COMMONWEALTH of VIRGINIA

VIRGINIA COLLEGE SAVINGS PLAN

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January 28, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capitol
Richmond, Virginia

Dear Governor Kaine:

On December 15, 2008, as required by Va. Code §23-38.84, I presented to you a copy of the Annual Financial Report of the Virginia College Savings Plan as well as the Actuarial Valuation of the Virginia Prepaid Education Program ("VPEP") for the fiscal year ending June 30, 2008, both in draft form. The Auditor of Public Accounts has completed his review and now it is my pleasure to present the audited Annual Financial Report for the Virginia College Savings Plan as well as the final Actuarial Valuation of the VPEP for the fiscal year ending June 30, 2008.

Please do not hesitate to contact me at (804) 786-0832 with any questions or comments that you may have.

Respectfully submitted,

Mary G. Morris
Executive Director

Virginia College Savings Plan℠

Annual Report

For the period ended June 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The Virginia College Savings Plan's Management Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist the reader in focusing on significant financial issues and provides an overview of financial activity. This discussion includes an analysis of the Plan's financial condition and results of operations for the fiscal year ended June 30, 2008. Since this presentation includes summarized data, it should be read in conjunction with the accompanying financial statements and notes.

The Virginia College Savings Plan (Plan) operates the Commonwealth's Internal Revenue Code (IRC) Section 529 qualified tuition program, which offers four options, the Virginia Prepaid Education Program (VPEP), the Virginia Education Savings Trust (VEST), CollegeAmerica and CollegeWealth. VPEP is considered a defined benefit program which offers contracts, at actuarially determined prices, that provide full future tuition and mandatory fee payments at the Commonwealth's public higher education institutions and differing payouts at private or out-of-state institutions. Annually, the Plan's actuary determines the actuarial soundness of VPEP. Key factors used in the soundness analysis include anticipated tuition increases (both short- and long-term) as well as anticipated investment performance.

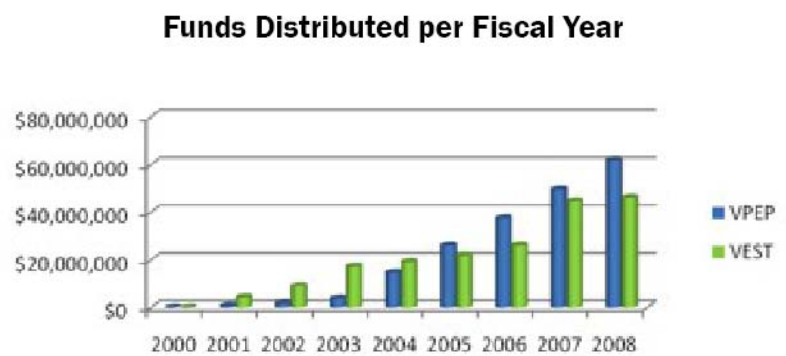
VEST is a defined contribution program, which allows participants to make contributions into their selected investment portfolio(s). VEST accounts are subject to market investment risk, including the possible loss of principal. CollegeAmerica is also a defined contribution program, which offers 22 different American Funds mutual fund products as investment options. CollegeAmerica participants also bear all market risk for their investment, including the potential loss of principal. The American Funds acts as program manager for CollegeAmerica and provides all back office and operational services for the program. CollegeWealth is also a defined contribution program under which participants invest in savings products offered through participating banks. These bank products may also carry FDIC insurance.

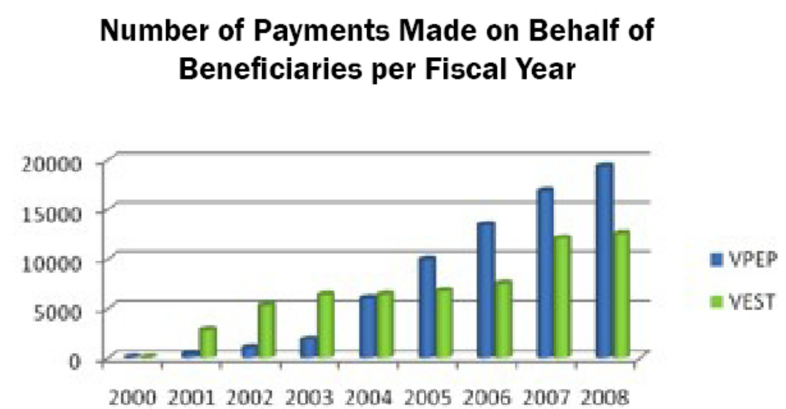
Fiscal 2008 Financial Highlights

The Plan holds, invests and distributes monies held in trust for program participants. The Plan invests its funds pursuant to statute and Investment Guidelines under the direction of its Investment Advisory Committee in a mix of equity and fixed income investments. During the year ended June 30, 2008, both the equity and fixed income markets experienced tremendous volatility and the equity markets ended the year down from the prior year. For example, the United States domestic equity market as measured by the Standard & Poor's 500 Index ended the year down 16.31 percent from its record high in October 2007 and down 13.12 percent from June 30, 2007. The fixed income markets fared better as demonstrated by the Lehman Brothers Aggregate Bond Index returning 7.12 percent for the year ended June 30, 2008. While U.S. Treasury securities performed well as the Federal Reserve Bank reduced short-term interest rate targets and the Treasury yield curve dropped and steepened, certain fixed income securities such as mortgage-backed securities experienced negative returns reflecting the downturn in the United States housing market and the lack of demand for these securities as investors attempted to shed them from portfolios. This contributed to unrealized investment losses in the VPEP, VEST and CollegeAmerica investment portfolios in 2008.

- Total VPEP cash, cash equivalents, and investments held in trust for program participants decreased by $13.35 million, or about 1 percent from fiscal year-end 2007, due to unrealized investment losses despite new participation in the program of approximately $169.8 million.

- VPEP’s total net assets decreased by $174.0 million to an actuarially determined deficit of $51.8 million compared to a positive reserve of $122.2 million in the prior year, which was primarily due to unrealized losses in the investment portfolio.
- VPEP’s actuarially determined tuition benefits payable liability increased by $160.9 million, or approximately 9.3 percent, which was primarily due to the additional obligation of over 3,900 new contracts opened during the 2007 – 2008 enrollment period and a change in the tuition assumption.
- VEST net assets held in trust for program participants increased by $94 million or about 9 percent, which was due to strong investor participation offsetting unfavorable market conditions.
- CollegeAmerica net assets held in trust for program participants increased by approximately 8 percent over the previous year to $24.8 billion, due to the continued popularity of the program that again offset unfavorable market conditions.
- CollegeWealth was a new program in 2008 and net assets held in trust for program participants totaled $884,890 at year-end.
- The tables below represent VEST and VPEP distributions since fiscal year 2000.





Overview of Financial Statements

This discussion and analysis is an introduction to the Plan's basic financial statements, which includes the Plan's business-type activity or enterprise fund, the fiduciary or private purpose trust funds, and the notes to the financial statements.

Business-Type Activity

All VPEP activities are accounted for in an enterprise fund, which is typically used to account for governmental operations that are financed and operated in a manner similar to a private sector business. Enterprise funds typically report activities that charge fees for supplies or services to the general public. This activity is reported on the full accrual basis of accounting. This means that all revenue and expenses are reflected in the financial statements even if the related cash has not been received or paid as of June 30th.

The Statement of Net Assets presents information on all VPEP assets and liabilities, with the difference between the two reported as total net assets. Over time, increases and decreases in net assets along with the information contained in the annual actuarial soundness report indicate whether VPEP's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year, including both actual as well as actuarially determined contributions from participants and distributions for higher education expenses.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, financing, and investing activities.

Fiduciary Funds

VEST, CollegeAmerica, and CollegeWealth are reported as private purpose trust funds. Private purpose trust funds account for transactions of trust arrangements in which the principal and income benefit individuals, private organizations or other governments, and use the full accrual basis of accounting. The activities of the Plan's private purpose trust funds are reported in the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Analysis of Enterprise Fund (VPEP) Financial Activities

VPEP ended the year with net assets of -$51.8 million. Table 1 reflects the condensed Statement of Net Assets for fiscal year 2008 compared to fiscal year 2007.

Table 1
Virginia Prepaid Education Program
Statement of Net Assets as of June 30, 2008 and 2007
(dollars in millions)

	2008	2007
Current assets	$ 245.7	$ 278.1
Investments	1,395.0	1,376.1
Other noncurrent assets	225.2	227.2
Total assets	1,865.9	1,881.4
Current liabilities	136.3	113.1
Noncurrent liabilities	1,781.4	1,646.1
Total liabilities	1,917.7	1,759.2
Net assets:		
Invested in capital assets	0.2	0.1
Unrestricted	(52.0)	122.1
Total net assets	$ (51.8)	$ 122.2

Overall the net assets decreased by approximately $174.0 million.

Assets

Current assets decreased by $32.5 million over the previous year. This was due to several factors. Cash and cash equivalents, which includes short-term investments, decreased by $28.1 million due to an increase in VPEP distributions in 2008 along with a reduction in VPEP contracts sold during the 2008 enrollment period, as well as less cash being held at year-end by certain VPEP investment managers. In addition, cash equivalents and investments held by the Treasurer as part of the Commonwealth's securities lending program decreased from the previous year by approximately $.9 million. Finally, current tuition contributions receivable decreased by $2.1 million from 2007. This amount represents the net decrease in the actuarially determined amount expected to be collected from contract holders of record in the coming fiscal year and was attributable to lower contract sales during the enrollment period as well as an increasing number of contracts that had attained paid-in-full status.

Long-term investments increased by $18.9 million, or just over 1 percent, due to difficult market conditions that adversely impacted investment performance during the fiscal year. Other noncurrent assets decreased by $2 million, which was due to the decrease in the noncurrent portion of the tuition contributions receivable. This represents the decrease in the actuarially determined amount expected to be collected from contract holders of record in future years.

Liabilities

Total tuition benefits payable, reflected in both current and noncurrent liabilities above, increased by $160.9 million, or approximately 9.3 percent. Of this total change, $27.6 million is reflected as current, while the remainder is reflected in noncurrent liabilities. The total increase represents the change in the actuarial present value of the future tuition obligation. Changes in the present value of the future tuition benefit obligation can be attributed to the changes in the present value discount due to the passage of time, differences between actual experience and the actuarial assumptions used, and any modification of the actuarial assumptions. However, this increase is primarily due to the additional estimated obligation for 3,978 new contracts issued during the 2007 – 2008 enrollment period.

Actuarial Highlights

During fiscal year 2008, VPEP's actuarial position, as calculated by the Plan's actuary and reported in the 2008 Actuarial Valuation Report, shifted from a surplus of $122.2 million to a deficit of $51.8 million. This decrease is primarily attributable to unrealized investment losses and the change in the tuition growth assumption, offset somewhat by revenue from new sales.

The two most significant assumptions used to prepare the VPEP Actuarial Valuation Report are the rates of investment return and the tuition growth in the future. The Virginia College Savings Plan selected both of these assumptions.

For the prior year's actuarial valuation, a 7.0 percent return was assumed. The actual return on investments for the fiscal year ended June 30, 2008 was -4.3 percent on both a time-weighted and a dollar weighted basis. This produced a net actuarial loss of approximately $178.2 million.

The assumed tuition increase rates used in the current and prior year's valuations are outlined in the table below.

