b>Additions</b>				
Contributions - units sold	\$ 43,706,018	\$ 34,814,015	\$ 41,723,204	\$ 33,082,650
<b>Increase (Decrease) from investment operations</b>				
Dividend income	2,836,952	2,258,873	2,675,976	2,043,869
Interest income	-	-	-	-
Net realized gain (loss)	342,305	2,146,578	95,307	1,666,679
Capital gain distributions from underlying fund shares	1,235,631	750,000	1,006,646	580,855
Net change in appreciation (depreciation) in value of investments	<u>29,043</u>	<u>10,333,657</u>	<u>244,489</u>	<u>8,683,748</u>
Net increase (decrease) in net assets resulting from operations	<u>4,443,931</u>	<u>15,489,108</u>	<u>4,022,418</u>	<u>12,975,151</u>
Total additions	<u><u>48,149,949</u></u>	<u><u>50,303,123</u></u>	<u><u>45,745,622</u></u>	<u><u>46,057,801</u></u>
<b>Deductions</b>				
Withdrawals - units redeemed	\$ 34,405,489	\$ 25,498,111	\$ 29,218,258	\$ 24,923,626
Distributions of net investment income	-	-	-	-
Total deductions	<u><u>34,405,489</u></u>	<u><u>25,498,111</u></u>	<u><u>29,218,258</u></u>	<u><u>24,923,626</u></u>
Net increase (decrease)	\$ 13,744,460	\$ 24,805,012	\$ 16,527,364	\$ 21,134,175
Net position at beginning of year	<u>119,520,324</u>	<u>94,715,312</u>	<u>113,054,118</u>	<u>91,919,943</u>
Net position at end of year	<u><u>\$ 133,264,784</u></u>	<u><u>\$ 119,520,324</u></u>	<u><u>\$ 129,581,482</u></u>	<u><u>\$ 113,054,118</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Changes in Fiduciary Net Position

	<u>Future Scholar Moderately Conservative Portfolio</u>		<u>Future Scholar Conservative Portfolio</u>	
	<u>Year ended June 30, 2015</u>	<u>Year ended June 30, 2014</u>	<u>Year ended June 30, 2015</u>	<u>Year ended June 30, 2014</u>
<b>Additions</b>				
Contributions - units sold	\$ 31,564,693	\$ 26,725,450	\$ 32,882,797	\$ 28,165,455
<b>Increase (Decrease) from investment operations</b>				
Dividend income	1,045,831	759,952	772,535	532,846
Interest income	-	-	-	-
Net realized gain (loss)	1,438	457,108	67,122	183,080
Capital gain distributions from underlying fund shares	295,251	181,974	103,322	65,917
Net change in appreciation (depreciation) in value of investments	<u>(74,600)</u>	<u>2,651,938</u>	<u>(76,386)</u>	<u>1,733,141</u>
Net increase (decrease) in net assets resulting from operations	<u>1,267,920</u>	<u>4,050,972</u>	<u>866,593</u>	<u>2,514,984</u>
Total additions	<u>32,832,613</u>	<u>30,776,422</u>	<u>33,749,390</u>	<u>30,680,439</u>
<b>Deductions</b>				
Withdrawals - units redeemed	\$ 22,844,759	\$ 20,059,364	\$ 25,066,357	\$ 23,868,470
Distributions of net investment income	-	-	-	-
Total deductions	<u>22,844,759</u>	<u>20,059,364</u>	<u>25,066,357</u>	<u>23,868,470</u>
Net increase (decrease)	\$ 9,987,854	\$ 10,717,058	\$ 8,683,033	\$ 6,811,969
Net position at beginning of year	<u>53,053,416</u>	<u>42,336,358</u>	<u>51,338,325</u>	<u>44,526,356</u>
Net position at end of year	<u>\$ 63,041,270</u>	<u>\$ 53,053,416</u>	<u>\$ 60,021,358</u>	<u>\$ 51,338,325</u>

The accompanying Notes to Financial Statements are an integral part of this statement.



