Annual Report

Annual Report for the period ended June 30, 2009

Virginia529℠ College Savings Plan

- T A B L E O F C O N T E N T S -

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The Virginia College Savings Plan Management's 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, 2009. 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 savings 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 and CollegeWealth are also defined contribution savings programs. CollegeAmerica, a broker-sold program, offered 24 different American Funds mutual fund products as investment options. CollegeAmerica participants 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 participants invest in savings products offered through participating banks. These bank products may also carry FDIC insurance.

Fiscal 2009 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, 2009, the economic recession continued, unemployment continued to rise ending the year at 9.5 percent nationally and both the equity and fixed income markets experienced tremendous volatility. Equity markets ended the year down from the prior year despite a strong finish in the last half of the year. For example, the United States domestic equity market as measured by the Standard & Poor's 500 Index ended the year down 26.2 percent from June 30, 2008. The fixed income markets fared better as demonstrated by the Barclays Capital US Aggregate Bond Index returning 6 percent for the year ended June 30, 2009.

In the first quarter of fiscal 2009, 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 the United States 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. These events not only pushed U.S. Treasury yields to new lows, they also pushed credit spreads to new highs and coincided with a dramatic drop in global equity prices.

In October 2008, in conjunction with other unprecedented actions designed to reduce strains on the financial markets and improve credit market liquidity and in light of reduced inflationary pressures, the Federal Open Market Committee took the first of several steps during the year to reduce the federal funds target rate from 2 percent to 0 to ¼ percent by fiscal year-end. As a result, the U.S. Treasury yield curve steepened during the year with short-term yields dropping by more than 150 basis points and longer-dated yields down only 25 basis points at year-end. U.S. Treasury security yields remained volatile throughout the year with the longer end of the curve moving down then back up as the markets reacted to fiscal and monetary initiatives.

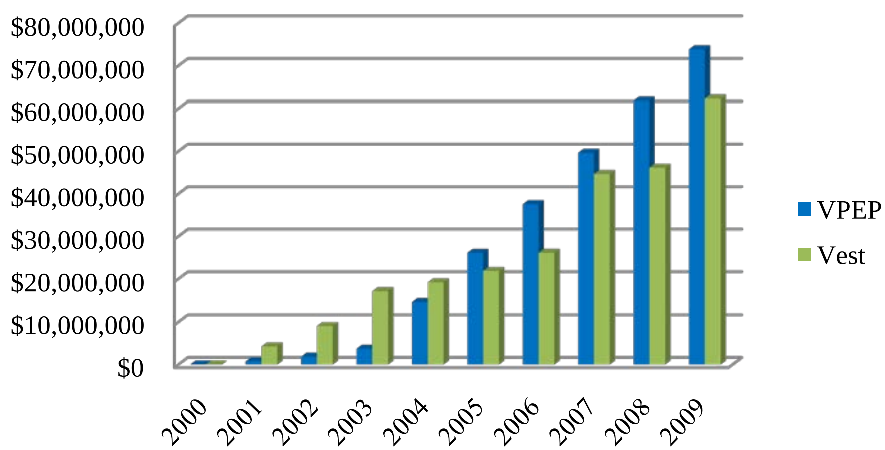
The significant expansion of the Federal Reserve's balance sheet, other government initiatives and massive infusion of liquidity into the system had the desired effect, and by the end of the first quarter of calendar 2009 credit spreads had tightened and some liquidity had returned to the markets. Global equity markets ended down for the year as did United States domestic equity. However, the domestic equity markets hit bottom in March 2009 and rebounded sharply in the last 4 months of the fiscal year. For example the Standard & Poor's 500 Index appreciated 3.2 percent from January through June 2009. These market movements had a positive effect on fixed income and equity security prices in the VPEP, VEST and CollegeAmerica portfolios at year-end although overall performance remained negative for the entire year.

- Total VPEP cash, cash equivalents, and investments held in trust for program participants decreased by $202.3 million, or about 15 percent from fiscal year-end 2008, due to unrealized investment losses despite new participation in the program of approximately $112 million and an increase in cash equivalents.
- VPEP's actual return on investments for the fiscal year ended June 30, 2009 was -16.3 percent on a time-weighted and -16.0 percent on a dollar weighted basis due to unfavorable market conditions through the third quarter of the fiscal year.
- VPEP's total net assets decreased by $232.19 million to an actuarially determined deficit of $284.0 million from a deficit of $51.8 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 $18.4 million, or approximately 1.0 percent, which was primarily due to the additional obligation of 3,806 new contracts opened during the 2008 – 2009 enrollment period and a change in the tuition assumption.
- VEST net assets held in trust for program participants decreased by $43.9 million or about 4 percent due to unfavorable market conditions despite 12 percent growth in the number of accounts.
- Both VPEP and VEST applicants continued to increase utilization of on-line applications with nearly 80 percent of applications being filed on-line.
- CollegeAmerica net assets held in trust for program participants decreased by approximately 14.9 percent from the previous year to $21.1 billion due to unfavorable market conditions despite a 6.3 percent rise in the number of accounts.

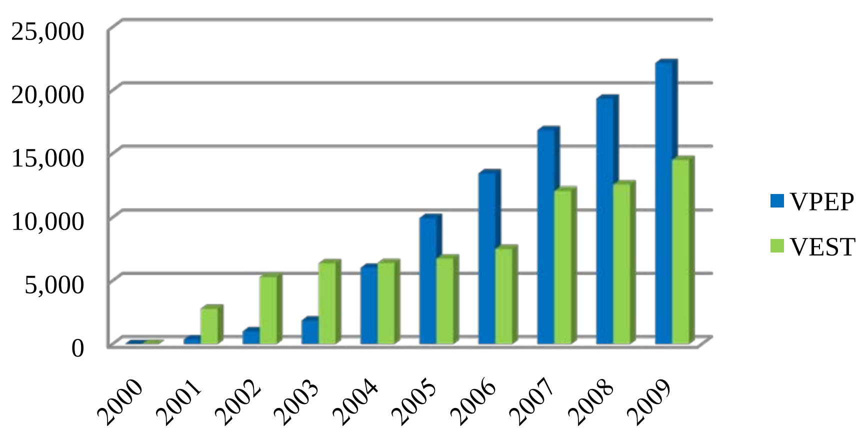
- CollegeWealth was created in fiscal year 2008 and continued to grow in fiscal year 2009. Net assets held in trust for program participants increased over four times to just under $5 million at year-end.

The tables below represent VEST and VPEP distributions since fiscal year 2000.