	Universities		Community Colleges	
	Current assumption	Prior assumption	Current assumption	Prior assumption
Fall 2009	8.5%	8.0%	7.5%	7.0%
Fall 2010	8.5%	7.5%	7.5%	7.0%
Fall 2011 and thereafter	7.5%	7.5%	7.5%	7.5%

As reported by the State Council of Higher Education for Virginia (SCHEV) in its 2008 - 2009 Tuition and Fee report, the average actual increase in tuition and mandatory fees for in-state undergraduates was 7.3 percent for the 2008 - 2009 academic year. As calculated by the Plan's actuary, the weighted average increase at four-year universities was 8.6 percent while the weighted average increase at two-year institutions including community colleges and Richard Bland College, averaged 7.5 percent. This resulted in an actuarial loss of $4.8 million.

The Plan sold 3,978 new contracts during the year. Each contract was priced so as to contribute to the Plan's reserve. The reserve was increased by approximately $10.0 million from these new contracts.

The Plan received administrative fee revenue from all the Plan's programs including VPEP, VEST, and CollegeAmerica. This fee revenue increased the reserve by a net $21.9 million.

The overall effect of the changes on the actuarial reserve (deficit) is summarized in Table 2. Please note that a copy of the 2008 Actuarial Valuation Report may be obtained from the Plan.

Table 2
Virginia Prepaid Education Program
Statement of Changes in Actuarial Reserve/(Deficit) as of June 30, 2008
(dollars in millions)

Actuarial reserve (deficit) at June 30, 2007	$ 122.2
Interest on the reserve at 7.00%	8.6
Investment gain (loss)	(178.2)
Tuition gain (loss)	(4.8)
Sales of new contracts	10.0
Administrative Fee Revenue from VCSP	21.9
Change in Assumptions	(44.6)
Other	13.1
Actuarial reserve (deficit) at June 30, 2008	$ (51.8)

Table 3 reflects a condensed Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year 2008 as compared to the prior year.

Table 3
Virginia Prepaid Education Program
Statement of Revenues, Expenses, and Changes
in Net Assets for June 30, 2008 and 2007
(dollars in millions)

	2008	2007
Operating revenues:		
Interest and dividends	101.9	$ 90.2
Net increase (decrease) of fair value of investments	(169.8)	101.5
Tuition contributions	109.9	113.6
Other	27.9	22.7
Total operating revenue	70.0	328.0
Operating expenses:		
Personal services	4.5	4.1
Contractual services	4.2	3.7
Tuition benefits expense	234.1	170.0
Other	1.2	1.4
Total operating expenses	244.0	179.2
Operating income (loss)	(174.0)	148.8
Transfer to Commonwealth	(0.0)	(0.1)
Change in net assets	(174.0)	148.7
Net assets – beginning	122.2	(26.5)
Net assets – ending	$ (51.8)	$ 122.2

Market conditions remained volatile and generally unfavorable throughout most of the fiscal year and the value of VPEP investments had declined as of fiscal year end. While revenue from interest and dividends increased by an approximately 12 percent, over the prior year, this increase was not sufficient to offset the decrease in fair market value of VPEP investments. For the fiscal year ended, June 30, 2008, there was a net decrease in the fair value of investments of approximately $169.8 million, versus the increase in the prior fiscal year of $101.5 million when market conditions were extremely favorable. The difference between the current and prior fiscal year's ending net assets was $174.0 million, a change of approximately 142 percent. The fair market value of investment securities changes on a daily basis depending upon market conditions each day. Therefore, this number will fluctuate from year to year, depending upon market conditions on June 30th, or the last business day of the quarter.

Actual tuition contributions from participants decreased by $11.6 million from prior year receipts. In addition, actuarially estimated tuition contributions decreased as a result of the number of existing contracts that had reached their paid-in-full status by June 30th.

The tuition benefits expense reflected in Table 3 represents both the actual distributions made to higher education institutions on behalf of program participants and the additional amount accrued for estimated expenses each year, as determined by the Plan's actuary. Actual distributions increased over the prior year by $16.1 million, or 28.3 percent. This is attributable to an increase in the number of students using their benefits and to increases in tuition and mandatory fees at the higher education institutions. The actuarially estimated expense increased over the amount accrued in the prior year by $48.0 million, or approximately 42.5 percent. This can be attributed to normal and anticipated usage increasing the previously accrued amounts.

Table 4 reflects the condensed Statement of Cash Flows.

Table 4
Virginia Prepaid Education Program
Statement of Cash Flows for June 30, 2008 and 2007
(dollars in millions)

	2008	2007
Cash provided (used) by:		
Operating activities	$ 61.3	$ 83.9
Noncapital financing activity	-	(0.1)
Capital and related financing activities	(0.1)	-
Investing activities	(88.4)	(7.5)
Net increase (decrease) in cash	(27.2)	76.3
Cash – beginning of year	175.3	99.0
Cash – end of year	$ 148.0	$ 175.3

The Plan's end of year cash balance decreased by $27.3 million. Tuition benefit payments to higher education institutions increased by $16.1 million, which was a primary use of operating cash. Somewhat offsetting this cash decrease, was a net cash administrative fee revenue collected by VCSP, which increased by approximately $6.4 million from the continued growth of CollegeAmerica and VEST. The Plan also receives 10 basis points annually in administrative fees from CollegeAmerica, which is accrued and calculated daily and paid on a quarterly basis based on the average daily net asset value of total assets in CollegeAmerica.

The change in the amount reflected as investing activities for fiscal year 2008 represented an overall net decrease in the amounts used to purchase securities versus proceeds from sales or maturities of investments and actual interest earnings. During fiscal year 2008, VPEP added two new investment managers, Piedmont Investment Advisors (Intermediate Fixed Income) and Utendahl Capital Management (Short Duration Fixed Income), bringing the total managers investing VPEP funds to nineteen. A complete list of VPEP managers can be found in Appendix B.

Also in fiscal year 2008, the Plan formed and funded a limited liability company called Aventura Holdings, LLC under VPEP to purchase an office building. Aventura is included in VPEP's financial statements. The building is leased to the Plan pursuant to a five-year capital lease agreement dated September 10, 2008 (See Footnote 5). The Plan relocated into the facility to better serves the needs of the Plan's account holders and beneficiaries following a long search for suitable and affordable space. The new location provides improved access to its customers by providing ample and convenient parking, ground floor unobstructed access, and meeting rooms to conduct business. The facility also provides room to expand operations as needed and offers space for 529 Plan education and training activities.

Analysis of Fiduciary Fund (VEST, CollegeAmerica and CollegeWealth) Financial Activities

Participation in the VEST program continued to grow during the fiscal year. Contributions from Plan participants increased over the previous year by approximately $27.4 million and over 20,000 new VEST accounts were opened. Contributions represent participation from new account holders as well as continued contributions from existing participants. Due to unfavorable market conditions during the fiscal year, income on VEST investments decreased by $194.4 million over the prior year. As anticipated, overall disbursements to VEST beneficiaries and institutions increased over the prior year by approximately 13.7 percent as more participants withdrew funds to cover higher education expenses.

Assets under management in CollegeAmerica increased during the fiscal year, from $23.0 billion to more than $24.8 billion, an approximate 7.7 percent increase. Approximately 229,000 new unique CollegeAmerica accounts were opened during the year. As expected, the amounts paid and shares redeemed in CollegeAmerica increased significantly this fiscal year over last by over $703.9 million, as more beneficiaries withdrew funds for education expenses.

CollegeWealth was a new program in 2008 and net assets held in trust for program participants totaled $884,890 at year-end. The net assets represented amounts held in savings instruments at the participating bank and were thus not subject to fair market value adjustments at year-end.

Economic Factors and Outlook

The economic downturn that impacted the Plan's investment performance continued into fiscal 2009. What began as a credit crunch precipitated in large part by the downturn in the United States housing market in calendar 2007, manifested into a global liquidity shortage by the fall of 2008. The United States and global equity markets experienced dramatic declines that rivaled those of other significant market downturns in American history. For example, the annualized return for the Standard & Poor's 500 Index for the period from June 30, 2007 through November 14, 2008 was -31.07 percent, and the period return from June 30, 2008 through November 14, 2008 was -31.04 percent. The annualized return for the Barclays Capital US Aggregate Bond Index (f/k/a Lehman Brothers Aggregate Bond Index) for the period from June 30, 2007 through November 14, 2008 was just 4.18 percent, and the period return from June 30, 2008 through November 14, 2008 was -1.15 percent. The performance of the Barclays index reflected strong returns for U.S. Treasury bonds caused by the flight to quality, offset by continued losses in U.S. credit (corporate), asset-backed and non-government issued mortgage-backed securities. The Plan's fixed income managers held lower allocations to U.S. Treasuries versus that held by the Barclays Capital US Aggregate Bond Index and therefore did not keep pace with the index's returns. As a result of the continued downturn in the equity and fixed income markets, the VPEP portfolio experienced a net performance return of -24.68 percent for the four month period from June 30, through October 31, 2008.

In the four months since June 30, 2008, the United States and global banking systems experienced unprecedented liquidity shortages that resulted in many changes in the world's banking network and its players. During this period in the United States the federal government placed Fannie Mae and Freddie Mac into conservatorship; federal regulators sponsored or brokered the sale of Washington Mutual Bank and Wachovia Corporation, and assumed control of American International Group, Inc.; Lehman Brothers Holdings, Inc. filed for bankruptcy; Bank of America Corporation purchased Merrill Lynch & Co.; and Morgan Stanley and Goldman Sachs converted to bank holding companies. In addition, Congress passed and President Bush signed the Emergency Economic Stabilization Act of 2008 that provided $700 billion under the Troubled Assets Relief Program to assist the financial markets and about $150 billion in additional tax incentives and other changes. The U.S. Treasury and the Federal Reserve Bank also took other unprecedented steps, along with central banks around the world, to stabilize financial institutions and markets. While the U.S. Treasury/Federal Reserve Bank and other central banks have taken aggressive steps to shore up financial markets, it is too early to tell how soon and at what level global equity and fixed-income markets will recover.

Notwithstanding the difficult market conditions that have persisted into fiscal 2009, the Plan continues to remain optimistic that its asset allocation and investment strategies will result in the Plan's VPEP portfolio meeting or exceeding performance expectations over the long-term. The Plan has assumed a long-term rate of return of 7 percent on the VPEP investments, and had exceeded that return as of June 30, 2008, net of fees.

Reduced revenues caused by the economic slowdown in the United States forced the Commonwealth to reduce general fund budgets of higher education institutions in fiscal 2008. Further general fund budget reductions were announced in the first quarter of fiscal 2009. The 2008 reductions along with increases in costs and other priorities forced some higher education institutions to increase tuition and mandatory fees (non-general funds) beyond expected levels despite efforts by the Commonwealth to control increases by establishing and funding the Tuition Moderation Incentive Fund. According to SCHEV, the average actual increase in tuition and mandatory fees for in-state undergraduates was 7.3 percent for the 2008-2009 academic year. In assessing VPEP's financial condition and in pricing VPEP contracts, the Plan has projected that tuition and fee increases at Virginia's public higher education institutions will increase annually by approximately 8.5 percent and 7.5 percent for four-year and two-year institutions, respectively, with the four-year rate reducing to 7.5 percent after 2011. Tuition increases above these projections would have an immediate, detrimental impact on the Plan's outstanding long-term VPEP obligations. However, with the statutory requirement that institutions provide updated, long-term tuition projections, the Plan remains in a favorable position to prepare for future tuition and fee increases.