Future Scholar 529 College Savings Plan Direct Program  
Statement of Changes in Fiduciary Net Position

	<u>Future Scholar College Portfolio</u>		<u>Future Scholar Large Cap Index Portfolio</u>	
	<u>Year ended June 30, 2015</u>	<u>Year ended June 30, 2014</u>	<u>Year ended June 30, 2015</u>	<u>Year ended June 30, 2014</u>
<b>Additions</b>				
Contributions - units sold	\$ 10,714,255	\$ 6,070,221	\$ 6,698,099	\$ 5,195,404
<b>Increase (Decrease) from investment operations</b>				
Dividend income	101,883	36,764	680,490	409,035
Interest income	-	-	-	-
Net realized gain (loss)	1,822	(26,180)	3,298	36,134
Capital gain distributions from underlying fund shares	2,610	2,477	94,527	-
Net change in appreciation (depreciation) in value of investments	<u>(93,855)</u>	<u>58,065</u>	<u>1,264,723</u>	<u>4,706,138</u>
Net increase (decrease) in net assets resulting from operations	<u>12,460</u>	<u>71,126</u>	<u>2,043,038</u>	<u>5,151,307</u>
Total additions	<u>10,726,715</u>	<u>6,141,347</u>	<u>8,741,137</u>	<u>10,346,711</u>
<b>Deductions</b>				
Withdrawals - units redeemed	\$ 5,498,402	\$ 2,615,508	\$ 4,091,234	\$ 3,631,647
Distributions of net investment income	-	-	-	-
Total deductions	<u>5,498,402</u>	<u>2,615,508</u>	<u>4,091,234</u>	<u>3,631,647</u>
Net increase (decrease)	\$ 5,228,313	\$ 3,525,839	\$ 4,649,903	\$ 6,715,064
Net position at beginning of year	<u>6,060,942</u>	<u>2,535,103</u>	<u>27,342,498</u>	<u>20,627,434</u>
Net position at end of year	<u>\$ 11,289,255</u>	<u>\$ 6,060,942</u>	<u>\$ 31,992,401</u>	<u>\$ 27,342,498</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Changes in Fiduciary Net Position

	<b>Future Scholar Mid Cap Index Portfolio</b>		<b>Future Scholar Small Cap Index Portfolio</b>	
	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>
<b>Additions</b>				
Contributions - units sold	\$ 5,157,671	\$ 3,828,037	\$ 2,251,833	\$ 2,065,697
<b>Increase (Decrease) from investment operations</b>				
Dividend income	270,921	209,980	99,451	69,246
Interest income	-	-	-	-
Net realized gain (loss)	(15,730)	(5,330)	(23,435)	(4,865)
Capital gain distributions from underlying fund shares	1,259,185	791,816	646,219	519,774
Net change in appreciation (depreciation) in value of investments	<u>(60,858)</u>	<u>3,297,323</u>	<u>(94,896)</u>	<u>1,126,096</u>
Net increase (decrease) in net assets resulting from operations	<u>1,453,518</u>	<u>4,293,789</u>	<u>627,339</u>	<u>1,710,251</u>
Total additions	<u><u>6,611,189</u></u>	<u><u>8,121,826</u></u>	<u><u>2,879,172</u></u>	<u><u>3,775,948</u></u>
<b>Deductions</b>				
Withdrawals - units redeemed	<u>\$ 3,192,192</u>	<u>\$ 2,351,862</u>	<u>\$ 1,656,595</u>	<u>\$ 967,770</u>
Distributions of net investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deductions	<u><u>3,192,192</u></u>	<u><u>2,351,862</u></u>	<u><u>1,656,595</u></u>	<u><u>967,770</u></u>
Net increase (decrease)	\$ 3,418,997	\$ 5,769,964	\$ 1,222,577	\$ 2,808,178
Net position at beginning of year	<u>22,528,274</u>	<u>16,758,310</u>	<u>9,347,752</u>	<u>6,539,574</u>
Net position at end of year	<u><u>\$ 25,947,271</u></u>	<u><u>\$ 22,528,274</u></u>	<u><u>\$ 10,570,329</u></u>	<u><u>\$ 9,347,752</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Changes in Fiduciary Net Position