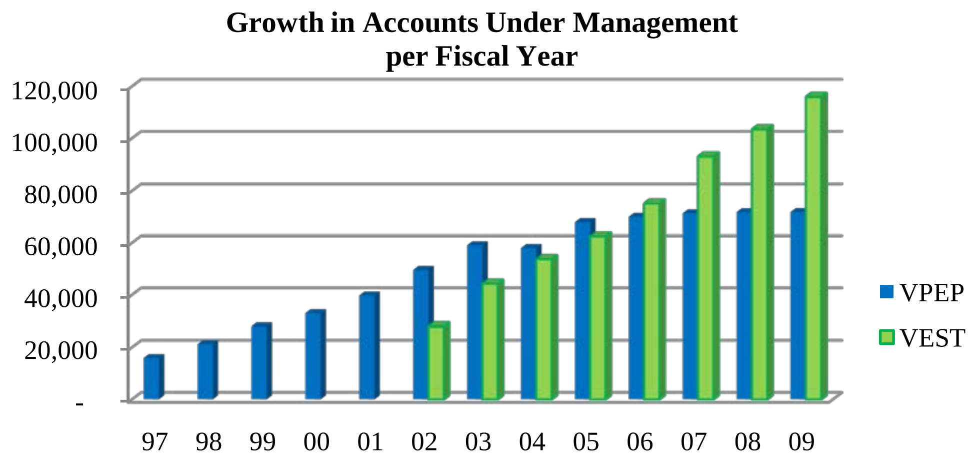
Funds Distributed per Fiscal Year



Number of Payments Made on Behalf of Beneficiaries per Fiscal Year



The table below represents VEST and VPEP accounts under management since fiscal year 1997 – VEST being introduced in fiscal 2000.



Although VEST was introduced in fiscal year 2000, historical reports were not available to reflect the number of VEST accounts at June 30 for fiscal years 2000 and 2001.

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 -$284.0 million (actuarial deficit). Table 1 reflects the condensed Statement of Net Assets for fiscal year 2009 compared to fiscal year 2008.

Table 1
Virginia Prepaid Education Program
Statement of Net Assets as of June 30, 2009 and 2008
(dollars in millions)

	2009	2008
Current assets	$ 278.5	$ 245.7
Investments	1,158.7	1,395.0
Other noncurrent assets	221.7	225.2
Total assets	1,658.9	1,865.9
Current liabilities	161.1	136.3
Noncurrent liabilities	1,781.8	1,781.4
Total liabilities	1,942.9	1,917.7
Net assets:		
Invested in capital assets	1.0	0.2
Unrestricted	(285.0)	(52.0)
Total net assets	$ (284.0)	$ (51.8)

Overall the net assets decreased by approximately $232.2 million.

Assets

Current assets increased by approximately $33 million over the previous year. This increase is primarily due to cash resulting from the termination of two investment managers being held pending reallocation to new managers along with cash held by the Treasurer of Virginia.

Long-term investments decreased by $236.4 million, or over 16.5 percent, due to difficult market conditions that adversely impacted investment performance during the fiscal year. Other noncurrent assets decreased by $3 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 $18.4 million, or approximately 1 percent. Of this total change, $17.4 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 3,806 new contracts issued during the 2008 – 2009 enrollment period.

Actuarial Highlights

During fiscal year 2009, VPEP's actuarial position, as calculated by the Plan's actuary and reported in the 2009 Actuarial Valuation Report, declined from a deficit of $51.8 million to a deficit of $284.0 million. This decrease is primarily attributable to unrealized investment losses offset somewhat by lower tuition growth for the 2009-2010 academic year compared to the actuarial assumptions in the prior year's valuation.

On June 25, 2009, the Board of the Virginia College Savings Plan adopted a new target asset allocation strategy for the Virginia Prepaid Education Program. The new strategy had a positive effect on the reserve of about $7.7 million because the new asset allocation targets had a slightly lower than expected volatility of returns than the prior allocation strategy.

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 determined 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, 2009 was -16.3 percent on a time-weighted and -16.0 percent on a dollar weighted basis. This produced a net actuarial loss of approximately $358.2 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 2010	8.5%	8.5%	7.5%	7.5%
Fall 2011	8.5%	7.5%	7.5%	7.5%
Fall 2012 and thereafter	7.5%	7.5%	7.5%	7.5%

As reported by the State Council of Higher Education for Virginia (SCHEV) in its 2009 - 2010 Tuition and Fee report, the average increase in tuition and mandatory fees for in-state undergraduates was 5.2 percent for the 2009 - 2010 academic year. As calculated by the Plan's actuary, the weighted average increase at four-year universities was 4.6 percent while the weighted average increase at two-year institutions including community colleges and Richard Bland College, averaged 7.6 percent. This resulted in an actuarial gain of $54.4 million.

The Plan sold 3,806 new contracts during the year. Each contract was priced so as to contribute to the Plan's reserve. The reserve was increased by approximately $11.3 million from these new contracts.

The Plan received administrative or other fee revenue from all the Plan's programs including VPEP, VEST, and CollegeAmerica. This fee revenue increased the reserve by a net $15.7 million.

The overall effect of the changes on the actuarial reserve (deficit) is summarized in Table 2. Please note that a copy of the 2009 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, 2009
(dollars in millions)

Actuarial reserve (deficit) at June 30, 2008	$ (51.8)
Interest on the reserve at 7.00%	(3.6)
Investment gain (loss)	(358.2)
Tuition gain (loss)	54.4
Lower than expected account balances	38.1
Sales of new contracts	11.3
Administrative Fee Revenue from VCSP	15.7
Change in Assumptions	(6 .7)
Change in Investment Policy	7.7
Other	9.1
Actuarial reserve (deficit) at June 30, 2009	$(284.0)

Table 3 reflects a condensed Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year 2009 as compared to the prior year.

Table 3
Virginia Prepaid Education Program
Statement of Revenues, Expenses, and Changes in Net Assets for June 30, 2009 and 2008
(dollars in millions)

	2009	2008
Operating revenues:		
Interest and dividends	$ (44.2)	$ 101.9
Net decrease of fair value of investments	(203.6)	(169.8)
Tuition contributions	108.8	109.9
Other	22.0	27.9
Total operating revenue	(117.0)	70.0
Operating expenses:		
Personal services	5.4	4.5
Contractual services	4.4	4.2
Tuition benefits expense	103.6	234.1
Other	1.6	1.2
Total operating expenses	115.0	244.0
Operating loss	(232.0)	(174.0)
Transfer to Commonwealth	(0.2)	(0.0)
Change in net assets	(232.2)	(174.0)
Net assets – beginning	(51.8)	122.2
Net assets – ending	$ (284.0)	$ (51.8)

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. For the fiscal year ended June 30, 2009, there was a net decrease in the fair value of investments of approximately $203.6 million, versus the decrease in the prior fiscal year of $169.8 million. The difference between the current and prior fiscal years ending net assets was -$232.2 million. 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 $4.4 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 amount accrued for estimated expenses each year, as determined by the Plan's actuary. Actual distributions increased over the prior year by $12.1 million, or 16.7 percent, while the actuarially estimated expense decreased from the amount accrued in the prior year by $142.6 million, or approximately 88.6 percent. The increase in the actual distributions 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 decrease in the actuarially estimated expense is largely due to actual tuition increases being less than the actuarial estimates, and the minimum benefit built into the VPEP contracts. Payouts for some of the contract holders are based on the account balance brought forward at the reasonable rate or the account balance brought forward at the actual rate of return on the portfolio. During the past year, the actual rate of return on the portfolio was a 16.3 percent loss and the reasonable rate remained below the 4.2 percent assumed in last year's valuation. These lower than expected balances caused the amount of projected payouts to decrease, which resulted in an actuarial gain that reduced expenses.

Table 4 reflects the condensed Statement of Cash Flows.

