ANNUAL REPORT

For the period ended on June 30, 2010

2010

Virginia529
College Savings Plan SM

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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, 2010. 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 in-state 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 risks, including the possible loss of principal.

CollegeAmerica and CollegeWealth are also defined contribution savings programs. CollegeAmerica, a broker-sold program, offers 23 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 FDIC-insured savings products offered through participating banks.

Financial Reporting Changes

Enterprise Funds

All VPEP activities and the Plan's operating activities are accounted for in an enterprise fund. In previous fiscal years, VPEP and the Plan's operating activities were presented in aggregate, as a single column in the enterprise fund financial statements. Beginning with fiscal year 2010, the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets present the Plan's operating component in a separate column. This change in financial reporting presentation improves the transparency in reporting the Plan's operating revenue and expenses.

Fiduciary Fund

In previous fiscal years, VEST, CollegeAmerica and CollegeWealth were reported in separate columns in the private-purpose trust funds statements. Beginning with fiscal year 2010, CollegeAmerica and CollegeWealth are no longer included in the fiduciary fund financial statements but are presented as supplemental information. Removing CollegeAmerica and CollegeWealth from the fiduciary financial statements better reflects the Plan's role and duties with regard to those programs.

Fiscal 2010 Financial Highlights

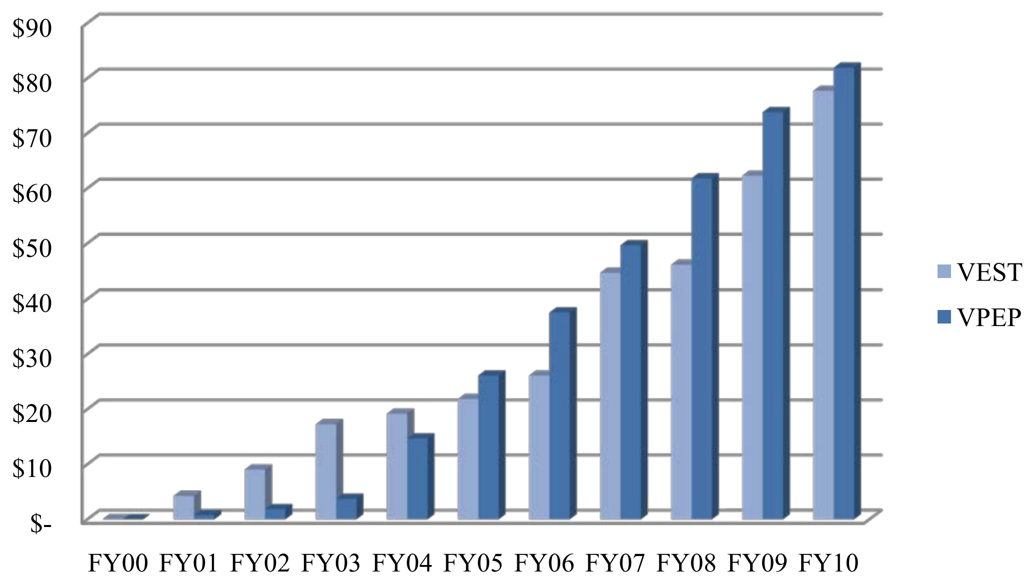
The Plan holds, invests and distributes monies held in trust for program participants. The Plan invests its funds pursuant to statute and Investment Guidelines under the direction of its Board and Investment Advisory Committee in a mix of equity and fixed income investments. During the fiscal year ended June 30, 2010, it was announced that the U.S. economic recession that began in December 2007 ended in June 2009 when Gross Domestic Product increased during the second quarter of fiscal 2010. The equity markets continued to experience tremendous volatility but ended the year up from the prior year despite a decline in the last quarter of the year. For example, the United States domestic equity market, as measured by the Standard & Poor's 500 Index, ended the year up 14.4 percent from June 30, 2009 but was down 11.4 percent for the quarter ended June 30, 2010. The international equity markets also declined during the last quarter, as measured by the MSCI EAFE Index, declining 13.7 percent. The fixed income markets also fared well during the year and were more consistent as demonstrated by the Barclays Capital US Aggregate Bond Index returning 9.5 percent for the year ended June 30, 2010.

In aggregate, market movements had a positive effect on fixed income and equity security prices in the VPEP and VEST portfolios for the fiscal year ended June 30, 2010.