	<b>Future Scholar International Equity Index Portfolio</b>		<b>Future Scholar Bond Index Portfolio</b>	
	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>
<b>Additions</b>				
Contributions - units sold	\$ 1,621,473	\$ 1,793,786	\$ 628,574	\$ 270,091
<b>Increase (Decrease) from investment operations</b>				
Dividend income	110,012	104,956	23,791	13,461
Interest income	-	-	-	-
Net realized gain (loss)	(23,407)	110,930	(3,616)	(4,885)
Capital gain distributions from underlying fund shares	-	-	-	295
Net change in appreciation (depreciation) in value of investments	<u>(209,452)</u>	<u>170,754</u>	<u>(8,435)</u>	<u>16,805</u>
Net increase (decrease) in net assets resulting from operations	<u>(122,847)</u>	<u>386,640</u>	<u>11,740</u>	<u>25,676</u>
Total additions	<u><u>1,498,626</u></u>	<u><u>2,180,426</u></u>	<u><u>640,314</u></u>	<u><u>295,767</u></u>
<b>Deductions</b>				
Withdrawals - units redeemed	<u>\$ 487,401</u>	<u>\$ 213,720</u>	<u>\$ 169,867</u>	<u>\$ 106,680</u>
Distributions of net investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deductions	<u><u>487,401</u></u>	<u><u>213,720</u></u>	<u><u>169,867</u></u>	<u><u>106,680</u></u>
Net increase (decrease)	\$ 1,011,225	\$ 1,966,706	\$ 470,447	\$ 189,087
Net position at beginning of year	<u>3,247,806</u>	<u>1,281,100</u>	<u>686,845</u>	<u>497,758</u>
Net position at end of year	<u><u>\$ 4,259,031</u></u>	<u><u>\$ 3,247,806</u></u>	<u><u>\$ 1,157,292</u></u>	<u><u>\$ 686,845</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Changes in Fiduciary Net Position

	<b>Future Scholar Short Term Bond Index Portfolio</b>		<b>Future Scholar TIPS Bond ETF Portfolio</b>	
	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>
<b>Additions</b>				
Contributions - units sold	\$ 1,158,892	\$ 631,136	\$ 176,382	\$ 102,188
<b>Increase (Decrease) from investment operations</b>				
Dividend income	18,745	10,187	3,919	5,689
Interest income	-	-	-	-
Net realized gain (loss)	(2,338)	(2,281)	(7,679)	(10,326)
Capital gain distributions from underlying fund shares	2,222	2,121	-	-
Net change in appreciation (depreciation) in value of investments	(1,014)	4,822	(7,031)	22,662
Net increase (decrease) in net assets resulting from operations	17,615	14,849	(10,791)	18,025
Total additions	<u>1,176,507</u>	<u>645,985</u>	<u>165,591</u>	<u>120,213</u>
<b>Deductions</b>				
Withdrawals - units redeemed	\$ 237,972	\$ 267,961	\$ 121,506	\$ 106,405
Distributions of net investment income	-	-	-	-
Total deductions	<u>237,972</u>	<u>267,961</u>	<u>121,506</u>	<u>106,405</u>
Net increase (decrease)	\$ 938,535	\$ 378,024	\$ 44,085	\$ 13,808
Net position at beginning of year	1,047,490	669,466	450,906	437,098
Net position at end of year	<u>\$ 1,986,025</u>	<u>\$ 1,047,490</u>	<u>\$ 494,991</u>	<u>\$ 450,906</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Changes in Fiduciary Net Position