Table 4
Virginia Prepaid Education Program
Statement of Cash Flows for June 30, 2009 and 2008
(dollars in millions)

	2009	2008
Cash provided (used) by:		
Operating activities	$ 39.4	$ 61.3
Noncapital financing activity	(0.2)	-
Capital and related financing activities	(1.4)	(0.1)
Investing activities	(10.4)	(88.4)
Net increase (decrease) in cash	27.4	(27.2)
Cash – beginning of year	148.0	175.2
Cash – end of year	$ 175.4	$ 148.0

The Plan's end of year cash balance increased by $27.4 million, primarily due to the pending reallocation of cash to investment managers. The change in the amount reflected as investing activities for fiscal year 2009 represented an overall net decrease in the amounts used to purchase securities versus proceeds from sales or maturities of investments and actual interest earnings.

On June 25, 2009, the Board of the Virginia College Savings Plan adopted a new target asset allocation strategy for the Virginia Prepaid Education Program. The new strategy is expected to improve returns with a slightly lower expected volatility of returns than the prior allocation strategy. The investment strategy sets forth acceptable investment allocation targets among asset categories as shown below:

Asset Category	
Equities	32.5%
Core Fixed Income	25.0%
Non-Core Fixed Income	27.5%
Alternative Assets	15.0%

During fiscal year 2009, VPEP terminated two investment managers, Pier Capital (Small Cap Equity Growth) and Utendahl Capital Management (Short Duration Fixed Income). JP Morgan

Investment Management was hired as transition manager for investments previously held by Utendahl, bringing the total managers investing VPEP funds to eighteen. Complete lists of VPEP managers can be found in Appendices A and B.

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

Contributions from Plan participants decreased from the previous year by approximately $32.9 million and over 12,504 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 $96.6 million over the prior year. As anticipated, overall disbursements to VEST beneficiaries and institutions increased over the prior year by approximately 17.6 percent as more participants withdrew funds to cover higher education expenses.

On June 25, 2009, the Board approved the establishment of an Environmental/ Social/Governance (ESG) stand-alone, static investment option under VEST to be invested through the Parnassus Equity Income Fund. The new option was not available as of fiscal year-end 2009 but was added as an option during fiscal year 2010.

Assets under management in CollegeAmerica decreased during the fiscal year primarily due to adverse market conditions from $24.8 billion to $21.1 billion, an approximate 14.9 percent decrease. Approximately 107,500 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 $975.4 million, as more beneficiaries withdrew funds for education expenses. On March 26, 2009, the Board approved the addition of the American Funds Money Market Fund to the available investment options in CollegeAmerica as of May 1, 2009. A complete list of CollegeAmerica investment options as of June 30, 2009, can be found in Appendix A.

CollegeWealth was a new program in fiscal year 2008. Net assets held in trust for program participants increased over four times in fiscal year 2009 to nearly $5 million 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

As we head further into fiscal 2010, global economic recovery is underway. In September 2009, Federal Reserve Chairman Ben Bernanke commented that the recession was very likely over. His comments were supported by a rise in real U.S. GDP of 3½ percent at an annual rate in the third quarter of calendar 2009, following four consecutive quarters of decline. Extraordinary and unprecedented government intervention in the prior year has stabilized the financial markets. Consumers have responded favorably to a number of stimulus efforts such as the cash-for-clunkers program, manufacturing has picked up, and housing prices have begun to slowly improve. Interest rate (credit) spreads on fixed income securities have tightened, credit markets have again opened, and U.S. domestic and international equity prices have rebounded. For example, the annualized return for the Standard & Poor’s 500 Index for the period from June 30, 2008 through November 13, 2009 was -11.6 percent, but the period return from June 30, 2009 through November 13, 2009 was 19.9 percent. The annualized return for the Barclays Capital US Aggregate Bond Index for the period from June 30, 2008 through November 13, 2009 was 10.9 percent, and the period return from June 30, 2009 through November 13, 2009 was 4.6 percent. The performance of the Barclays index reflected strong returns for U.S. Treasury bonds in the latter half of calendar 2008. 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 during that period. Spreads for U.S. credit (corporate), asset-backed and non-government issued mortgage-backed securities tightened in calendar 2009, and as a result, the Plan's fixed income managers have outperformed the Barclay's Index during calendar 2009. As a result of the improvements in the equity and fixed income markets, the VPEP portfolio experienced a net performance return of 11.75 percent for the four month period from June 30, 2009 through October 31, 2009.

Notwithstanding the improvements in the financial system and various areas of the economy, significant economic challenges remain. These challenges include the threat of inflation as we exit the recession and interest rates potentially rise, continued foreclosures and loan modifications (residential and commercial), and unemployment. Since December 2007, the U.S. unemployment rate has risen from less than 5 percent to more than 10 percent as of October 2009. These pressures will continue to provide headwinds to the economic recovery and may negatively impact the performance of the VPEP, VEST and CollegeAmerica investments. 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. As of June 30, 2009, the total return since inception was just under 5 percent net of fees and reflected the prior year's adverse market conditions. However, as of the month ended October 31, 2009, the return on the VPEP investments since inception had risen to 5.60 percent reflecting the improvement in investment performance in the last quarter of fiscal year 2009 and the beginning of fiscal year 2010. In June 2009, the Plan adopted a new target asset allocation strategy designed to improve returns with a slightly lower than expected volatility of returns versus the prior allocation strategy.

Reduced revenues caused by the economic slowdown in the United States forced the Commonwealth to again reduce general fund budgets of higher education institutions in fiscal 2009. Fortunately, in February 2009, Congress passed, and President Obama, signed the American Recovery and Reinvestment Act of 2009 (ARRA), an economic stimulus package valued at $787 billion. The Act included federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure. Of the $4.8 billion expected to be received by Virginia over the next two years, the 2009 General Assembly allocated $126.7 million of the ARRA funds to public institutions intending to mitigate the need to raise in-state tuition at colleges and universities in fiscal year 2010. According to SCHEV, these monies resulted in an overall average increase in tuition and all fees for in-state undergraduates in the 2009-10 academic year of 5.2 percent. In August 2009, Governor Kaine announced that the Commonwealth ended the 2009 fiscal year with an average overall growth rate of -9.2 percent and general fund revenue collections were significantly below projections. Thus, further general fund budget reductions are expected to be announced for the balance of fiscal year 2010. In November 2009, the State Board for Community Colleges announced a midyear tuition increase to offset anticipated further State budget reductions. As of mid-November, it is unclear whether any four-year institutions will adopt midyear tuition increases. 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 2012. 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, 2009