FINANCIAL STATEMENTS

VIRGINIA COLLEGE SAVINGS PLAN
STATEMENT OF NET ASSETS - ENTERPRISE FUND
VIRGINIA PREPAID EDUCATION PROGRAM
As of June 30, 2008

ASSETS	
Current assets:	
Cash and cash equivalents (Note 1D, 2 and 3)	$ 152,538,130
Investments held by the Treasurer of Virginia (Note 3)	16,960,444
Interest receivable	4,327,589
Tuition contributions receivable (Note 1E)	65,385,900
Accounts receivable (Note 1F)	6,439,375
Total current assets	245,651,438
Noncurrent assets:	
Investments (Note 1D and 2)	1,395,044,138
Tuition contributions receivable (Note 1E)	222,638,165
Depreciable capital assets, net (Note 1G and 6)	2,540,249
Total noncurrent assets	1,620,222,552
Total assets	1,865,873,990
LIABILITIES	
Current liabilities:	
Accounts payable	1,948,485
Due to program participants (Note 1H)	117,018
Obligations under securities lending (Note 3)	21,462,807
Tuition benefits payable (Note 5)	112,235,780
Compensated absences (Note 1I and 5)	119,031
Obligations under capital lease (Note 5)	428,282
Total current liabilities	136,311,403
Noncurrent liabilities:	
Tuition benefits payable (Note 5)	1,779,188,285
Compensated absences (Note 1I and 5)	263,491
Obligations under capital lease (Note 5)	1,918,870
Total noncurrent liabilities	1,781,370,646
Total liabilities	1,917,682,049
NET ASSETS	
Invested in capital assets, net of related debt	193,097
Unrestricted (Note 9)	(52,001,156)
Total net assets	$ (51,808,059)

The accompanying notes are an integral part of this financial statement.

VIRGINIA COLLEGE SAVINGS PLAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
ENTERPRISE FUND - VIRGINIA PREPAID EDUCATION PROGRAM
For the Fiscal Year Ended June 30, 2008

Operating revenues:	
Charges for sales and services	$ 27,931,991
Interest, dividends, rents, and other investment income	101,929,262
Net decrease in fair value of investments	(169,831,601)
Tuition contributions (Note 7)	116,388,460
Actuarial tuition contributions (Note 7)	(6,468,037)
Other	21,111
Total operating revenues	69,971,186
Operating expenses:	
Personal services	4,522,213
Contractual services	4,188,736
Supplies and materials	71,424
Depreciation	62,131
Rent, insurance, and other related charges	218,078
Tuition benefits expense (Note 7)	73,130,127
Actuarial tuition benefits expense	160,941,963
Expendable equipment	262,828
Other	571,833
Total operating expenses	243,969,333
Operating loss	(173,998,147)
Transfers:	
Transfers to the General Fund of the Commonwealth	(10,108)
Change in net assets	(174,008,255)
Net assets - July 1, 2007	122,200,196
Net assets - June 30, 2008	$ (51,808,059)

The accompanying notes are an integral part of this financial statement.

VIRGINIA COLLEGE SAVINGS PLAN
STATEMENT OF CASH FLOWS
ENTERPRISE FUND - VIRGINIA PREPAID EDUCATION PROGRAM
For the Fiscal Year Ended June 30, 2008

Cash flows from operating activities:	
Receipts for sales and services	$ 27,079,180
Payments to suppliers for goods and services	(459,621)
Payments to employees	(4,486,735)
Tuition contributions received	116,442,146
Other operating revenue	21,111
Payments for contractual services	(4,147,346)
Tuition benefit payments	(73,130,127)
Other operating expenses	(35,091)
Net cash provided by (used for) operating activities	61,283,517
Cash flows from noncapital financing activities:	
Transfer to the General Fund of the Commonwealth	(10,108)
Net cash provided by (used for) noncapital financing activities	(10,108)
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	(109,847)
Net cash provided by (used for) capital and related financing activities	(109,847)
Cash flows from investing activities:	
Purchase of investments	(2,462,006,826)
Proceeds from sales or maturities of investments	2,273,228,479
Interest income on cash, cash equivalents, and investments	100,378,179
Net cash provided by (used for) investing activities	(88,400,168)
Net decrease in cash and cash equivalents	(27,236,606)
Cash and cash equivalents - July 1, 2007	175,272,373
Cash and cash equivalents - June 30, 2008	$ 148,035,767
Reconciliation of cash and cash equivalents:	
Per the Statement of Net Assets:	
Cash and cash equivalents	$ 152,538,130
Less:	
Securities Lending Cash Equivalents	(4,502,363)
Cash and cash equivalents per the Statement of Cash Flows	$ 148,035,767

VIRGINIA COLLEGE SAVINGS PLAN
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
VIRGINIA PREPAID EDUCATION PROGRAM (continued)
For the Fiscal Year Ended June 30, 2008

Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	$ (173,998,147)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	62,131
Interest, dividends, rents and other investment income	(100,378,179)
Net increase in fair value of investments	169,831,601
Changes in assets and liabilities:	
(Increase) decrease in receivables	(1,870,151)
(Increase) decrease in tuition contributions receivable	6,468,037
Increase (decrease) in accounts payable	133,234
Increase (decrease) in amounts due to program participants	53,686
Increase (decrease) in current tuition benefits payable	27,668,193
Increase (decrease) in current compensated absences	4,067
Increase (decrease) in noncurrent tuition benefits payable	133,273,770
Increase (decrease) in noncurrent compensated absences	35,275
Net cash provided by (used for) operating activities	$ 61,283,517
Noncash investing, capital, and financing activities:	
The following transaction occurred prior to the statement of net assets date:	
Change in fair value of investments	$ (169,831,601)

The accompanying notes are an integral part of this financial statement.

VIRGINIA COLLEGE SAVINGS PLAN
STATEMENT OF FIDUCIARY NET ASSETS -
PRIVATE-PURPOSE TRUST FUNDS
As of June 30, 2008

	Virginia Education Savings Trust	CollegeAmerica	CollegeWealth	Total
Assets:				
Cash and cash equivalents (Note 1D and 2)	$ 8,631,229	$ -	$ -	$ 8,631,229
Receivables:				
Interest and dividends	1,156,677	-	-	1,156,677
Investments: (Note 1D and 2)			-	
Mutual funds	591,264,974	24,823,064,779	-	25,414,329,753
Index funds	295,843,844	-	-	295,843,844
Guaranteed investment contracts	143,937,998	-	-	143,937,998
Common stock	60,580,918	-	-	60,580,918
529 Savings Hybrid	-	-	884,890	884,890
Total investments	1,091,627,734	24,823,064,779	884,890	25,915,577,403
Total assets	1,101,415,640	24,823,064,779	884,890	25,925,365,309
Liabilities:				
Accounts payable	1,877,069	-	-	1,877,069
Due to program participants (Note 1H)	114,228	-	-	114,228
Total liabilities	1,991,297	-	-	1,991,297
Net assets held in trust for program participants	$ 1,099,424,343	$ 24,823,064,779	$ 884,890	$ 25,923,374,012

The accompanying notes are an integral part of this financial statement.

VIRGINIA COLLEGE SAVINGS PLAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
PRIVATE-PURPOSE TRUST FUNDS
For the Fiscal Year Ended June 30, 2008

	Virginia Education Savings Trust	CollegeAmerica	CollegeWealth	Total
Additions:				
Contributions:				
From participants	$ 227,420,419	$ 5,935,473,086	$ 900,334	$ 6,163,793,839
Charges for services	344,038	-	-	344,038
Total contributions	227,764,457	5,935,473,086	900,334	6,164,137,877
Investment income:				
Net increase (decrease) in fair value of investments	(113,789,466)	(3,709,112,694)	-	(3,822,902,160)
Interest, dividends, and other investment income	42,117,030	1,804,966,162	6,176	1,847,089,368
Total investment income (loss)	(71,672,436)	(1,904,146,532)	6,176	(1,975,812,792)
Less investment expenses	(2,661,308)	(17,262,444)	-	(19,923,752)
Net investment income (loss)	(74,333,744)	(1,921,408,976)	6,176	(1,995,736,544)
Total additions	153,430,713	4,014,064,110	906,510	4,168,401,333
Deductions:				
Educational expense benefits	52,893,000	940,967,324	18,605	993,878,929
Shares redeemed	6,399,636	1,263,715,051	3,015	1,270,117,702
Administrative expenses	334,933	24,523,069	-	24,858,002
Total deductions	59,627,569	2,229,205,444	21,620	2,288,854,633
Net increase	93,803,144	1,784,858,666	884,890	1,879,546,700
Net assets held in trust for program participants:				
July 1, 2007	1,005,621,199	23,038,206,113	-	24,043,827,312
June 30, 2008	$ 1,099,424,343	$ 24,823,064,779	$ 884,890	$ 25,923,374,012

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

VIRGINIA COLLEGE SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Virginia College Savings Plan (Plan), an independent agency of the Commonwealth of Virginia, was created in 1994 by the Virginia General Assembly and its enabling legislation is codified at §23-38.75 through §23-38.87 of the *Code of Virginia*, as amended. The Plan operates the Commonwealth's Internal Revenue Code (IRC) §529 qualified tuition program, which offers four options, the Virginia Prepaid Education Program (VPEP), the Virginia Education Savings Trust (VEST), CollegeAmerica and CollegeWealth.

VPEP is a defined benefit program, which offers contracts, at actuarially determined amounts, that provide full future tuition and mandatory fee payments at Virginia's public higher education institutions. The contract provisions also allow benefits to be used at private or out-of-state institutions with a payout based on the amounts charged by Virginia's higher education institutions. VPEP has a limited enrollment period each year, and is open to children in the ninth grade or younger if the child or participant is a Virginia resident. Since inception, over 93,775 accounts have been opened, with approximately 71,813 contracts remaining active at year-end. The program had total assets invested from contributions, net earnings and other revenue of approximately $1.5 billion as of June 30, 2008. The program invests contract payments to meet future obligations. Operating costs are paid from program earnings and other revenue. The Plan does not receive any general fund appropriations. The program's assets and income are exempt from federal, state, and local income taxation. The Plan's statute provides that a sum sufficient appropriation be included by the Governor in his budget to cover current obligations of the Plan, including VPEP's contractual obligations, in the event of a funding shortfall.

VEST is a defined contribution program, which allows participants of all ages to save for qualified higher education expenses, including tuition and fees, at any qualified higher education institution by making contributions into the investment portfolio(s) of their choice. Participants are allowed to select from among 17 investment portfolios. Two additional portfolios remain open in the VEST program but are closed to new participants. The VEST program, which is open year round, has no age or residency restrictions, and carries no legislative provision to seek appropriations for the return of principal. VEST accounts are subject to market investment risk, including the possible loss of principal. VEST began operation in December 1999. As of June 30, 2008, over 113,359 accounts have been opened with a net asset value of approximately $1.1 billion. Investment management fees and VEST operating expenses are paid on a pro-rata basis by each VEST account owner and vary according to the portfolio selected. VEST accounts provide investors with the same federal and state tax benefits available to participants in the prepaid program.

CollegeAmerica, a broker-sold IRC §529 college savings option, was launched on February 15, 2002. Like VEST, CollegeAmerica is a defined contribution plan. CollegeAmerica is administered by Capital Research and Management Company, American Funds Distributors, Inc., and American Funds Service Company, Inc. (together, the American Funds) pursuant to a contract using 21of the American Funds. The American Funds acts as program manager and provides all back office and operational services for the program. As a result of this structure, the Plan's staff has minimal day-to-day administrative responsibility, other than program oversight and review. In 2006, the contract between the Virginia College Savings Plan and American Funds was extended an additional ten years through February 15, 2027.