	<b>Future Scholar Ultra Short Term Bond Portfolio</b>		<b>Future Scholar Legacy Capital Preservation Portfolio</b>	
	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>
<b>Additions</b>				
Contributions - units sold	\$ 365,445	\$ 275,667	\$ 15,828,195	\$ 15,758,905
<b>Increase (Decrease) from investment operations</b>				
Dividend income	1,405	1,158	1,481	1,017
Interest income	-	-	256,673	337,185
Net realized gain (loss)	(182)	(270)	-	-
Capital gain distributions from underlying fund shares	-	-	-	-
Net change in appreciation (depreciation) in value of investments	(364)	598	-	-
Net increase (decrease) in net assets resulting from operations	859	1,486	258,154	338,202
Total additions	<u>366,304</u>	<u>277,153</u>	<u>16,086,349</u>	<u>16,097,107</u>
<b>Deductions</b>				
Withdrawals - units redeemed	\$ 248,558	\$ 154,289	\$ 14,293,602	\$ 17,074,703
Distributions of net investment income	-	-	258,158	338,200
Total deductions	<u>248,558</u>	<u>154,289</u>	<u>14,551,760</u>	<u>17,412,903</u>
Net increase (decrease)	\$ 117,746	\$ 122,864	\$ 1,534,589	\$ (1,315,796)
Net position at beginning of year	334,945	212,081	32,707,313	34,023,109
Net position at end of year	<u>\$ 452,691</u>	<u>\$ 334,945</u>	<u>\$ 34,241,902</u>	<u>\$ 32,707,313</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Future Scholar 529 College Savings Plan Direct Program  
Statement of Changes in Fiduciary Net Position

	<b>Future Scholar Bank Deposit Portfolio</b>		<b>Total Future Scholar 529 College Savings Plan Direct Program (a)</b>	
	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>
<b>Additions</b>				
Contributions - units sold	\$ 9,902,193	\$ 7,507,981	\$ 273,499,735	\$ 221,269,242
<b>Increase (Decrease) from investment operations</b>				
Dividend income	8,224	2,984	14,179,317	11,295,835
Interest income	-	-	256,673	337,185
Net realized gain (loss)	-	-	2,476,869	11,292,846
Capital gain distributions from underlying fund shares	-	-	8,019,400	4,932,351
Net change in appreciation (depreciation) in value of investments	-	-	693,889	61,217,391
Net increase (decrease) in net assets resulting from operations	<u>8,224</u>	<u>2,984</u>	<u>25,626,148</u>	<u>89,075,608</u>
Total additions	<u>9,910,417</u>	<u>7,510,965</u>	<u>299,125,883</u>	<u>310,344,850</u>
<b>Deductions</b>				
Withdrawals - units redeemed	\$ 6,115,774	\$ 3,283,356	\$ 209,410,604	\$ 171,520,625
Distributions of net investment income	8,224	2,984	266,382	341,184
Total deductions	<u>6,123,998</u>	<u>3,286,340</u>	<u>209,676,986</u>	<u>171,861,809</u>
Net increase (decrease)	\$ 3,786,419	\$ 4,224,625	\$ 89,448,897	\$ 138,483,041
Net position at beginning of year	<u>5,961,037</u>	<u>1,736,412</u>	<u>702,318,611</u>	<u>563,835,570</u>
Net position at end of year	<u>\$ 9,747,456</u>	<u>\$ 5,961,037</u>	<u>\$ 791,767,508</u>	<u>\$ 702,318,611</u>

(a) Supplementary data.

The accompanying Notes to Financial Statements are an integral part of this statement.