ASSETS	
Current assets:	
Cash and cash equivalents (Note 1D, 2 and 3)	$ 188,225,537
Investments held by the Treasurer of Virginia (Note 3)	15,352,346
Interest receivable	3,610,130
Tuition contributions receivable (Note 1E)	66,067,072
Accounts receivable (Note 1F)	5,243,699
Total current assets	278,498,784
Noncurrent assets:	
Investments (Note 1D and 2)	1,158,685,310
Tuition contributions receivable (Note 1E)	218,818,788
Depreciable capital assets, net (Note 1G and 5)	2,975,157
Total noncurrent assets	1,380,479,255
Total assets	1,658,978,039
LIABILITIES	
Current liabilities:	
Accounts payable	2,506,326
Due to program participants (Note 1H)	176,822
Obligations under securities lending (Note 3)	28,148,313
Tuition benefits payable (Note 4)	129,620,876
Compensated absences (Note 1I and 4)	142,870
Obligations under capital lease (Note 4)	546,838
Total current liabilities	161,142,045
Noncurrent liabilities:	
Tuition benefits payable (Note 4)	1,780,164,983
Compensated absences (Note 1I and 4)	305,556
Obligations under capital lease (Note 4)	1,372,032
Total noncurrent liabilities	1,781,842,571
Total liabilities	1,942,984,616
NET ASSETS	
Invested in capital assets, net of related debt	1,056,290
Unrestricted	(285,062,867)
Total net assets	$ (284,006,577)

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, 2009

Operating revenues:	
Charges for sales and services	$ 22,023,670
Interest, dividends, rents, and other investment income	(44,203,191)
Net decrease in fair value of investments	(203,617,735)
Tuition contributions	111,940,794
Actuarial tuition contributions (Note 6)	(3,138,205)
Other	2,817
Total operating revenues	(116,991,850)
Operating expenses:	
Personal services	5,443,121
Contractual services	4,464,896
Supplies and materials	109,809
Depreciation	522,598
Rent, insurance, and other related charges	115,422
Tuition benefits expense	85,317,025
Actuarial tuition benefits expense (Note 6)	18,361,794
Expendable equipment	400,791
Other	269,980
Total operating expenses	115,005,436
Operating loss	(231,997,286)
Transfers:	
Transfers to the General Fund of the Commonwealth	(201,232)
Change in net assets	(232,198,518)
Net assets - July 1, 2008	(51,808,059)
Net assets - June 30, 2009	$ (284,006,577)

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, 2009

Cash flows from operating activities:	
Receipts for sales and services	$ 23,219,346
Payments to suppliers for goods and services	(1,106,420)
Payments to employees	(5,277,162)
Tuition contributions received	112,000,596
Other operating revenue	2,817
Payments for contractual services	(3,870,566)
Tuition benefit payments	(85,317,024)
Other operating expenses	(260,697)
Net cash provided by (used for) operating activities	39,390,890
Cash flows from noncapital financing activities:	
Transfer to the General Fund of the Commonwealth	(201,232)
Net cash provided by (used for) noncapital financing activities	(201,232)
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	(957,506)
Payment of Principal and Interest on Capital Leases	(428,282)
Net cash provided by (used for) capital and related financing activities	(1,385,788)
Cash flows from investing activities:	
Purchase of investments	(1,637,796,879)
Proceeds from sales or maturities of investments	1,672,490,715
Interest income on cash, cash equivalents, and investments	(45,103,903)
Net cash provided by (used for) investing activities	(10,410,067)
Net decrease in cash and cash equivalents	27,393,803
Cash and cash equivalents - July 1, 2008	148,035,767
Cash and cash equivalents - June 30, 2009	$ 175,429,570
Reconciliation of cash and cash equivalents:	
Per the Statement of Net Assets:	
Cash and cash equivalents	$ 188,225,537
Less:	
Securities Lending Cash Equivalents	(12,795,967)
Cash and cash equivalents per the Statement of Cash Flows	$ 175,429,570

VIRGINIA COLLEGE SAVINGS PLAN
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
VIRGINIA PREPAID EDUCATION PROGRAM (continued)
For the Fiscal Year Ended June 30, 2009

Reconciliation of operating income to net cash provided	
by operating activities:	
Operating loss	$ (231,997,286)
Adjustments to reconcile operating income to net cash provided	
by (used for) operating activities:	
Depreciation	522,598
Interest, dividends, rents and other investment income	43,579,441
Net increase in fair value of investments	203,617,735
Changes in assets and liabilities:	
(Increase) decrease in receivables	1,913,136
(Increase) decrease in tuition contributions receivable	3,138,205
Increase (decrease) in accounts payable	557,842
Increase (decrease) in amounts due to program participants	59,804
Increase (decrease) in current tuition benefits payable	17,385,096
Increase (decrease)Obligations under Capital Lease	118,556
Increase (decrease) in current compensated absences	23,838
Increase (decrease) in noncurrent tuition benefits payable	976,698
Increase (decrease)Obligations under Capital Lease	(546,838)
Increase (decrease) in noncurrent compensated absences	42,065
Net cash provided by (used for) operating activities	$ 39,390,890
Noncash investing, capital, and financing activities:	
The following transaction occurred prior to the statement of net assets date:	
Change in fair value of investments	$ (203,617,735)

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, 2009

	Virginia Education Savings Trust	CollegeAmerica	CollegeWealth	Total
Assets:				
Cash and cash equivalents (Note 1D and 2)	$ 29,922,000	$ -	$ -	$ 29,922,000
Receivables:				
Interest and dividends	1,086,399	-		$ 1,086,399
Investments: (Note 1D and 2)				
Mutual funds	547,579,266	21,115,858,233		21,663,437,499
Index funds	261,671,414	-		261,671,414
Guaranteed investment contracts	178,144,486	-		178,144,486
Common stock	40,795,937	-		40,795,937
529 Savings Hybrid			4,986,630	4,986,630
Total investments	1,028,191,103	21,115,858,233	4,986,630	22,149,035,966
Total assets	1,059,199,502	21,115,858,233	4,986,630	22,180,044,365
Liabilities:				
Accounts payable	3,539,400	-	-	3,539,400
Due to program participants (Note 1H)	206,201	-	-	206,201
Total liabilities	3,745,601	-	-	3,745,601
Net assets held in trust for program participants	$ 1,055,453,901	$ 21,115,858,233	$ 4,986,630	$ 22,176,298,764

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	$ 194,554,246	$ 4,971,524,559	$ 4,353,648	$ 5,170,432,453
Charges for services	-	-	-	-
Total contributions	194,554,246	4,971,524,559	4,353,648	5,170,432,453
Investment income:				
Net increase (decrease) in fair value of investments	(183,984,532)	(6,148,410,491)	2,015	(6,332,393,008)
Interest, dividends, and other investment income	15,695,070	688,181,211	58,693	703,934,974
Total investment income	(168,289,462)	(5,460,229,280)	60,708	(5,628,458,034)
Less:				
Investment expenses	(2,386,840)	(18,269,602)	(3,450)	(20,659,892)
Net investment income	(170,676,302)	(5,478,498,882)	57,258	(5,649,117,926)
Total additions	23,877,944	(506,974,323)	4,410,906	(478,685,473)
Deductions:				
Educational Expense Benefits	62,242,035	1,233,573,943	235,710	1,296,051,688
Shares redeemed	5,606,351	1,946,504,569	71,441	1,952,182,361
Administrative expenses	-	20,153,710	2,015	20,155,725
Total deductions	67,848,386	3,200,232,222	309,166	3,268,389,774
Transfers				
Operating Transfers Out				
Total Transfers				
Net increase	(43,970,442)	(3,707,206,546)	4,101,740	(3,747,075,248)
Net assets held in trust for program participants:				
July 1, 2008	1,099,424,343	24,823,064,779	884,890	25,923,374,012
June 30, 2009	$ 1,055,453,901	$ 21,115,858,233	$ 4,986,630	$ 22,176,298,764

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

NOTES TO FINANCIAL STATEMENTS

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 §23-38.87:1 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 97,670 accounts have been opened, with 71,847 contracts remaining active at year-end. The program had total assets invested from contributions, net earnings and other revenue of approximately $1.3 billion as of June 30, 2009. 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 savings 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 16 investment portfolios. Two additional portfolios remain open in the VEST program but are closed to new participants. The VEST program 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, 2009, over 115,950 accounts had 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 24 of 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, 2009, 24 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 for return of principal. Accounts are subject to market risk, including the possible loss of principal. As of June 30, 2009, approximately 1.8 million unique accounts had been opened with net assets in excess of $21.1 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 24 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, 2009, 588 unique accounts had been opened with net assets in excess of $4.9 million. A unique account represents all accounts with the same contributor and beneficiary combination.