Over time, additional funds have been opened by the American Funds and have been approved as investment options under CollegeAmerica. As of June 30, 2008, 22 American Funds mutual funds were available through the program. A complete list is shown in Appendix A. Like VEST, CollegeAmerica is available year round, has no age or residency restrictions, and carries no legislative guarantee of return of principal. Accounts are subject to market risk, including the possible loss of principal. As of June 30, 2008, approximately 1.7 million unique accounts had been opened with net assets in excess of $24.8 billion. A unique account represents all accounts with the same contributor and beneficiary combination. Fees and expenses of the program are also paid on a pro-rata basis by each account owner and vary according to the fund and share class selected. CollegeAmerica provides investors with the same federal and state tax benefits available to participants in VPEP and VEST.

While CollegeAmerica activity is reflected in total in this report, a separate audited report for each of the 22 funds offered in the CollegeAmerica program is published annually by the American Funds. Each of the funds has a different year ending date, so these audited reports are published throughout the year. An individual fund audit report includes that fund's results for all share classes offered in the fund, including the five IRC §529 share classes created for the CollegeAmerica program. These individual fund reports are available from the American Funds.

CollegeWealth, the Commonwealth's newest IRC §529 college savings plan, is also a defined contribution plan under which participants invest in savings products offered through participating banks. These bank products may also carry FDIC insurance. As of June 30, 2008, approximately 102 unique accounts had been opened with net assets in excess of $884 thousand. A unique account represents all accounts with the same contributor and beneficiary combination.

An eight-member Board administers the Plan, consisting of four members who sit on the Board by virtue of the state offices they hold and four citizen members appointed by the Governor. The ex-officio members are the Executive Director of the State Council of Higher Education for Virginia, the Chancellor of the Virginia Community College System, the State Treasurer, and the State Comptroller. State law mandates that the four citizen members have significant experience in finance, accounting, and investment management.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Plan is an integral part of the reporting entity of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The following is a summary of significant accounting policies employed by the Virginia College Savings Plan.

A. Basis of Presentation

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

B. Reporting Entity

The accompanying financial statements report the financial position, changes in financial position and cash flows of the Plan as of and for the fiscal year ended June 30, 2008. For financial reporting purposes, the Plan includes all funds and entities over which the Plan exercises or has the ability to exercise oversight authority.

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

The Plan reports the activity of the Virginia Prepaid Education Program as an enterprise fund, which is a type of proprietary fund. Enterprise funds typically account for transactions related to resources received and used for financing self-supporting activities entities that offer products and services on a user-charge basis to external users. All operating expenses and all administrative fee revenue collected to support Plan operations, including administrative revenue and expenses of VEST and CollegeAmerica, are reflected in the enterprise fund.

The Plan reports the activity of the Virginia Education Savings Trust, CollegeAmerica and CollegeWealth as private-purpose trust funds, which is a type of fiduciary fund. Private-purpose trust funds account for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments.

The financial statements of the proprietary and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating. The principal operating revenues of the Plan are tuition contributions for program participants and investment income. Operating expenses of the plan include tuition benefits expense and contractual and personal services.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, provide governments two options for reporting proprietary fund activities. Accordingly, all proprietary funds reported herein apply all applicable Governmental Accounting Standards Board pronouncements and all Financial Accounting Standards Board Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

D. Cash Equivalents and Investments

Money market investments of the Plan, which are deemed short-term, highly liquid investments, are reported at amortized cost. Long-term investments of the Plan are recorded at fair value based upon quoted market prices. Cash equivalents are investments with an original maturity of three months or less.

The Plan also participates in the Commonwealth's General Account pool, which is managed by the State Treasurer. These pooled investments are valued on an amortized cost basis. The Plan receives income on a quarterly basis from the Commonwealth based on the Plan's relative participation during the quarter. The Plan receives no additional distribution of unrealized gains or losses in the fair values of the pool's investments.

E. Tuition Contributions Receivable

Tuition contributions receivable in VPEP represents the actuarially determined present value of future payments due from contract holders.

F. Accounts Receivable

Accounts receivable reflected in VPEP include the amount due from the American Funds for second quarter administrative fees collected on behalf of the Plan from the CollegeAmerica program. The American Funds pays the Plan an annual fee equal to one tenth of one percent (.10 percent) of the average daily net asset value of the underlying funds held in CollegeAmerica. This fee is calculated and accrued daily and paid to the Plan on a quarterly basis.

G. Capital Assets

Fixed assets are capitalized and depreciated on a straight-line basis over their useful lives. Fixed assets are valued at historical cost. The Plan capitalizes all property, plant, and equipment that have a cost or value greater than $5,000 and an expected useful life of greater than two years; however, prior to fiscal year 2006 all computer equipment was capitalized regardless of cost or value.

H. Amounts Due To Program Participants

Amounts due to program participants reflects amounts due to participants who cancelled or overpaid prepaid tuition contracts or savings trust accounts, or requested qualified withdrawals, prior to June 30, 2008, but had not received a refund or disbursement.

I. Accrued Leave Policy

Employees accrue annual leave at a rate of four to nine hours semi-monthly, depending on their length of service. The maximum accumulation is dependent upon years of service, but in no case may it exceed 42 days. All employees leaving the agency are paid for accrued vacation leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of GASB Codification, the monetary value of accumulated annual leave payable upon termination is included in the accompanying financial statements. The liability at June 30, 2008, was computed using salary rates effective at that date and represents vacation and compensatory leave earned up to the allowable ceilings. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, included in the liability is the agency's share of FICA taxes on leave balances for which employees will be compensated.

Employees of the Plan have elected to participate in the Virginia Sickness and Disability Program. The Virginia Retirement System (VRS) administers the program to provide income protection for absences due to sickness or disability from the first day on the job. After a seven calendar-day waiting period following the first incident of disability, eligible employees receive short-term disability benefits ranging from 60 to 100 percent of compensation up to a maximum of 125 work days, based upon months of State service. After a 180 calendar-day waiting period (125 work days of short-term disability) eligible employees receive long-term disability benefits equal to 60 percent of compensation until they return to work, until age 65, or until death. Employees enrolled in this program are not eligible for disability retirement benefits under the VRS.

All State agencies are required to contribute to the cost of providing disability benefits. Initial contribution requirements to fund the program were determined by the VRS actuary based on an estimate of the amount of the liability for disability benefits that would transfer from VRS to the new program. The contribution requirement was 1.78 percent of payroll for State employees. Further information about this program can be found in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

J. VPEP – Investment in Real Estate

On February 15, 2008, the Plan established Aventura Holdings LLC, a limited liability company, for the purpose of acquiring and owning real estate. The Plan is the sole member of Aventura. On March 20, 2008 the Plan's Board approved adding Aventura as an investment vehicle under the Virginia Prepaid Education Program and the purchase by Aventura Holdings of a 48,500 square foot office building in Chesterfield County, Virginia. On April 18, 2008, the Plan funded Aventura with $8.8 million for the purpose of acquiring real estate and Aventura acquired the office building on April 22nd.

Aventura purchased the building for $8.09 million and contracted for approximately $1 million in improvements. Aventura received $1.43 million from the prior tenant to buy out the remainder of their lease, which was used to fund the improvements. The investment in Aventura is reflected in VPEP's assets and is valued at $8.72 million representing the net price of the building plus improvements paid through June 30th and cash on hand. At the time of the purchase, the office building was assessed at $7.7 million. The building is leased to the Plan pursuant to a five-year Lease Agreement dated September 10, 2008. The Plan relocated into the new office facility in September 2008 coincident with executing the Lease Agreement. Even though the Lease was not in effect as of June 30, 2008, it is a five-year lease, and although it does not meet the specific criteria for classification as a capital lease under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 13 (FASB No. 13), *Accounting for Leases*, the lease is shown as a capital lease in VPEP's financial statements. It is properly reflected as an obligation as of June 30, 2008 under FASB No. 13 since the Plan had made a commitment to lease the facility from Aventura prior to fiscal year-end. Accordingly, the financial statements reflect the lease obligations as a liability and the office building as an asset in VPEP's financial statements. See the Capital Lease Note 5 below for a description of the Lease Agreement.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Board of the Virginia College Savings Plan has established investment guidelines for the Plan's investment programs which are in accordance with §23-38.80 of the *Code of Virginia*, as amended. This section of the *Code* requires the Board to discharge its duties in a manner which will provide the investment return and risk level consistent with the actuarial return requirements and cash flow demands of the Plan and conforming to all statutes governing the investment of Plan funds. The Board shall exercise the judgment of care under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but to the permanent disposition of funds, considering the probable income as well as the probable safety of their capital when investing funds. In order to meet the return requirements, the Plan's portfolio shall be invested in a broadly diversified portfolio of domestic and foreign stocks, bonds, and cash equivalent investments, which are defined as investments with an original maturity of three months or less. The Board's allocation target for the overall VPEP portfolio, at market value, is 60 percent investment in equity securities and 40 percent investment in fixed income instruments. The Board's allocation targets for the VEST program vary according to the investment objective of each portfolio. To assist with the investment of the Plan assets, the Board has established an Investment Advisory Committee (IAC). The purpose of the IAC is to provide the Board with objective and prudent investment advice on all matters related to the management of investments, within the parameters set by the Board's Investment Policies and Guidelines. The Board has also selected a group of 24 external managers and/or funds. See a complete list of Investment Managers in Appendix B. In addition, the Plan has monies invested with the State Treasurer as part of the Commonwealth's General Account for both VPEP and VEST.

The Board has authorized its partner, the American Funds, to offer 22 of their mutual funds to investors in CollegeAmerica. The Board has oversight and review authority for the investment activity and operations of the CollegeAmerica program. The American Funds is required to seek renewed approval of the use of these mutual funds on an annual basis.

Custodial Credit Risk

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The plan does not hold deposits for CollegeAmerica or CollegeWealth. All deposits of the VPEP and VEST programs are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400, of the *Code of Virginia*.

Custodial Credit Risk – Investments: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2008, all investments of the VPEP and VEST programs, except those investments in open-end mutual funds, were held in the Plan's name by the Plan's custodian, Mellon Global Securities Services. Approximately 27 percent of total VPEP investments (reported as enterprise fund assets) and 81 percent of total VEST investments (reported as a private-purpose trust fund) are invested in open-end mutual funds. All investments of the CollegeAmerica program (also a private-purpose trust fund) are also invested in mutual funds. Investments in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by individual securities.