FUTURE SCHOLAR 529 COLLEGE SAVINGS PLAN  
DIRECT PROGRAM  
Notes to Financial Statements  
June 30, 2015

**Note 1. Organization**

The Future Scholar 529 College Savings Plan Direct Program (the Program), part of the South Carolina College Investment Trust Fund (the Trust Fund), was established by the Office of the State Treasurer of South Carolina (the Treasurer) to provide a tax-advantaged method to fund qualified higher education expenses of designated beneficiaries at eligible educational institutions. The Program has been designed to comply with the requirements for treatment as a “qualified tuition program” under Section 529 of the Internal Revenue Code of 1986, as amended (the Code). The Treasurer is responsible for administering the Program and selecting the Program Manager. Columbia Management Investment Advisers, LLC (Columbia) and Columbia Management Investment Distributors, Inc. (collectively, the Program Manager), each a wholly-owned subsidiary of Ameriprise Financial, Inc. (Ameriprise Financial), serve as the Program Manager. The Program Manager and its affiliates are responsible for providing certain administrative, recordkeeping and investment services for the Program.

The Program is designed for self-directed investors and is offered only to account owners who are: (i) South Carolina residents; (ii) residents of other states but who have designated a South Carolina resident as Designated Beneficiary; (iii) employees of Ameriprise Financial and its affiliates, and employees of BFDS; (iv) employees of the State of South Carolina and employees of a political subdivision of the State of South Carolina, including school districts, regardless of residency; and (v) any other account owners whom the Treasurer and Program Manager deem eligible. The Program consists of 17 portfolios of which seven are target allocation portfolios and ten are single fund portfolios (collectively the Portfolios).

The target allocation portfolios invest primarily in a mix of equity and fixed income funds (the Underlying Funds). The single fund portfolios invest in a single Underlying Fund, with the exception of the Future Scholar Legacy Capital Preservation Portfolio, which also invests in one or more funding agreements and the Future Scholar Bank Deposit Portfolio which invests all of its assets in an interest-bearing Bank Deposit Account. The Underlying Funds are advised by Columbia or its affiliates, BlackRock Fund Advisors or The Vanguard Group Inc. The Portfolios were invested in the following underlying investments as of June 30, 2015:

### **Target Allocation Portfolios:**

**Future Scholar Aggressive Growth Portfolio** was invested in Class Z shares of the Columbia Large Cap Index Fund, Columbia Mid Cap Index Fund and Columbia Small Cap Index Fund, Institutional Class shares of the Vanguard Developed Markets Index Fund and Vanguard Total Bond Market II Index Fund.

**Future Scholar Growth Portfolio** was invested in Class Z shares of the Columbia Large Cap Index Fund, Columbia Mid Cap Index Fund and Columbia Small Cap Index Fund, Institutional Class shares of the Vanguard Developed Markets Index Fund and Vanguard Total Bond Market II Index Fund.

**Future Scholar Moderate Growth Portfolio** was invested in Class Z shares of the Columbia Large Cap Index Fund, Columbia Mid Cap Index Fund and Columbia Small Cap Index Fund, Institutional Class shares of the Vanguard Developed Markets Index Fund and Vanguard Total Bond Market II Index Fund.

**Future Scholar Moderate Portfolio** was invested in Class Z shares of the Columbia Large Cap Index Fund, Columbia Mid Cap Index Fund and Columbia Small Cap Index Fund, Institutional Class shares of the Vanguard Developed Markets Index Fund, Vanguard Short Term Bond Index Fund, Vanguard Total Bond Market II Index Fund and Vanguard Prime Money Market Fund.

**Future Scholar Moderately Conservative Portfolio** was invested in Class Z shares of the Columbia Large Cap Index Fund, Columbia Mid Cap Index Fund and Columbia Small Cap Index Fund, Institutional Class shares of the Vanguard Developed Markets Index Fund, Vanguard Short Term Bond Index Fund, Vanguard Total Bond Market II Index Fund and Vanguard Prime Money Market Fund and the iShares TIPS Bond ETF.