As of June 30, 2009 an eight-member Board administered 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. As a result of Chapters 827 and 845, 2009 Virginia Acts of Assembly, effective July 1, 2009, the Board will be administered by an eleven-member Board consisting of the same four ex-officio members and seven non-legislative citizens, four to be appointed by the Governor, one to be appointed by the Senate Committee on Rules, and two to be appointed by the Speaker of the House of Delegates. The non-legislative citizen members shall have significant experience in finance, accounting, law or investment management. Chapters 827 and 845 also made permanent by inclusion in the enabling legislation the Investment Advisory Committee and the Audit and Actuarial Committee of the Board.

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, 2009. 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, CollegeAmerica and CollegeWealth, 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.

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, 2009, 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, 2009, 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. <u>VPEP – Investment in Real Estate</u>

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 office building for $8.09 million, which at the time of the purchase was assessed at $7.7 million. Aventura received $1.43 million from the prior tenant to buy out the remainder of their lease, which was used along with other moneys to fund $1.72 million of improvements. The investment in Aventura is reflected in VPEP's assets and is valued at $8.88 million representing the net price of the building plus improvements and cash on hand.

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. 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. 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 4 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.

On June 25, 2009, the Board of the Virginia College Savings Plan adopted a new target asset allocation strategy for the Virginia Prepaid Education Program. The new strategy is expected to improve returns with a slightly lower than expected volatility of returns than the prior allocation strategy. The previous target allocation for the overall VPEP portfolio, at market value, was 60 percent investment in equity securities and 40 percent investment in fixed income instruments. The new investment strategy sets forth acceptable investment allocation targets among asset categories as shown below:

Asset Category	
Equities	32.5%
Core Fixed Income	25.0%
Non-Core Fixed Income	27.5%
Alternative Assets	15.0%

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 IAC was made a permanent advisory committee of the Board by Chapters 827 and 845 of the 2009 Virginia Acts of Assembly. 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 18 external managers and/or funds. See complete lists of Investment Managers in Appendices A and 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 24 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, 2009, 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, BNY Mellon Asset Servicing. Approximately 32 percent of total VPEP investments (reported as enterprise fund assets) and 79 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, 2009, the Plan had the following fixed income investments and maturities.

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
Money Market Funds	$ 82,084,165	$ 82,084,165	-	-	-
U.S. Treasuries	56,332,544	19,997,200	$ 5,848,666	$ 8,899,854	$ 21,586,824
Agency Mortgage Backed Securities	43,067,369	-	-	4,392,055	38,675,314
Unsecured Agency Bonds and Notes	8,283,937	-	6,953,270	1,330,667	-
Asset Backed Securities	16,115,354	-	2,617,439	2,418,684	11,079,231
Corporate Bonds	119,700,562	-	25,219,268	64,324,375	30,156,919
Convertible Securities	73,942,127	-	31,857,275	6,124,492	35,960,360
Other Bonds	46,672,127	-		1,274,542	45,397,585
Bond Funds	13,126,717	-	13,126,717	-	-
Stable Value Funds	58,101,196	-	58,101,196	-	-
Total	$517,426,098	$ 102,081,365	$ 143,723,831	$ 88,764,669	$ 182,856,233

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, 2009 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	Convertibles	Other Funds	Bond Funds	Stable Value Funds
AAA	$82,084,165	$56,332,544	$43,067,369	$7,951,425	$10,728,246	$ 1,951,979	-	$37,517,877	-	-
AA+	-	-	-	-	429,404	13,522,302	-	126,720	-	-
AA	-	-	-	-	1,004,028	1,678,132	-	1,053,282	-	-
AA-	-	-	-	-	-	3,549,054	-	-	-	-
A+	-	-	-	-	-	8,626,851	$ 1,572,250	-	-	-
A	-	-	-	332,512	617,380	22,257,938	1,886,962	1,237,928	-	-
A-	-	-	-	-	61,481	12,750,766	4,174,467	-	-	-
BBB+	-	-	-	-	234,560	15,248,176	3,798,544	-	-	-
BBB	-	-	-	-	296,849	10,798,436	5,492,768	1,016,135	-	-
BBB-	-	-	-	-	28,037	10,836,933	4,283,082	3,968	-	-
BB+	-	-	-	-	223,550	1,565,307	3,313,280	3,403	-	-
BB	-	-	-	-	-	3,326,790	5,040,957	-	-	-
BB-	-	-	-	-	-	4,201,116	3,650,973	-	-	-
B+	-	-	-	-	-	113,561	4,636,307	455,404	-	-
B	-	-	-	-	488,908	10,000	6,714,027	4,335,236	-	-
B-	-	-	-	-	-	1,933,567	5,110,144	-	-	-
Less than B-	-	-	-	-	373,467	6,448,025	4,437,415	169,940	-	-
Unrated	-	-	-	-	945,362	208,354	19,830,951	752,234	$13,126,717	$58,101,196
	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	Convertibles	Other Bonds	Bond Funds	Stable Value Funds
Aa1	-	-	-	-	-	-	-	-	-	-
Aa2	-	-	-	-	-	-	-	-	-	-
A1	-	-	-	-	-	-	-	-	-	-
A2	-	-	-	-	-	-	-	-	-	-
B1	-	-	-	-	$409,467	$567,600	-	-	-	-
B2	-	-	-	-	124,622	-	-	-	-	-
Less than B2	-	-	-	-	149,993	105,675	-	-	-	-

Concentration of Credit Risk

At June 30, 2009, the Plan had no investments in any one issuer that represented 5 percent or more of total investments.

Mutual Fund Risks

At June 30, 2009, 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, 9001 Arboretum Parkway, Richmond, VA 23236, 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 2009 is provided in the following chart:

Cash Equivalent	Investment	Income	Expense	Interest
$12,795,967	$15,352,346	$345,049	$248,156	$96,893

4. 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.