Interest Rate Risk – Fixed Income Securities

As of June 30, 2008, the Plan had the following fixed income investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	**1 - 5**	**6 - 10**	**More than 10**
Money Market Funds	$ 47,931,487	$ 47,931,487	$ -	$ -	$ -
U.S. Treasuries	58,439,444	-	1,994,482	27,521,069	28,923,893
Agency Mortgage Backed Securities	46,165,702	-	-	7,986,510	38,179,192
Unsecured Agency Bonds and Notes	11,279,340	-	9,003,532	1,598,952	676,856
Asset Backed Securities	28,102,327	-	4,925,775	3,468,837	19,707,715
Corporate Bonds	132,630,681	-	29,782,645	69,407,810	33,440,226
Other Bonds	169,524,106	-	31,909,231	15,735,304	121,879,571
Bond Funds	17,250,907	-	17,250,907	-	-
Guaranteed Investment Contracts	77,321,821	-	77,321,821	-	-
Repurchase Agreements	26,600,000	26,600,000	-	-	-
Total	$615,245,815	$ 74,531,487	$172,188,393	$125,718,482	$242,807,453

The Plan's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk of Fixed Income Securities

The Plan's investment policy requires its fixed income securities managers to invest in holdings which, on average, are comprised of high quality securities and may not include securities deemed to be below investment grade. Investment grade is generally defined as a rating of BBB or above by one of the three major rating agencies. This requirement does not apply to the Plan's managers who are instructed to manage a specific "High-Yield" fixed income investment strategy, whether in a separate account or as a dedicated allocation within a broader fixed income portfolio. The Plan's rated debt investments as of June 30, 2008 were rated by Standard &Poor's and/or Moody's and the ratings are presented in the following charts. The Plan participated in various open-end mutual funds that are unrated and are not included in this presentation.

	Investment Type									
Standard & Poor's Quality Rating	Money Market Funds	U.S. Treasuries	Agency Mortgage Backed Securities	Agency Unsecured Bonds & Notes	Asset Backed Securities	Corporate Bonds	Other Bonds	Bond Funds	Guaranteed Investment Contracts	Repurchase Agreement
AAA	$47,931,487	$58,439,444	$46,165,702	$11,279,340	$19,228,640	$ 2,595,257	$94,739,027	-	-	-
AA+	-	-	-	-	$687,853	$12,008,791	$483,932	-	-	-
AA	-	-	-	-	$2,973,311	$3,301,310	$219,004	-	-	-
AA-	-	-	-	-	-	$12,053,339	-	-	-	-
A+	-	-	-	-	$206,878	$13,302,560	$3,089,635	-	-	-
A	-	-	-	-	$103,750	$13,259,451	-	-	-	-
A-	-	-	-	-	$140,549	$8,703,539	$4,451,327	-	-	-
BBB+	-	-	-	-		$15,137,740	$8,449,314	-	-	-
BBB	-	-	-	-	$1,855,684	$13,613,185	$6,968,720	-	-	-
BBB-	-	-	-	-	$165,859	$11,492,623	$1,233,555	-	-	-
BB+	-	-	-	-	$329,818	$4,294,117	$4,129,780	-	-	-
BB	-	-	-	-	$16,334	$2,889,540	$7,657,869	-	-	-
BB-	-	-	-	-	-	$4,264,496	$1,042,012	-	-	-
B+	-	-	-	-	-	$1,119,636	$2,726,924	-	-	-
B	-	-	-	-	-	$7,316,123	$2,456,269	-	-	-
B-	-	-	-	-	-	$2,531,611	$6,600,954	-	-	-
Less than B-	-	-	-	-	$520,850	$1,833,008	$3,076,200	-	-	-
Unrated	-	-	-	-	$1,311,340	$1,771,906	$18,879,361	$16,648,827	$77,321,821	$26,600,000
	Investment Type									
Moody's Quality Rating	Money Market Funds	U.S. Treasuries	Agency Mortgage Backed Securities	Agency Unsecured Bonds & Notes	Asset Backed Securities	Corporate Bonds	Other Bonds	Bond Funds	Guaranteed Investment Contracts	Repurchase Agreement
Aa1	-	-	-	-	-	-	$1,335,600	-	-	-
Aa2	-	-	-	-	$430,375	-	-	-	-	-
A1	-	-	-	-	-	$80,959	$1,984,623	-	-	-
A2	-	-	-	-	-	$840,964	-	-	-	-
B1	-	-	-	-	-	$220,526	-	-	-	-
B2	-	-	-	-	$131,086	-	-	-	-	-
P-2	-	-	-	-	-	-	-	$ 602,080	-	-

Concentration of Credit Risk

At June 30, 2008, the Plan had no investments in any one issuer that represented 5 percent or more of total investments.

Mutual Fund Risks

At June 30, 2008, the Plan participated in a number of open-end domestic and foreign equity and fixed income mutual funds. These funds are subject to various investment risks, including the possibility that the value of the fund's portfolio holdings may fluctuate in response to events specific to the companies in which the fund invests, as well as economic, political or social events in the United States and abroad. Certain of the mutual funds may be subject to additional risks due to investments in a more limited group of sectors and industries than the broad market. Those funds with holdings issued by entities based outside the United States are subject to foreign securities risks, including currency fluctuations.

The value of and the income generated by fixed income securities held by certain of the mutual funds in which the Plan participates, may be affected by changing interest rates and credit risk assessments. Lower quality or longer maturity bonds may be subject to greater price fluctuations than higher quality or shorter maturity bonds.

Prospectuses for each of the mutual funds the Plan participates in may be requested from the Virginia College Savings Plan, P.O. Box 607, Richmond, VA 23218-0607, or at www.virginia529.com. A prospectus may also be requested directly from each of the underlying fund managers. Prospectuses for each CollegeAmerica mutual fund offering may be obtained directly from the American Funds or from a financial adviser. Please see Appendix A for a listing of VPEP, VEST and CollegeAmerica mutual funds.

3. SECURITIES LENDING TRANSACTIONS

A portion of the balance sheet line item Cash and Cash Equivalents and the line item Investments held by the Treasurer represent the Plan's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

Information relating to securities lending for fiscal year 2008 is provided in the following chart:

Cash Equivalent	**Investment**	**Income**	**Expense**	**Interest**
$4,502,363	$16,960,444	$ 594,666	$536,742	$57,924

4. OPERATING LEASE

During the first quarter of the fiscal year, the Plan leased satellite office facilities in West Chester, PA as a disaster recovery site as well as office space for the Plan's information technology division, College Savings Systems, under an operating lease. The Plan terminated this lease effective September 30, 2007. Under the terms of the lease agreement, all lease payments were to be made quarterly in advance. Therefore, there were no lease payments made during fiscal year 2008.

5. LONG-TERM LIABILITIES

Long-term liabilities include tuition benefits payable, capital lease payments, and compensated absences.

A. Tuition Benefits Payable

This liability represents the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the Virginia Prepaid Education Program.

B. Capital Lease

On September 10, 2008, the Plan entered into a Lease Agreement with Aventura Holdings, LLC to lease a 48,500 square foot office building for a period of five years. Pursuant to the Lease, the Plan will make base rent payments as reflected below on an annual basis in advance, and will make additional rent payments on a quarterly basis in advance in an amount sufficient to pay building operating costs for the next quarter. Aventura has entered into an agreement with a property management company for the purpose of providing facilities maintenance, grounds keeping, custodial services, etc. The additional rent payments will cover operating costs incurred by Aventura under the property management agreement. At the end of each quarter, the Plan and Aventura will reconcile expenses before funding operating expenses for the subsequent quarter.

Base Rent Periods (1)	**Annual Base Rent**
September 1, 2008 – June 30, 2009 (2)	$428,282
July 1, 2009 – June 30, 2010	$546,838
July 1, 2010 – June 30, 2011	$560,508
July 1, 2011 – June 30, 2012	$574,521
July 1, 2012 – June 30, 2013	$588,884

(1) 2009 rent at $11.00 psf with a 2.5% annual escalator.
(2) 2009 rent prorated.

The annual aggregate rental charge for the 14,426 square feet at the James Monroe Building, which the Plan occupied during fiscal 2008, was $193,663.

Changes in long-term liabilities are shown below:

Enterprise Fund	**Balance July 1, 2007**	**Increases**	**Decreases**	**Balance June 30, 2008**	**Due Within One Year**
Compensated absences	$343,180	$201,238	$161,896	$382,522	$119,031
Tuition benefits payable	1,730,482,102	244,115,321	83,173,358	1,891,424,065	112,235,780
Capital lease obligation	-	2,347,152	-	2,347,152	428,282
Total	$1,730,825,282	$246,663,711	$83,335,254	$1,894,153,739	$112,783,093

6. CAPITAL ASSETS

The following schedule presents capital asset activity of the Plan for the year ended June 30, 2008.

Enterprise Fund	**July 1, 2007**	**Increases**	**Decreases**	**June 30, 2008**
Depreciable capital assets:				
Equipment	$ 586,977	$ 109,847	$ -	$ 696,827
Building	-	2,347,152		2,347,152
Less accumulated depreciation for:				
Equipment	441,596	62,131	-	503,727
Total depreciable capital assets, net of accumulated Depreciation	$145,381	$ 2,394,868	$ -	$2,540,252

7. ACTUARIAL TUITION CONTRIBUTIONS AND ACTUARIAL TUITION BENEFITS EXPENSE

The Plan's statute requires that it annually determine its actual soundness. The Plan has assumed that actuarially sound, when applied to VPEP, means that the Plan has sufficient assets (including the value of future installment payments due under current contracts) to cover the actuarially estimated value of the tuition obligations under those contracts (including any administrative costs associated with those contracts).

The actuarial tuition contributions and the actuarial tuition benefits expense line items represent the annual accrual of contributions receivable and the obligation for distribution expenses determined by the actuarial valuation. At June 30, 2008, the accrual of the actuarially determined tuition contributions receivable decreased over the prior year, which resulted in negative actuarial tuition contributions reported as operating revenue.

Actuary Valuation Results

	2008	**2007**
Tuition Contributions Receivable	$ 288,024,065	$ 294,492,102
Tuition Benefits Payable	$1,891,424,065	$1,730,482,102

8. RETIREMENT AND PENSION PLAN

Employees of the Plan are employees of the Commonwealth of Virginia. The employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance for employees and retirees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not the Plan, has overall responsibility for determining contributions to these plans.

9. RISK MANAGEMENT

The Virginia College Savings Plan is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Plan participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bond, automobile, and air plans. The Plan pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

The Plan's disaster recovery site is provided through a co-location agreement with Broadband Network Services Incorporated (BNSI). BNSI, located in Charlottesville, VA, has a fully equipped network environment as well as multiple direct-access Internet feeds necessary to facilitate recovery of mission critical VCSP systems.

10. VIRGINIA COLLEGE SAVINGS PLAN SCHOLARSHIP PROGRAM

The Virginia College Savings Plan scholarship program consists of VPEP and VEST scholarship accounts established to provide a range of benefits to future beneficiaries. The purpose of the program is to enable individuals, organizations, community groups, corporations, and trusts to make qualified charitable contributions, which are used to purchase VPEP tuition and fee contracts and to open VEST accounts for children. The VCSP scholarship program's mission is to work with community partners to make the dream of college a reality for deserving youth in Virginia.

At June 30, 2008, the VCSP owned 66 active VPEP contracts and 101 active VEST accounts.

11. SUBSEQUENT EVENTS – EQUITY AND FIXED INCOME MARKET DECLINES

The volatile and unfavorable conditions in both equity and fixed income markets persisted beyond June 30, 2008 into fiscal 2009. From June 30, 2008 through November 14, 2008, management estimates the market value of investments held in trust for participants in the VPEP, VEST and CollegeAmerica programs declined as reflected in the following table.

Program	**Market Value June 30, 2008**	**Market Value November 14, 2008**	**Dollar Decline**	**Percent Decline**
VPEP	$1,543,079,905	$1,146,862,148	$396,217,757	26%
VEST	$1,100,258,963	$890,508,610	$209,750,353	19%
CollegeAmerica	$24,823,064,779	$17,856,626,147	$6,966,438,632	28%

The reduction in each of the programs is due mainly to market conditions, but also reflects distributions to educational institutions and individuals for education expenses as well as fees and other expenses. For example, the VPEP program distributed $44,054,544 for qualified educational expenses from July 1, 2008 through November 14, 2008. In addition, VPEP received $27,251,314 representing payments on outstanding contracts during that same period. These amounts reduced and increased VPEP's investment value, respectively, during this period.