**Future Scholar Conservative Portfolio** was invested in Class Z shares of the Columbia Large Cap Index Fund and Columbia Mid Cap Index Fund, Institutional Class shares of the Vanguard Developed Markets Index Fund, Vanguard Short Term Bond Index Fund, Vanguard Total Bond Market II Index Fund and Vanguard Prime Money Market Fund and the iShares TIPS Bond ETF.

**Future Scholar College Portfolio** was invested in Institutional Class shares of the Vanguard Total Bond Market II Index Fund and Vanguard Prime Money Market Fund.



**Single Fund Portfolio:**

**Future Scholar Large Cap Index Portfolio** was invested in Class Z shares of the Columbia Large Cap Index Fund.

**Future Scholar Mid Cap Index Portfolio** was invested in Class Z shares of the Columbia Mid Cap Index Fund.

**Future Scholar Small Cap Index Portfolio** was invested in Class Z shares of the Columbia Small Cap Index Fund.

**Future Scholar International Equity Index Portfolio** was invested in Institutional Class shares of the Vanguard Developed Markets Index Fund.

**Future Scholar Bond Index Portfolio** was invested in Institutional Class shares of the Vanguard Total Bond Market II Index Fund.

**Future Scholar Short Term Bond Index Portfolio** was invested in Institutional Class shares of the Vanguard Short-Term Bond Index Fund.

**Future Scholar TIPS Bond ETF Portfolio** was invested in the iShares TIPS Bond ETF.

**Future Scholar Ultra Short Term Bond Portfolio** was invested in Class Z shares of the CMG Ultra Short Term Bond Fund.

**Future Scholar Legacy Capital Preservation Portfolio** was invested in the Aegon Guaranteed Investment Contract (GIC) and Class Z shares of the Columbia Money Market Fund.

**Future Scholar Bank Deposit Portfolio** was invested in an interest bearing bank account at Bank Branching and Trust Company.

Financial statements of the Underlying Funds in which the Portfolios invest contain additional information about the expenses and investments of the underlying mutual funds and are available from the EDGAR database on the Securities and Exchange Commission (SEC) website at <http://www.sec.gov>.

These financial statements present only the Program, and do not purport to, and do not, present the fiduciary position or changes in fiduciary net position of the Trust Fund, the Future Scholar 529 College Savings Plan Financial Advisor Program or the State of South Carolina.

**Note 2. Significant Accounting Policies****Basis of Presentation**

The Program is a private-purpose trust fund, which is a type of fiduciary fund. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support a government's own programs. As a fiduciary fund, the Program's financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow.

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Plan has elected not to adopt Financial Accounting Standard Board (FASB) statements and interpretations issued after November 30, 1989, unless GASB specifically adopts such FASB statements or interpretations.

#### **Use of Estimates**

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

#### **Investment Transactions and Investment Income**

Investment transactions are recorded on the trade date. Income dividends and any capital gain distributions received from the Underlying Funds are recorded on the ex-dividend date. Interest income on the GIC is recorded on the accrual basis. Realized gains and losses on investment transactions are computed based on the specific identification of securities sold. The investment income earned by each Portfolio is reinvested in additional units of its Underlying Fund(s). Investment income earned by the Future Scholar Legacy Capital Preservation Portfolio and Future Scholar Bank Deposit Portfolio is distributed and reinvested into additional units of the Portfolio in order to maintain a net position value of \$1 per unit. The reinvested net investment income is included in Contributions - units sold in the Statement of Changes in Fiduciary Net Position.

#### **Security Valuation**

Investments in the Underlying Funds are valued at their respective net asset values and are determined as of the close of the New York Stock Exchange (generally 4:00 PM Eastern time) on the valuation date. The Program's investments represent shares of the Underlying Funds, rather than individual securities and therefore are not subject to classification by custodial credit risk or disclosure of concentration of credit risk under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

The Future Scholar Legacy Capital Preservation Portfolio invests in a traditional GIC issued by Transamerica Life Insurance and Annuity Company, a wholly owned subsidiary of Aegon. The value of the GIC is the sum of the net cash contributions to the deposit account plus interest credited minus withdrawals (the Contract Value). The GIC is a contractual investment rather than a security and is not deemed to be subject to custodial credit risk. However, there is a risk that an insurance company could fail to perform its obligations under a funding agreement for financial or other reasons. Effective June 1, 2010, the GIC is no longer accepting additional cash contributions to the deposit account and begun a wind-down phase on October 1, 2010 and will remain in effect until August 1, 2017.