Changes in long-term liabilities are shown below:

Enterprise Fund	**Balance July 1, 2008**	**Increases**	**Decreases**	**Balance June 30, 2009**	**Due Within One Year**
Compensated absences	$382,522	$270,452	$204,549	$448,425	$142,870
Tuition benefits payable	1,891,424,065	115,953,577	97,591,783	1,909,785,859	129,620,876
Capital lease obligation	2,347,152	-	428,282	1,918,870	546,838
Total	$1,894,153,739	$116,224,029	$98,224,614	$1,912,153,154	$130,310,584

5. CAPITAL ASSETS

The following schedule presents capital asset activity of the Plan for the year ended June 30, 2009.

Enterprise Fund	**July 1, 2008**	**Increases**	**Decreases**	**June 30, 2009**
Depreciable capital assets:				
Equipment	$ 696,825	$ 957,506	-	$ 1,654,331
Building	2,347,151	-	-	2,347,151
Total			-	
	3,043,976	957,506		4,001,482
Less accumulated depreciation for:				
Equipment	503,727	131,406	-	635,133
Building	-	391,192	-	391,192
Total	503,727	522,598	-	1,026,325
Total depreciable capital assets, net of accumulated depreciation	$2,540,249	$ 434,908	$ -	$2,975,157

6. ACTUARIAL TUITION CONTRIBUTIONS AND ACTUARIAL TUITION BENEFITS EXPENSE

The Plan's statute requires that it annually determine its actuarial 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, 2009, 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

	2009	**2008**
Tuition Contributions Receivable	$ 284,885,860	$ 288,024,065
Tuition Benefits Payable	$1,909,785,859	$1,891,424,065

7. 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.

8. 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 planes. 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.

9. SCHOLARSHIP PROGRAM AND PROMOTIONAL ACCOUNTS

The Virginia College Savings Plan scholarship program consists of VPEP and VEST third party 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 and VEST accounts for beneficiaries. 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, 2009, there were 7 VPEP accounts and 164 VEST accounts.

In addition to scholarship accounts, VCSP awards promotional accounts used to fund VPEP or VEST accounts that do not specifically qualify as scholarships as defined by federal law. Like scholarship accounts, these accounts are funded by VCSP, individuals, organizations, school groups, or other entities. These accounts are opened in the name of the VCSP and managed by VCSP or the funding entity.

At June 30, 2009 there were 68 VPEP accounts and 196 VEST accounts.

10. DEFICIT NET ASSETS (ENTERPRISE FUND)

The Virginia Prepaid Education Program (VPEP) ended the 2009 fiscal year with net assets of -$284.0 million (actuarial deficit). The actuarial deficit as calculated by the Plan's actuary represents the amount by which VPEP's assets are less than the present value of its obligations. During the 2009 fiscal year, the Plan shifted from a deficit of $51.8 million to a deficit of $284.0 million. This decrease is mostly attributable to investment losses and the change in the tuition growth assumption, offset somewhat by revenue from new contracts.

11. SUBSEQUENT EVENTS – EQUITY AND FIXED INCOME MARKETS

The equity and fixed income markets improved materially from June 30, 2009 into fiscal 2010. Continued improved performance through the balance of fiscal 2010 will depend on many factors such as the commercial and residential real estate markets, business and consumer spending, inflation and unemployment. From June 30, 2009 through November 13, 2009, management estimates the market value of investments held in trust for participants in the VPEP, VEST and CollegeAmerica programs improved as reflected in the following table.

Program	Market Value June 30, 2009	Market Value November 13, 2009	Dollar Increase	Percent Increase
VPEP	$1,334,114,881	$1,529,376,104	$195,261,223	14.6%
VEST	$1,058,113,102	$1,249,535,601	$191,422,499	18.1%
CollegeAmerica	$21,115,858,233	$25,052,227,140	$3,936,368,907	18.6%

The increase in each of the programs is due mainly to market conditions, but the market values also reflect distributions to educational institutions and individuals for education expenses as well as fees and other expenses. For example, the VPEP program distributed $43,081,233 for qualified educational expenses and cancellations from July 1, 2009 through November 13, 2009. In addition, VPEP received $21,973,383 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 increased, the participants rather than the Plan receive the benefit of such increases and accordingly also bear the risk of future 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. 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

APPENDIX A (con't)

Mutual Funds by Program

COLLEGEAMERICA (Program Manager - American Funds)

AMCAP Fund
The Growth Fund of America
The New Economy Fund
EuroPacific Growth Fund
New Perspective Fund
New World Fund
SMALLCAP World Fund
American Mutual Fund
Capital World Growth & Income Fund
Fundamental Investors Fund
The Investment Company of America
International Growth and Income Fund
Washington Mutual Investors Fund
Capital Income Builder Fund
The Income Fund of America
American Balanced Fund
American High-Income Trust Fund
The Bond Fund of America
Capital World Bond Fund
Intermediate Bond Fund of America
Short-Term Bond Fund of America
U.S. Government Securities Fund
America Funds Money Market Fund
The Cash Management Trust of America [1]

[1] The American Funds Money Market Fund was introduced on May 1, 2009 and The Cash Management Trust of America was simultaneously closed to new investors. As approved by shareholders on June 15, 2009, shares of The Cash Management Trust of America were automatically exchanged for shares of the American Funds Money Market Fund on July 10, 2009 and The Cash Management Trust of America ceased to exist.

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
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
JP Morgan Investment Management	Fixed Income Transition
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 14, 2009

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, 2009, 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, 2009, 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, 2009, and the changes in its financial position and its cash flows for the year ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 1 through 11 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 14, 2009 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

WJK/alh

VIRGINIA COLLEGE SAVINGS PLAN
Richmond, Virginia

ACTUARIAL VALUATION
OF THE
VIRGINIA PREPAID
EDUCATION PROGRAM
AS OF JUNE 30, 2009

By:

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January 7, 2010

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, 2009.

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, 2009 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 the Plan's obligations, which include VPEP, 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 781 of the 2009 Acts of Assembly (2009 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 June 25, 2009, the Board of the Virginia College Savings Plan adopted a new target asset allocation strategy for the Virginia Prepaid Education Program.

The investment strategy 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 Category	
Equities	32.5%
Core Fixed Income	25.0%
Non-Core Fixed Income	27.5%
Alternative Assets	15.0%

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 2010	8.5%	8.5%	7.5%	7.5%
Fall 2011	8.5%	7.5%	7.5%	7.5%
Fall 2012 and thereafter	7.5%	7.5%	7.5%	7.5%

Summary of Results

The actuarial value of the obligations of the Virginia Prepaid Education Program as of June 30, 2009 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	$1,882.5	n/a	n/a
Administrative Expenses	27.3	n/a	n/a
Grand Total	$1,909.8	$1,625.8	$(284.0)

As indicated above, the Virginia Prepaid Education Program has assets that fall short of the "best estimate" of the obligations by roughly $284.0 million or 14.9%. 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, 2009) 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 $27.3 million administrative expense obligation is equivalent to about $380 per contract.

Actuarial Gain/Loss Analysis

During the 2009 fiscal year, the plan shifted from a deficit of $51.8 million to a deficit of $284.0 million or 14.9% 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 deficit was expected to grow during the year by about $3.6 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 -16.3% on a time-weighted basis and -16.0% on a dollar-weighted basis. For the previous valuation, a 7.0% return was assumed. This produced a net actuarial loss of approximately $358.2 million.