While the market value of investments in VEST and CollegeAmerica has declined, the participants rather than the Plan bear the risk of market declines. The Plan is responsible for honoring VPEP contracts. VPEP's actuarial soundness is determined annually. The two primary assumptions used in calculating actuarial soundness are the assumed investment return and the future tuition growth rate. Notwithstanding the market value decline in VPEP investments, VPEP has remained liquid and has met its obligations. Management expects that the Plan's asset allocation and investment strategies will result in the Plan's VPEP portfolio meeting or exceeding performance expectations over the long-term.

APPENDIX A

Mutual Funds By Program

VPEP

Investment Manager	Underlying Mutual Fund
Vanguard Group	Institutional Index Fund
Vanguard Group	Small Cap Index Fund
Vanguard Group	Total Stock Market Index Fund
Vanguard Group	Total Bond Market Index Fund
Vanguard Group	Inflation-Protected Securities Fund
Vanguard Group	REIT Index Fund
Templeton Institutional Funds, Inc.	Templeton Foreign Equity Series
Capital Research & Management Co.	American Funds EuroPacific Growth Fund

VEST

Investment Manager	Underlying Mutual Fund
Vanguard Group	Institutional Index Fund
Vanguard Group	Small Cap Index Fund
Vanguard Group	LifeStrategy Growth Fund
Vanguard Group	LifeStrategy Moderate Growth Fund
Vanguard Group	LifeStrategy Income Fund
Vanguard Group	Prime Money Market Fund
Vanguard Group	Total Stock Market Index Fund
Vanguard Group	Total Bond Market Index Fund
Vanguard Group	Total International Stock Index Fund
Vanguard Group	Inflation-Protected Securities fund
Vanguard Group	REIT Index Fund
Templeton Institutional Funds, Inc.	Templeton Foreign Equity Series
Capital Research & Management Co.	American Funds EuroPacific Growth Fund
Western Asset Management	Western Core Bond Portfolio

COLLEGEAMERICA (Program Manager - American Funds)

AMCAP Fund	Washington Mutual Investors Fund
The Growth Fund of America	Capital Income Builder Fund
The New Economy Fund	The Income Fund of America
EuroPacific Growth Fund	American Balanced Fund
New Perspective Fund	American High-Income Trust Fund
New World Fund	The Bond Fund of America
SMALLCAP Fund	Capital World Bond Fund
American Mutual Fund	Intermediate Bond Fund of America
Capital World Growth & Income Fund	Short-Term Bond Fund of America
Fundamental Investors Fund	U.S. Government Securities Fund
The Investment Company of America	The Cash Management Trust of America

APPENDIX B

Separate Account Managers By Program

VPEP

Investment Manager	Investment Strategy
Sands Capital Management	Large Cap Growth Equity
Chase Investment Counsel	Large Cap Growth Equity
LSV Asset Management	Large Cap Value Equity
NWQ Asset Management	Large Cap Value Equity
Westfield Capital Management	Mid Cap Growth Equity
Rothschild Asset Management	Small/Mid Cap Value Equity
Century Capital Management	Small Cap Growth Equity
Pier Capital	Small Cap Growth Equity
Donald Smith & Co.	Small Cap Value Equity
Thompson, Siegel & Walmsley	Small Cap Value Equity
Western Asset Management	Core Plus Fixed Income
Tattersall Advisory Group	Core Fixed Income
Piedmont Investment Advisors	Intermediate Fixed Income
Utendahl Capital Management	Short Duration Fixed Income
Lord Abbett	Convertible Fixed Income
INVESCO Institutional	Stable Value Fixed Income

VEST

Investment Manager	Investment Strategy
Rothschild Asset Management	Small/Mid Cap Value Equity
INVESCO Institutional	Stable Value Fixed Income

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

December 12, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
And Review Commission

Board Members
Virginia College Savings Plan

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Virginia College Savings Plan as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Virginia College Savings Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements of the Virginia College Savings Plan are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities and fiduciary funds of the Commonwealth of Virginia that is attributable to the transactions of the Virginia College Savings Plan. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia College Savings Plan as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 9 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2008 on our consideration of the Virginia College Savings Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA COLLEGE SAVINGS PLAN
Richmond, Virginia

BOARD MEMBERS
As of June 30, 2008

Mr. Charles H. Nance, Chairman

Mr. David A. Von Moll, Vice-Chairman

Mr. J. Braxton Powell, Secretary/Treasurer

Dr. Glenn DuBois

Daniel J. LaVista, Ph.D.

Mr. Geary Davis

Mr. Maurice Jones

EXECUTIVE DIRECTOR

Ms. Mary G. Morris

ACTUARIAL VALUATION
OF THE
VIRGINIA PREPAID
EDUCATION PROGRAM
AS OF JUNE 30, 2008

By:

ALAN H. PERRY, FSA, CFA
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January 26, 2009

Board of the Virginia College Savings Plan
Commonwealth of Virginia
Virginia College Savings Plan
9001 Arboretum Parkway
Richmond VA 23236

Ladies & Gentlemen:

This report presents the results of the actuarial valuation of the Virginia Prepaid Education Program (VPEP) as of June 30, 2008.

Purpose

The main purposes of this report are:

- to calculate the actuarial present value of the obligations under the prepaid tuition contracts purchased through June 30, 2008 and compare the value of those obligations with the assets in VPEP as of that date;

- to review the experience and changes in the actuarial assumptions during the last year and indicate their effects on the results; and

- to set forth the basis for the actuarial assumptions and methods utilized in those calculations.

The results contained in this report are based on contract data and preliminary financial statements provided by the Virginia College Savings Plan. We have relied on this data in preparing this report.

Background

In 1994, the Virginia General Assembly established the Virginia Higher Education Tuition Trust Fund (subsequently renamed the Virginia College Savings Plan) to enhance the accessibility and affordability of higher education for all citizens of the Commonwealth. VPEP funds consist of payments received pursuant to prepaid tuition contracts, bequests, endowments or grants from the United States government, its agencies and instrumentalities, and any other available sources of funds, public or private. Any moneys remaining in VPEP at the end of a biennium shall remain in VPEP. Interest and income earned from the investment of such funds shall remain in VPEP.

In 1998, the Virginia General Assembly passed legislation that requires the Governor to include in each year's state budget an amount to cover VPEP's obligations in the event "the Plan is unable to meet its current obligations." The Governor has included the provision in subsequent budget submissions, and the General Assembly has included the provision in subsequent Appropriation Acts, including Chapter 879 of the 2008 Acts of Assembly (2008 Appropriation Act).

Program Design

The Virginia Prepaid Education Program is one of four Section 529 options offered by the Virginia College Savings Plan. Under VPEP, participants purchase tuition contracts that provide coverage of tuition and mandatory fees at a public university and/or community college in Virginia. At redemption, the contract pays the current tuition and mandatory fees at the Virginia public university or community college that the beneficiary attends. The benefits vary if the beneficiary does not attend a Virginia public university or community college. With the establishment of the Virginia Education Savings Trust, contract holders have the option of rolling over the value of their prepaid contract into a savings account. The value of the prepaid contract for such rollovers is the accumulated contributions at the reasonable rate of interest set by the Board. This option to roll over the contract has effectively added a minimum benefit to the Program.

Statutory Requirements

The Code of Virginia, Title 23, Chapter 4.9 provides limited guidance for establishing the actuarial basis to evaluate the Virginia Prepaid Education Program. The Code requires an annual audit of the Program and states in part that if the annual accounting and audit "reveal that there are insufficient funds to ensure the actuarial soundness of VPEP, the Board shall be authorized to adjust the terms of subsequent prepaid tuition contracts or arrange refunds for current purchasers to ensure actuarial soundness."

"Actuarial soundness" is not a precise concept and there is no generally accepted understanding of the meaning of this phrase within the actuarial profession, especially with respect to prepaid tuition plans. For purposes of this report, we have assumed that the phrase "actuarially sound," when applied to the Virginia Prepaid Education Program, means that the Fund has sufficient assets (including the value of future installment payments due under current contracts) to cover the actuarially estimated value of the tuition obligations under those contracts (including any administrative costs associated with those contracts).

We have also interpreted these Sections to require that the actuarial liabilities be evaluated using sound actuarial principles that are generally consistent with the practices and principles widely used for retirement programs. Reference to other programs is necessary because of the innovative nature of a prepaid tuition program. No generally accepted standard of practice has evolved within the actuarial profession specifically addressing prepaid tuition programs. We chose the standards applicable to retirement programs because these programs generally provide for payments at some future date where that payment has a high probability of payment at, or close to, some specific age.

Valuation Basis

The assumptions selected for this report are intended to be "best estimates".

The method for determining the "best estimate" liability for the Program reflects the possible variability of inflation, tuition, and investment returns and the correlation between each of these variables. The methodology is described in the section below, Variability of Results and Valuation Basis.

VPEP Investment Policy

On March 23, 2005, the Board of the Virginia College Savings Plan amended its investment policy for the Virginia Prepaid Education Program to set forth the acceptable investment allocations.

The investment policy is important because it sets forth acceptable investment allocations among asset classes. The asset allocation affects the magnitude and variability of expected investment returns and therefore the financial structure of the plan. For the valuation, we have assumed that Program investments will be allocated as shown below, based on the investment policy target allocations:

Asset Class	
U.S. Equities	45%
Foreign Equities	10%
REITs	5%
Fixed-Income	40%

Actuarial Assumptions

The actuarial assumptions used to prepare this report are summarized in Appendix C. The two most significant of those assumptions are the rates of investment return and tuition growth in the future. The Virginia College Savings Plan selected both of these assumptions.

They are:

- the investment return assumption of 7.00% per year, net of investment related expenses (this is the same as the assumption used to prepare the prior year's report); and,
- the annual tuition growth rate assumptions summarized in the table below.

	Universities		Community Colleges	
	New assumption	Prior assumption	New assumption	Prior assumption
Fall 2009	8.5%	8.0%	7.5%	7.0%
Fall 2010	8.5%	7.0%	7.5%	7.0%
Fall 2011 and thereafter	7.5%	7.0%	7.5%	7.0%

Summary of Results

The actuarial value of the obligations of the Virginia Prepaid Education Program as of June 30, 2008 is summarized below and compared with the total assets of the Program.

	Present Value of Obligations For Future Payments	Value of Total Program Assets	Actuarial Reserve/ (Deficit)
		(Amounts in Millions)	
Virginia Prepaid Education Program:			
Tuition Obligations	$1,864.0	n/a	n/a
Administrative Expenses	27.4	n/a	n/a
Grand Total	$1,891.4	$1,839.6	$(51.8)

As indicated above, the Virginia Prepaid Education Program has assets that fall short of the "best estimate" of the obligations by roughly $51.8 million or 2.7%. Unfavorable future experience would adversely affect this position. It would be desirable to accumulate additional actuarial reserve over time that would positively affect this position.

The present value of future obligations for Administrative Expenses reflects the expected costs of maintaining each contract in place (as of June 30, 2008) until all tuition benefits have been paid and the expenses associated with making those payments. It does not include the future expenses of the Program associated with general overhead and marketing attributable to future contracts. The $27.4 million administrative expense obligation is equivalent to about $381 per contract.