#### **Units**

The beneficial interests of each account owner and beneficiary in the net position of the Portfolios are represented by units. Once a contribution or withdrawal request is accepted and processed by the Program Manager, the activity is recorded based upon the next determined net position value per unit. Net position value per unit is determined each business day. There are no distributions of net investment income or realized gains to the Portfolios' account owners or beneficiaries of the Program in accordance with the Code. Also, any earnings on contributions are generally not subject to federal income tax when used to pay for qualified higher education expenses as defined in the Code.

### **Federal Income Taxes**

The Trust Fund intends to qualify each year as a qualified tuition program under the Code, which provides exemption from federal income tax. Under South Carolina State law, the Trust Fund will not pay a South Carolina franchise tax or other tax based on income. Therefore, no provision for federal or state income taxes has been recorded. Amounts withdrawn for reasons other than payment of qualified higher education expenses generally will be subject to a 10% federal tax penalty on earnings in addition to the income tax that is due. These taxes would be payable directly by unitholders and are therefore not deducted from the assets of the Portfolios.

### **Indemnification**

In the normal course of business, the Program enters into contracts that contain a variety of representations and warranties and which provide general indemnities. The Program's maximum exposure under these arrangements is unknown because this would involve future claims against the Program. Also, under the Program's organizational documents and by contract, the Program, the Treasurer, the State of South Carolina, Ameriprise Financial and its affiliates and Columbia and its affiliates are indemnified against certain liabilities that may arise out of actions relating to their duties to the Program. However, based on experience, the Program expects the risk of loss due to these representations, warranties and indemnities to be minimal.

### **Recent Accounting Pronouncements**

In February, 2015, The GASB issued GASB No. 72, *Fair Value Measurement and Application*. This Statement establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. This Statement is effective for financial statement periods beginning after June 15, 2015. Program management has not determined the effect, if any, this Statement will have on its financial statements.

### **Note 3. Related Party Transactions**

The Treasurer has entered into a contract for program management services (the Management Agreement) with the Program Manager, pursuant to which the Program Manager provides program management, distribution and investment advisory services to the Portfolios. The Program Manager does not receive a fee for its services from the Portfolios. Transfer agent, legal, audit, printing and other expenses incurred by the Portfolios are also paid by the Program Manager.

The Program Manager receives an administration and distribution fee equal to the annual rate of 0.10% of the Future Scholar Legacy Capital Preservation Portfolio's average daily net position invested in the funding agreement issued by Transamerica Life Insurance and Annuity Company, the initial investment of the Portfolio. This fee is paid by the issuer of the funding agreement and not by the Portfolio.

### **Underlying Investment Expenses**

The Program indirectly bears a pro rata share of the fees and expenses of the Underlying Funds in which it invests.

### **Note 4. Disclosure of Significant Risks and Contingencies**

#### **Foreign Securities**

Certain Underlying Funds invest in foreign securities. There are certain additional risks involved when investing in foreign securities that are not inherent with investments in domestic securities. These risks may involve foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention of currency exchange or other foreign governmental laws or restrictions. In addition, the liquidity of foreign securities may be more limited than that of domestic securities. The following represents the value at June 30,

2015 of Underlying Funds, by Portfolio, which have the majority of their investments exposed to foreign securities.