Average tuition rates for the 2009-2010 school year increased by 4.6% for universities and 7.6% for community colleges, compared to the 8.5% and 7.5% rates assumed in the prior valuation. This resulted in an actuarial gain of $54.4 million.

Payouts for some of the contract holders are based on the account balance brought forward at the reasonable rate or the account balance brought forward at the actual rate of return on the portfolio. See Appendices C and F for an explanation of the assumptions and the payouts. During the past year the actual rate of return on the portfolio was a 16.3% loss and the reasonable rate remained below the 4.2% assumed in last year's valuation. These lower than expected balances resulted in an actuarial gain of approximately $38.1 million.

The Program sold 3,806 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 $11.3 million from these new contracts.

The Prepaid Program received $23.1 million in administrative fee revenue from all the VCSP programs, including CollegeAmerica. Total agency operating expenses were $11.5 million, of which $4.1 million was expected to be provided by the VPEP expense reserve. The balance of the fee revenue, $15.7 million, is an increase to the reserve.

The tuition growth assumption for universities was increased from 8.5% in fall 2010 and 7.5% thereafter to 8.5% for fall 2010 and fall 2011 and 7.5% thereafter. In addition, the assumption for the reasonable rate of return was decreased from a mean of 4.2% to mean of 4.1% per year. This resulted in a combined decrease in the reserve of approximately $6.7 million.

A new target asset allocation was adopted during the year. This increased the reserve by approximately $7.7 million.

Other experience gains added about $9.1 million to the reserve. These could be from rollovers, more beneficiaries attending colleges with lower tuition levels than assumed in last year's valuation or other variations from the actuarial assumptions.

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, 2008	$ (51.8)
Interest on the reserve at 7.00%	(3.6)
Investment gain (loss)	(358.2)
Tuition gain (loss)	54.4
Lower than expected account balances	38.1
Sales of new contracts	11.3
Administrative Fee Revenue from VCSP	15.7
Change in Assumptions	(6.7)
Change in Investment Policy	7.7
Other	9.1
Actuarial Reserve / (Deficit) as of June 30, 2009	$ (284.0)

Variability of Results and Valuation Basis

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, 2009	Probability of VPEP Funds Exceeding Obligation
80%	$1,527.8	12%
85%	1,625.8	19%*
90%	1,718.8	27%
100%	1,909.8	50%
110%	2,100.8	69%
120%	2,291.7	81%
130%	2,482.7	89%
140%	2,673.7	95%
150%	2,864.7	97%

*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, 2009 of $1,625.8 million is 85% of the actuarially determined "Best Estimate" Reserve amount of $1,909.8 million. As indicated in the above table, this VPEP fund balance is estimated to have a 19% 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 (some oral and some in writing) provided by the staff of the Virginia College Savings Plan. This information includes, but is not limited to, contractual provisions, contract holder data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

Actuarial Assumptions

All costs, liabilities, and other factors for VPEP have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the Program and reasonable expectations). Further, the actuarial assumptions in the aggregate are reasonable and are related to the experience of the Program and to reasonable expectations. The following actuarial assumptions were set by the Virginia College Savings Plan:

1) the investment return assumption of 7.00% per year, and;

2) the tuition growth assumption for universities of 8.50% for fall 2010 and fall 2011 and 7.50% per year thereafter and the tuition growth assumption for community colleges of 7.50% per year.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: future experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and increases or decreases expected as part of the natural operation of the methodology used for these measurements. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

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 6.77% each year. The starting Market Value of Invested Assets as of July 1, 2009 is $1,340.9 million. At the end of the 2034 Fiscal Year all tuition obligations associated with contracts already purchased are expected to have been paid resulting in a final cumulative deficit of $797.0 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.

The consultants who worked on this assignment are actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. 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

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, 2009

	Investments	Market Value
1)	Equities	$ 655,937,551
2)	Fixed Income including Accrued Interest	455,581,537
3)	REIT Index Fund and Real Estate	47,166,223
4)	Cash & Cash Equivalents	175,429,570
5)	Other Investments	28,148,313
6)	Other Receivables	3,610,130
7)	Accounts Receivable	5,243,699
8)	Property, Plant & Equipment	1,056,290
9)	Payables	(2,683,149)
10)	Accrued Liabilities	(448,425)
11)	Other Liabilities	(28,148,313)
	Total Market Value of Investments	$ 1,340,893,425
	Present Value of Installment Contract Receivables	284,885,860
	Value of Total Fund Assets	$ 1,625,779,285

II. Reconciliation of Investments

1)	Investments at June 30, 2008	$1,551,591,940
2)	Adjustment to Match Financial Statements	(1,733,510)
3)	Contract Purchase Payments	121,432,740
4)	Application Fees	77,090
5)	Administrative Fee Revenue	23,145,093
6)	Interest and Dividends	49,597,888
7)	Realized and Unrealized Gains/(Losses)	(292,529,711)
8)	Tuition Payments, Refunds and Rollovers	(94,749,166)
9)	Administrative Expenses	(11,472,353)
10)	Investment Management Fees	(4,265,353)
11)	Transfers to the Commonwealth	(201,232)
12)	Investments at June 30, 2009	$ 1,340,893,425