Actuarial Gain/Loss Analysis

During the 2008 fiscal year, the plan shifted from a surplus of $122.2 million to a deficit of $51.8 million or 2.7% of obligations. This decrease is mostly attributable to investment losses and the change in the tuition growth assumption, offset somewhat by revenue from new sales. Each of the factors affecting the change in the actuarial reserve/(deficit) is discussed below.

The actuarial surplus was expected to grow during the year by about $8.6 million due to the passage of time. (The obligations are calculated as present values which grow with interest with the passage of time.)

The rate of return on Program investments (net of investment management fees) for the fiscal year was -4.3% on both a time-weighted basis and dollar-weighted basis. For the previous valuation, a 7.0% return was assumed. This produced a net actuarial loss of approximately $178.2 million.

Average tuition rates for the 2008-2009 school year increased by 8.6% for universities and 7.5% for community colleges, compared to the 8.0% and 7.0% rates assumed in the prior valuation. This resulted in an actuarial loss of $4.8 million.

The Program sold 3,978 new contracts during the year. Each contract was priced so as to contribute to the actuarial reserve. We estimate that the reserve was increased by about $10.0 million from these new contracts.

The Prepaid Program received $27.3 million in administrative fee revenue from all the VCSP programs, including CollegeAmerica. Total agency operating expenses were $9.5 million, of which $4.1 million was expected to be provided by the VPEP expense reserve. The balance of the fee revenue, $21.9 million, is an increase to the reserve.

The tuition growth assumption for universities was increased from 8.0% in fall 2009 and 7.0% thereafter to 8.5% for fall 2009 and fall 2010 and 7.5% thereafter. The tuition growth assumption for community colleges was increased from 7.0% in all years to 7.5% in all years. In addition, the assumption for the reasonable rate of return was decreased from a mean of 4.5% to mean of 4.2% per year. This resulted in a combined decrease in the reserve of approximately $44.6 million.

Other experience gains added about $13.1 million to the reserve. These could be from rollovers, the drop in the reasonable rate during the year, and more beneficiaries attending colleges with lower tuition levels than assumed in last year's valuation.

In summary, the effect of experience and assumption changes on the actuarial reserve/ (deficit) can be summarized as follows:

(Amounts in Millions)

Actuarial Reserve / (Deficit) as of June 30, 2007	$ 122.2
Interest on the reserve at 7.00%	8.6
Investment gain (loss)	(178.2)
Tuition gain (loss)	(4.8)
Sales of new contracts	10.0
Administrative Fee Revenue from VCSP	21.9
Change in Assumptions	(44.6)
Other	13.1
Actuarial Reserve / (Deficit) as of June 30, 2008	$ (51.8)

<u>Variability of Results and Valuation Basis</u>

The present values of the obligations shown above were based on assumptions which represent an estimate of anticipated experience under the Fund that are reasonably related to past educational cost and investment data. Differences between those projections and actual amounts will depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

A prime source of variation will be normal fluctuations that occur in the rate of increase in tuition, investment returns, and expense inflation. One way of estimating the range of possible outcomes is to stochastically model the financial operation of the Program using "Monte Carlo" techniques. This approach involves preparing 1,000 projections of financial results under randomly derived scenarios of tuition growth, investment returns, and expense inflation. Each of these scenarios is based on statistical factors such as standard deviation and correlation that were established by reviewing historical results adjusted where appropriate to reflect current conditions. By tabulating the results under all of these projections we estimated the probability that current assets, along with all anticipated contract payments plus investment returns, will be sufficient to cover the obligations of the Virginia Prepaid Education Program.

We have summarized in the table below the results of this process. It is important to understand that these results are only illustrative of the range of results that are possible and are dependent on the assumptions utilized. The assumptions are presented in Appendix C.

(Amounts in Millions)

Percentage of "Best Estimate" Reserve	Total VPEP Fund Value at June 30, 2008	Probability of VPEP Funds Exceeding Obligation
90%	$1,702.3	30%
97%	1,839.6	45%*
100%	1,891.4	50%
110%	2,080.6	68%
120%	2,269.7	79%
130%	2,458.9	88%
140%	2,648.0	93%
150%	2,837.1	96%

*actual Fund position.

The present value of obligations for future payments shown previously is the amount of assets necessary to have a 50% probability of meeting all program obligations, including administrative costs, associated with current contracts. The actual VPEP fund balance at June 30, 2008 of $1,839.6 million is 97% of the actuarially determined "Best Estimate" Reserve amount of $1,891.4 million. As indicated in the above table, this VPEP fund balance is estimated to have a 45% probability of being adequate to satisfy all Program obligations using current assumptions.

Data Reliance

In performing this analysis, we relied on data and other information provided by the Virginia College Savings Plan. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Cash Flow Projection

The table in Appendix E shows a cash flow projection based on a set of deterministic assumptions that produce the same Present Value of Obligations for Future Payments as the "best estimate" actuarial assumptions used in the Monte Carlo simulations. The deterministic cash flow projection assumes that University tuition increases 8.5% for two years and 7.5% thereafter, Community College tuition increases 7.5% each year, and Plan assets earn 6.74% each year. The starting Market Value of Invested Assets as of July 1, 2008 is $1,551.6 million. At the end of the 2033 Fiscal Year all tuition obligations associated with contracts already purchased are expected to have been paid resulting in a final cumulative deficit of $181.2 million. Since the actuarial assumptions are intended to represent "best estimates" of future expenses, there is a 50% chance that actual results will be better than this projection and a 50% chance that actual results will be worse.

Certification

Based on the foregoing assumptions, the Virginia Prepaid Education Program does not have sufficient assets, including the value of future installment payments, to cover the actuarially estimated value of the tuition obligations under all contracts outstanding as of the valuation date (including any administrative costs associated with those contracts).

This determination has been based on reasonable actuarial assumptions that represent the Virginia College Savings Plan's best estimate of anticipated experience under the Program taking into account past experience and future expectations. Since the results of the valuation are dependent on the actuarial assumptions used, actual results can be expected to deviate from the figures indicated in this report to the extent that future experience differs from those assumptions.

This report was prepared exclusively for the Virginia College Savings Plan for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning the Virginia College Savings Plan's operations, and uses the Virginia College Savings Plan's data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

We look forward to reviewing the results of our analyses with you at your earliest convenience.

Respectfully submitted,

MILLIMAN, INC.

Alan H. Perry, FSA, CFA
Member American Academy of Actuaries

William A. Reimert, FSA, CFA
Member American Academy of Actuaries

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Virginia Prepaid Education Program

I. Statement of Assets as of June 30, 2008

	Investments	Market Value
1)	Equities	$ 766,632,694
2)	Fixed Income including Accrued Interest	564,040,563
3)	REIT Index Fund and Real Estate	64,370,881
4)	Cash & Cash Equivalents	152,538,129
5)	Other Investments	16,960,444
6)	Other Receivables	4,327,589
7)	Accounts Receivable	6,439,375
8)	Property, Plant & Equipment	193,097
9)	Payables	(2,065,503)
10)	Accrued Liabilities	(382,522)
11)	Other Liabilities	(21,462,807)
	Total Market Value of Investments	$ 1,551,591,940
	Present Value of Installment Contract Receivables	288,024,065
	Value of Total Fund Assets	$ 1,839,616,005

II. Reconciliation of Investments

1)	Investments at June 30, 2007	$1,558,190,196
2)	Adjustment to Match Financial Statements	1,691,605
3)	Contract Purchase Payments	124,302,309
4)	Application Fees	114,030
5)	Administrative Fee Revenue	27,273,579
6)	Interest and Dividends	60,156,086
7)	Realized and Unrealized Gains/(Losses)	(124,564,763)
8)	Tuition Payments, Refunds and Rollovers	(81,005,809)
9)	Administrative Expenses	(9,510,440)
10)	Investment Management Fees	(5,044,745)
11)	Transfers to the Commonwealth	(10,108)
12)	Investments at June 30, 2008	$ 1,551,591,940

Time-weighted rate of return	-4.3%
Dollar-weighted rate of return	-4.3%

Appendix A

Virginia Prepaid Education Program

Participant Data as of June 30, 2008 – Number of Contracts*

Matriculation Year	Plan Type Total Years of Community College Purchased Total Years of University Purchased																							Total by Payout Year	Percent of Total
	1 0	1 1	1 2	1 3	1 4	1 5	2 0	2 1	2 2	2 3	2 4	2 5	3 0	3 1	3 2	3 3	3 4	3 5	0 1	0 2	0 3	0 4	0 5		
2000-2001	1	0	0	1	0	0	8	0	2	0	0	0	0	0	0	0	0	0	3	5	2	51	2	75	0.1%
2001-2002	1	0	1	0	0	0	33	0	7	0	1	0	2	0	0	0	0	0	7	11	2	125	3	193	0.3%
2002-2003	3	1	0	1	0	0	29	4	6	0	0	0	0	0	0	0	1	0	26	22	6	194	16	309	0.4%
2003-2004	3	1	0	3	1	0	27	0	16	3	0	0	3	0	0	0	0	1	24	40	5	341	23	491	0.7%
2004-2005	4	1	1	2	0	0	51	6	29	1	1	0	7	0	0	1	0	1	64	72	16	613	51	921	1.3%
2005-2006	8	1	0	10	0	0	89	3	66	1	2	0	7	1	0	0	0	2	129	170	48	2057	82	2676	3.7%
2006-2007	8	10	2	3	1	0	116	7	88	2	1	1	15	0	0	0	0	1	184	248	95	2471	94	3347	4.7%
2007-2008	14	9	2	5	0	0	168	12	110	2	0	0	19	2	0	0	0	0	291	499	99	2883	112	4227	5.9%
2008-2009	22	11	6	8	0	0	157	14	124	3	0	0	16	3	0	0	0	3	442	532	129	2980	133	4583	6.4%
2009-2010	16	20	2	7	1	0	198	8	148	3	0	1	16	3	0	0	0	1	426	530	132	3225	132	4869	6.8%
2010-2011	54	14	7	9	1	0	193	14	157	2	0	1	17	2	1	0	0	3	513	628	125	3168	144	5053	7.0%
2011-2012	47	18	6	6	0	0	194	11	172	1	2	0	24	3	1	0	0	3	496	568	130	3198	140	5020	7.0%
2012-2013	50	18	9	12	2	0	187	9	147	2	0	1	38	1	1	0	0	1	540	579	128	3071	153	4949	6.9%
2013-2014	44	13	9	18	2	0	165	4	162	2	1	1	19	1	0	1	0	2	437	565	127	2921	128	4622	6.4%
2014-2015	52	12	7	17	1	1	155	10	154	3	0	0	32	0	1	0	0	1	498	506	131	2788	149	4518	6.3%
2015-2016	35	12	4	7	0	0	142	13	127	0	0	0	17	2	0	1	0	3	392	503	101	2646	119	4124	5.7%
2016-2017	38	9	4	8	0	1	126	11	133	1	3	0	15	1	0	0	0	2	347	410	116	2419	123	3767	5.2%
2017-2018	27	12	2	2	0	0	107	5	137	4	1	0	17	1	0	0	0	2	323	363	97	2141	134	3375	4.7%
2018-2019	24	8	4	5	0	0	77	3	133	2	0	1	13	2	0	1	0	1	278	333	77	2022	143	3127	4.4%
2019-2020	21	15	1	6	2	1	65	3	121	2	1	0	17	1	0	0	0	2	246	307	78	1776	127	2792	3.9%
2020-2021	22	2	2	2	1	0	59	4	90	2	0	0	11	2	0	0	0	0	189	221	45	1469	103	2224	3.1%
2021-2022	23	8	1	6	2	0	59	4	80	1	0	1	13	2	0	1	0	5	189	251	74	1355	98	2173	3.0%
2022-2023	24	4	2	5	1	0	46	4	54	4	0	0	4	1	0	0	0	0	169	211	41	841	37	1448	2.0%
2023-2024	21	2	1	2	2	0	39	4	58	2	1	0	5	0	0	0	0	2	132	130	41	814	40	1296	1.8%
2024-2025	16	0	1	2	0	1	27	2	35	0	0	0	4	1	0	0	0	1	91	129	27	516	41	894	1.2%
2025-2026	11	1	2	1	0	0	20	2	27	1	0	0	1	0	0	0	0	0	60	70	12	342	20	570	0.8%
2026-2027	3	0	0	1	0	0	11	0	3	0	0	0	3	0	0	0	0	0	22	23	2	98	4	170	0.2%
Total	592	202	76	149	17	4	2548	157	2386	44	14	7	335	29	4	5	1	37	6518	7926	1886	46525	2351	71813	
Percent of Total	0.8%	0.3%	0.1%	0.2%	0.0%	0.0%	3.5%	0.2%	3.3%	0.1%	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.1%	9.1%	11.0%	2.6%	64.8%	3.3%		

* Table only includes contracts with at least one year of tuition remaining.