<b>Portfolio</b>	<b>Underlying Fund</b>	<b>Value</b>
Future Scholar Aggressive Growth Portfolio	Vanguard Developed Markets Index Fund	\$35,312,685
Future Scholar Growth Portfolio	Vanguard Developed Markets Index Fund	22,111,370
Future Scholar Moderate Growth Portfolio	Vanguard Developed Markets Index Fund	19,134,452
Future Scholar Moderate Portfolio	Vanguard Developed Markets Index Fund	13,739,028
Future Scholar Moderately Conservative Portfolio	Vanguard Developed Markets Index Fund	4,035,785
Future Scholar Conservative Portfolio	Vanguard Developed Markets Index Fund	588,161
Future Scholar International Equity Index Portfolio	Vanguard Developed Markets Index Fund	4,261,592

#### **Interest Rate and Credit Risk**

Certain Underlying Funds invest in fixed-income securities. Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. The Underlying Funds in which the Portfolios invest are not rated by any nationally recognized statistical rating organization.

#### **Non-Payment Risk**

Certain Underlying Funds may invest in senior loans, which like other corporate debt obligations are subject to the risk of non-payment of scheduled interest and/or principal. Nonpayment would result in a reduction of income to the underlying fund, a reduction in the value of the senior loan experiencing non-payment and a potential decrease in the net asset value of the Underlying Fund.

#### **Note 5. Subsequent Events**

Management has evaluated the events and transactions that have occurred through the date the financial statements were issued and noted no items requiring adjustment of the financial statements or additional disclosure.

#### **Note 6. Information Regarding Pending and Settled Legal Proceedings**

In December 2005, without admitting or denying the allegations, American Express Financial Corporation (AEFC, which is now known as Ameriprise Financial, Inc. (Ameriprise Financial)) entered into settlement agreements with the Securities and Exchange Commission and Minnesota Department of Commerce (MDOC) related to market timing activities. As a result, AEFC was censured and ordered to cease and desist from committing or causing any violations of certain provisions of the Investment Advisers Act of 1940, the Investment Company Act of 1940, and various Minnesota laws. AEFC agreed to pay disgorgement of \$10 million and civil money penalties of \$7 million. AEFC also agreed to retain an independent distribution consultant to assist in developing a plan for distribution of all disgorgement and civil penalties ordered by the SEC in accordance with various undertakings detailed at [www.sec.gov/litigation/admin/ia-2451.pdf](http://www.sec.gov/litigation/admin/ia-2451.pdf). Ameriprise Financial and its affiliates

have cooperated with the SEC and the MDOC in these legal proceedings, and have made regular reports to the funds' Boards of Directors/Trustees.

Ameriprise Financial and certain of its affiliates have historically been involved in a number of legal, arbitration and regulatory proceedings, including routine litigation, class actions, and governmental actions, concerning matters arising in connection with the conduct of their business activities. Ameriprise Financial believes that the Portfolios are not currently the subject of, and that neither Ameriprise Financial nor any of its affiliates are the subject of, any pending legal, arbitration or regulatory proceedings that are likely to have a material adverse effect on the Portfolios or the ability of Ameriprise Financial or its affiliates to perform under their contracts with the Portfolios. Ameriprise Financial is required to make 10-Q, 10-K and, as necessary, 8-K filings with the Securities and Exchange Commission on legal and regulatory matters that relate to Ameriprise Financial and its affiliates. Copies of these filings may be obtained by accessing the SEC website at [www.sec.gov](http://www.sec.gov).

There can be no assurance that these matters, or the adverse publicity associated with them, will not result in increased fund redemptions, reduced sale of fund shares or other adverse consequences to the Portfolios. Further, although we believe proceedings are not likely to have a material adverse effect on the Portfolios or the ability of Ameriprise Financial or its affiliates to perform under their contracts with the Portfolios, these proceedings are subject to uncertainties and, as such, we are unable to estimate the possible loss or range of loss that may result. An adverse outcome in one or more of these proceedings could result in adverse judgments, settlements, fines, penalties or other relief that could have a material adverse effect on the consolidated financial condition or results of operations of Ameriprise Financial.