Time-weighted rate of return	-16.3%
Dollar-weighted rate of return	-16.0%

Appendix A

Virginia Prepaid Education Program

Participant Data as of June 30, 2009 – 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	7	0	1	0	0	0	0	0	0	0	0	0	2	4	1	47	1	65	0.1%
2001-2002	1	0	1	0	0	0	29	0	6	0	1	0	2	0	0	0	0	0	4	9	2	103	3	161	0.2%
2002-2003	2	1	0	1	0	0	28	4	5	0	0	0	0	0	0	0	1	0	20	16	5	158	13	254	0.4%
2003-2004	2	1	0	3	1	0	25	0	14	2	0	0	2	0	0	0	0	0	19	32	5	267	15	388	0.5%
2004-2005	4	1	0	1	0	0	41	5	19	0	1	0	6	0	0	1	0	1	49	49	12	390	34	614	0.9%
2005-2006	7	1	0	7	0	0	68	2	43	1	2	0	7	0	0	0	0	2	84	96	21	792	74	1207	1.7%
2006-2007	7	7	2	3	1	0	79	5	81	2	1	1	9	0	0	0	0	1	136	194	63	2378	93	3063	4.3%
2007-2008	11	5	2	5	0	0	111	10	107	2	0	0	19	2	0	0	0	0	215	328	91	2788	113	3809	5.3%
2008-2009	12	9	7	8	0	0	140	14	122	3	0	0	13	3	0	0	0	3	297	511	125	2928	130	4325	6.0%
2009-2010	16	20	2	7	1	0	194	6	146	3	0	1	17	3	0	0	0	1	421	521	130	3201	129	4819	6.7%
2010-2011	55	16	7	9	1	0	189	14	158	3	0	1	17	2	1	0	0	3	514	618	127	3141	143	5019	7.0%
2011-2012	45	17	7	6	0	0	192	10	166	1	2	0	24	3	1	0	0	3	490	566	133	3169	135	4970	6.9%
2012-2013	54	21	9	12	2	0	193	9	146	2	0	1	39	1	1	1	0	1	586	636	135	3150	158	5157	7.2%
2013-2014	47	18	10	18	2	0	164	6	164	1	1	1	21	1	1	1	0	2	477	625	134	3011	129	4834	6.7%
2014-2015	54	11	7	17	1	1	167	14	160	3	0	0	33	0	1	0	0	1	569	535	147	2886	147	4754	6.6%
2015-2016	40	13	5	7	0	0	155	13	133	0	0	0	17	2	0	1	0	3	438	556	111	2756	122	4372	6.1%
2016-2017	36	9	5	8	0	1	125	13	136	0	3	0	15	1	0	0	0	2	402	451	127	2509	122	3965	5.5%
2017-2018	31	14	2	3	0	0	109	6	133	4	1	0	17	1	0	0	0	1	385	409	106	2240	136	3598	5.0%
2018-2019	26	11	4	5	1	0	89	6	128	2	0	1	13	3	0	1	0	1	314	377	83	2125	147	3337	4.6%
2019-2020	20	15	2	8	2	1	67	4	130	2	1	0	17	1	0	0	0	2	278	334	88	1854	131	2957	4.1%
2020-2021	24	2	2	4	1	0	60	5	94	2	0	0	11	2	0	0	0	0	231	251	56	1534	100	2379	3.3%
2021-2022	24	9	0	4	2	0	63	4	79	1	0	1	12	2	0	1	0	4	224	287	81	1441	109	2348	3.3%
2022-2023	29	3	2	5	1	0	54	4	56	4	0	0	3	2	0	0	0	0	213	243	45	933	37	1634	2.3%
2023-2024	25	3	1	4	2	0	43	5	59	2	2	0	6	0	0	0	0	2	161	146	44	856	41	1402	1.9%
2024-2025	19	0	1	2	0	1	28	2	37	0	0	1	4	2	0	0	0	1	125	153	33	570	46	1025	1.4%
2025-2026	13	1	2	1	0	0	24	3	31	1	0	0	1	0	0	0	0	0	107	97	15	439	27	762	1.1%
2026-2027	7	1	1	3	0	0	28	2	18	0	0	0	10	1	0	0	0	0	73	67	6	297	10	524	0.7%
2027-2028	3	1	0	0	1	0	2	0	4	0	0	0	1	0	0	0	0	0	21	21	5	88	8	155	0.2%
2028-2029	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	0.0%
Total	615	210	81	152	19	4	2474	166	2376	41	15	8	336	32	5	6	1	34	6855	8132	1931	46052	2353	71898	
Percent of Total	1.9%	0.6%	0.0%	0.0%	0.6%	0.0%	1.3%	0.0%	2.6%	0.0%	0.0%	0.0%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	13.5%	13.5%	3.2%	56.8%	5.2%		

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

Virginia Prepaid Education Program

Participant Data as of June 30, 2009 – Remaining Years of Tuition

Expected Payout Year	University Years	Community College Years
2009-2010	15,188	1,067
2010-2011	15,805	998
2011-2012	16,080	957
2012-2013	16,274	1,026
2013-2014	15,533	1,011
2014-2015	15,534	1,022
2015-2016	15,122	977
2016-2017	14,316	915
2017-2018	13,366	833
2018-2019	12,462	757
2019-2020	11,389	687
2020-2021	10,195	616
2021-2022	9,215	546
2022-2023	7,840	472
2023-2024	6,537	389
2024-2025	5,286	308
2025-2026	4,043	236
2026-2027	3,086	187
2027-2028	2,099	128
2028-2029	1,306	79
2029-2030	695	42
2030-2031	273	19
2031-2032	92	9
2032-2033	29	3
2033-2034	6	0
Total	211,771	13,284

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	Global Equity	High Volume Fixed-Income	Low Volume Fixed-Income	Private Equity	Real Estate	Univ Tuition	CC Tuition
Expected Arithmetic Mean	2.50%	4.10%	9.85%	6.35%	4.50%	11.35%	7.60%	7.60%	7.65%
Standard Deviation	2.00%	1.50%	17.90%	10.95%	4.70%	26.15%	18.20%	4.85%	5.65%
Correlation:									
Inflation	1.00	0.65	-0.05	-0.05	0.12	0.11	0.10	0.17	0.01
Reasonable Rate		1.00	0.10	0.07	0.30	0.18	0.17	-0.04	-0.34
Global Equity			1.00	0.60	0.19	0.56	0.58	0.01	-0.23
High Volume Fixed Income				1.00	0.65	0.57	0.56	0.29	0.34
Low Volume Fixed Income					1.00	0.10	0.35	0.29	0.35
Private Equity						1.00	0.50	-0.38	-0.34
Real Estate							1.00	0.08	-0.04
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 = $50.67
Annual Distribution Cost per Contract in Payment Status = $12.67

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%
2009-2010	7,912	4.6%	2,781	7.6%

Compounded Increase in Tuition

Over last 5 years:	7.3%	6.8%
Over last 10 years:	7.8%	9.1%
Over last 15 years	5.0%	4.9%
Over last 20 years:	5.8%	6.4%
Over last 25 years:	6.3%	n/a

Appendix D

Virginia Prepaid Education Program

Cash Flow Projection

Fiscal Year	Beginning Balance	Monthly Payments	Tuition Benefits	Expenses	Investment Income	Ending Balance
2010	1,340.9	66.1	129.4	3.8	86.3	1,360.1
2011	1,360.1	56.9	145.2	3.9	86.6	1,354.5
2012	1,354.5	48.5	159.9	3.8	85.2	1,324.5
2013	1,324.5	40.2	174.6	3.6	82.2	1,268.7
2014	1,268.7	32.1	179.5	3.2	77.7	1,195.8
2015	1,195.8	24.7	193.1	3.0	72.1	1,096.5
2016	1,096.5	21.3	201.8	2.8	64.6	977.8
2017	977.8	18.2	204.9	2.6	56.5	845.0
2018	845.0	15.5	205.2	2.3	47.2	700.2
2019	700.2	12.9	205.1	2.1	37.5	543.4
2020	543.4	10.5	201.1	1.8	27.0	378.0
2021	378.0	8.5	193.4	1.6	16.0	207.5
2022	207.5	6.4	188.3	1.4	4.8	29.0
2023	29.0	4.7	173.2	1.1	0.0	(140.6)
2024	(140.6)	3.2	156.4	0.9	0.0	(294.7)
2025	(294.7)	2.1	137.0	0.7	0.0	(430.3)
2026	(430.3)	1.0	113.7	0.5	0.0	(543.5)
2027	(543.5)	0.2	94.0	0.4	0.0	(637.7)
2028	(637.7)	0.0	69.0	0.3	0.0	(707.0)
2029	(707.0)	0.0	46.2	0.2	0.0	(753.4)
2030	(753.4)	0.0	26.5	0.1	0.0	(780.0)
2031	(780.0)	0.0	11.2	0.0	0.0	(791.2)
2032	(791.2)	0.0	4.1	0.0	0.0	(795.3)
2033	(795.3)	0.0	1.4	0.0	0.0	(796.7)
2034	(796.7)	0.0	0.3	0.0	0.0	(797.0)

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.