Appendix B
(Page 1 of 2)

Virginia Prepaid Education Program

Participant Data as of June 30, 2008 – Remaining Years of Tuition

Expected Payout Year	University Years	Community College Years
2008-2009	12,475	797
2009-2010	14,471	835
2010-2011	15,766	765
2011-2012	16,449	811
2012-2013	15,770	830
2013-2014	15,591	821
2014-2015	15,249	811
2015-2016	14,538	729
2016-2017	13,783	680
2017-2018	12,797	636
2018-2019	11,878	577
2019-2020	10,851	519
2020-2021	9,723	435
2021-2022	8,757	388
2022-2023	7,401	327
2023-2024	6,153	277
2024-2025	4,930	219
2025-2026	3,670	160
2026-2027	2,610	103
2027-2028	1,577	47
2028-2029	838	25
2029-2030	322	14
2030-2031	103	7
2031-2032	33	3
2032-2033	6	1
Total	215,741	10,817

Virginia Prepaid Education Program

Summary of Actuarial Assumptions

Investment / Economic Assumptions for Simulation Model:

The standard deviation and correlation assumptions are based on actual historical returns and tuition growth. Expected return assumptions are based on Milliman's investment assumptions, but are adjusted so that the expected annualized return on the portfolio is 7.0%, which is the assumption set by the Board.

	Inflation	Reason -able Rate	L Cap Equity	Sm/Mid Cap Equity	Non-US Equity	REITs	Fixed Income	Univ Tuition	CC Tuition
Expected Arithmetic Mean	2.50%	4.20%	9.00%	9.50%	9.00%	8.25%	5.30%	7.60%	7.60%
Standard Deviation	1.80%	1.40%	17.20%	20.55%	21.10%	15.85%	7.30%	4.95%	5.80%
Correlation:									
Inflation	1.00	0.62	-0.19	-0.05	-0.18	-0.10	-0.27	0.23	0.20
Reasonable Rate		1.00	0.13	0.10	-0.05	0.02	0.12	0.05	-0.23
L Cap Equity			1.00	0.84	0.56	0.52	0.45	0.00	-0.14
Sm/Mid Cap Equity				1.00	0.46	0.73	0.44	0.00	-0.02
Non-US Equity					1.00	0.36	0.14	0.19	-0.13
REITs						1.00	0.41	0.11	0.04
Fixed Income							1.00	0.22	0.26
Univ Tuition								1.00	0.80
CC Tuition									1.00

Based on the economic assumptions above, the expected long-term annualized compound rate of return on investments is 7.00%. The expected long-term annualized compound rate of tuition growth is 8.5% for the next two years and 7.5% thereafter for university tuition, and 7.5% for community college tuition. The expected annual means shown above for University tuition are increased by 1.0% in the first two years to match this assumption.

Matriculation and Bias:

It is assumed that 80% of beneficiaries will attend a public university in Virginia, 10% will attend a private university in Virginia and 10% will attend a university in another state. Weighted average tuition for four-year public universities in Virginia was adjusted with a 10.0% load to add a bias for matriculation at more expensive schools. The highest tuition for a public university in Virginia was assumed to be 50% higher than weighted average tuition. Out-of-state students are assumed to receive a benefit equal to the payments made on the contract plus interest at the composite reasonable rate of return.

Virginia Prepaid Education Program

Summary of Actuarial Assumptions
(continued)

Utilization: It is assumed that participants will begin utilizing their contract at the following rates, and then redeem one year of tuition per year until the contract is depleted:

Years since Matriculation Year	Number of Years of Tuition Purchased 1	2	3	4	5	6	7	8
0	35%	60%	60%	85%	85%	100%	100%	100%
1	20%	10%	20%	7%	8%			
2	15%	15%	10%	5%	7%			
3	10%	5%	5%	3%				
4	10%	5%	5%					
5	5%	5%						
6	5%							

Expenses: The expenses included in the present value of future obligations are those relating to:

Annual Maintenance Expense per Contract = $49.19
Annual Distribution Cost per Contract in Payment Status = $12.30

These expenses are assumed to increase annually at the rate of inflation plus 0.5%.

Virginia Prepaid Education Program

History of Enrollment-Weighted Average Tuition and Mandatory Fees at Four Year Universities and Community Colleges in Virginia

Academic Year	University Tuition and Fees	% Increase	Community College Tuition and Fees	% Increase
1982-1983	$1,362			
1983-1984	1,537	12.8%		
1984-1985	1,733	12.8%		
1985-1986	1,885	8.8%		
1986-1987	2,080	10.3%		
1987-1988	2,240	7.7%		
1988-1989	2,377	6.1%	$778	
1989-1990	2,544	7.0%	798	2.5%
1990-1991	2,702	6.2%	894	12.0%
1991-1992	2,985	10.5%	1,050	17.4%
1992-1993	3,357	12.5%	1,230	17.1%
1993-1994	3,659	9.0%	1,320	7.3%
1994-1995	3,789	3.6%	1,359	3.0%
1995-1996	3,949	4.2%	1,445	6.3%
1996-1997	4,002	1.3%	1,445	0.0%
1997-1998	4,095	2.3%	1,445	0.0%
1998-1999	4,217	3.0%	1,445	0.0%
1999-2000	3,721	(11.8%)	1,159	(19.8%)
2000-2001	3,793	1.9%	1,159	0.0%
2001-2002	3,843	1.3%	1,159	0.0%
2002-2003	4,122	7.3%	1,671	44.3%
2003-2004	5,033	22.1%	1,882	12.6%
2004-2005	5,559	10.5%	2,006	6.5%
2005-2006	5,990	7.8%	2,135	6.4%
2006-2007	6,529	9.0%	2,269	6.3%
2007-2008	6,966	6.7%	2,404	5.9%
2008-2009	7,562	8.6%	2,584	7.5%

Compounded Increase in Tuition

Over last 5 years:	8.5%	6.5%
Over last 10 years:	6.0%	6.0%
Over last 15 years	5.0%	4.6%
Over last 20 years:	6.0%	6.2%
Over last 25 years:	6.6%	n/a

Appendix D

Virginia Prepaid Education Program

Cash Flow Projection

Fiscal Year	Beginning Balance	Monthly Payments	Tuition Benefits	Expenses	Investment Income	Ending Balance
2009	$1,551.6	$65.4	$112.2	$3.7	$101.0	$1,602.1
2010	1,602.1	59.3	131.5	3.8	103.3	1,629.4
2011	1,629.4	49.3	149.7	3.7	103.8	1,629.1
2012	1,629.1	40.1	165.7	3.6	102.9	1,602.8
2013	1,602.8	32.0	174.1	3.2	100.3	1,557.8
2014	1,557.8	24.9	186.8	3.1	96.4	1,489.2
2015	1,489.2	21.5	197.2	2.9	91.3	1,401.9
2016	1,401.9	18.4	201.5	2.6	84.9	1,301.1
2017	1,301.1	15.7	204.8	2.4	78.0	1,187.6
2018	1,187.6	13.2	204.0	2.2	70.3	1,064.9
2019	1,064.9	10.8	202.9	1.9	61.9	932.8
2020	932.8	8.6	198.8	1.7	53.2	794.1
2021	794.1	6.8	191.2	1.5	44.1	652.3
2022	652.3	4.9	185.3	1.2	34.8	505.5
2023	505.5	3.4	169.3	1.0	25.6	364.2
2024	364.2	2.0	152.4	0.8	16.9	229.9
2025	229.9	1.0	132.1	0.6	8.8	107.0
2026	107.0	0.2	106.5	0.4	1.9	2.2
2027	2.2	0.0	81.4	0.3	0.0	(79.5)
2028	(79.5)	0.0	52.7	0.2	0.0	(132.4)
2029	(132.4)	0.0	30.1	0.1	0.0	(162.6)
2030	(162.6)	0.0	12.5	0.0	0.0	(175.1)
2031	(175.1)	0.0	4.3	0.0	0.0	(179.4)
2032	(179.4)	0.0	1.5	0.0	0.0	(180.9)
2033	(180.9)	0.0	0.3	0.0	0.0	(181.2)

Appendix E

Virginia Prepaid Education Program

Prepaid Tuition Benefits

For beneficiaries attending a Virginia public college, university, or community college, VPEP will pay the full amount of in-state undergraduate tuition and all mandatory fees on a semester-by-semester basis for the type of school and number of years purchased. VPEP payments to in-state public schools will not exceed the actual cost of the in-state undergraduate tuition and mandatory fees. The contract-holder has the option to transfer the total amount of all payments, accumulated at the reasonable rate of return, to the Virginia Education Savings Trust (VEST), and request a distribution from VEST to pay for qualified higher education expenses.

For beneficiaries attending a Virginia independent (private) college or university, VPEP will pay to the Virginia private school, including certain private career schools, the lesser of 1) the payments made on the contract plus the actual rate of return earned on the VPEP Trust or 2) the highest in-state undergraduate tuition and mandatory fees at a Virginia public school in the same academic year the benefits are used. All payments will be made directly to the school on a semester-by-semester basis following the school's add-drop period. The student or his or her family is responsible for any additional expenses not covered by VPEP. The contract-holder has the option to transfer the total amount of all payments, accumulated at the reasonable rate of return, to the Virginia Education Savings Trust, and request a distribution from VEST to pay for qualified higher education expenses.

For beneficiaries attending an out-of-state public or private college or university, VPEP will pay the lesser of 1) the payment made on the contract plus interest at the composite reasonable rate of return or 2) the average in-state undergraduate tuition and mandatory fees at Virginia public schools for the same academic year the benefits are used. All payments will be made directly to the school on a semester-by-semester basis. The student or his or her family is responsible for any additional expenses not covered by VPEP. The contract-holder has the option to transfer the total amount of all payments, accumulated at the reasonable rate of return, to the Virginia Education Savings Trust , and request a distribution from VEST to pay for qualified higher education expenses.

The reasonable rate of return tracks the quarterly performance of the Institutional Money Funds Index as reported in the Money Fund Monitor by iMoneyNet.