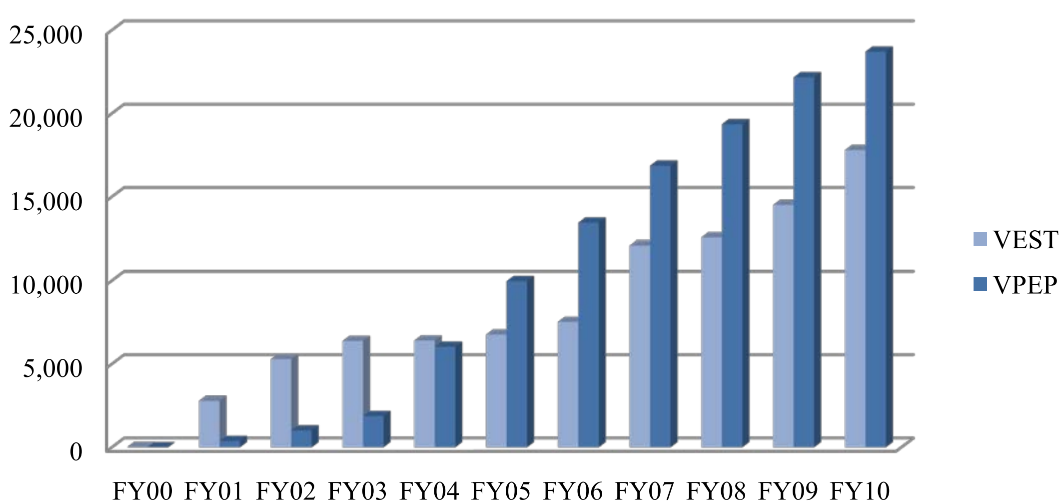
- Total VPEP cash, cash equivalents, and investments held in trust for program participants increased by $265.1 million, or about 19.7 percent from fiscal year-end 2009, due to strong capital markets performance.
- VPEP's actual return on investments for the fiscal year ended June 30, 2010 was 17.7 percent on a time-weighted and 17.9 percent on a dollar-weighted basis reflecting the strong equity and fixed income market performance during most of the fiscal year.
- The Enterprise Fund's net assets increased by $76.6 million to an actuarially determined deficit of $207.4 million from a deficit of $284.0 million in the prior year, which was primarily due to significant gains in the investment portfolio offset somewhat by higher than expected tuition increases and increases in the future tuition growth assumptions.
- VPEP's actuarially determined tuition benefits payable liability increased by $186.2 million, or approximately 10.0 percent, which was primarily due to the increases in the future tuition growth assumptions and the additional obligation of 3,505 new contracts opened during the 2009 – 2010 enrollment period.
- VEST net assets held in trust for program participants increased by $302 million or about 28.6 percent due to more favorable market conditions than in the prior year.
- Both VPEP and VEST applicants continued to increase utilization of on-line applications with nearly 83 percent of applications being filed on-line.

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

Funds Distributed per Fiscal Year

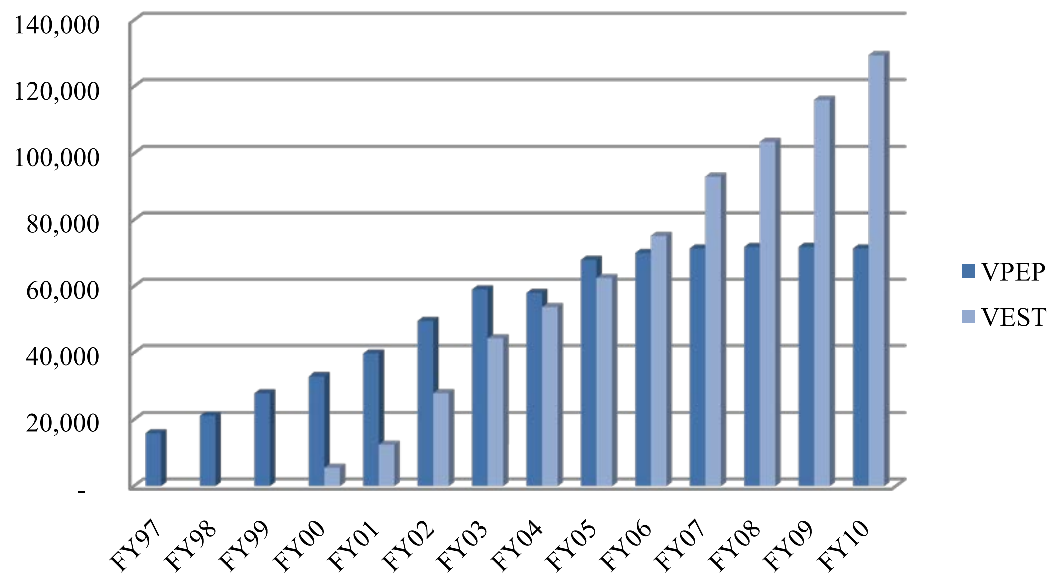


Number of Payments Made on Behalf of Beneficiaries per Fiscal Year



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

Growth in Accounts Under Management



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 and the Plan's operating 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 is reported as a private purpose trust fund. A private purpose trust fund accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations or other governments, and uses the full accrual basis of accounting. The activities of VEST 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

The enterprise fund includes the activities of VPEP as well as the Plan's general operating activities. The Enterprise Fund (VPEP) ended the year with net assets of ($207.4) million (actuarial deficit). Table 1 reflects the condensed Statement of Net Assets for fiscal year 2010 compared to fiscal year 2009.

Table 1
Virginia Prepaid Education Program
Statement of Net Assets as of June 30, 2010 and 2009
(dollars in millions)

	2010	2009
Assets:		
Current assets	$ 218.6	$ 278.5
Investments	1,466.0	1,158.7
Other noncurrent assets	208.0	221.7
Total assets	1,892.6	1,658.9
Liabilities:		
Current liabilities	158.5	161.1
Noncurrent liabilities	1,941.5	1,781.8
Total liabilities	2,100.0	1,942.9
Net assets:		
Invested in capital assets	1.5	1.0
Unrestricted	(208.9)	(285.0)
Total net assets	$ (207.4)	$ (284.0)

Note: Amounts include activities of VPEP and general operating activities

Overall the net assets increased by approximately $76.6 million.

Assets

Current assets decreased by approximately $59.9 million from the previous year. This difference primarily reflected the large amount of cash maintained at June 30, 2009 in anticipation of manager transitions compared to no such balances on hand at June 30, 2010.

Long-term investments increased by $307.3 million, or over 26.5 percent. This increase was due to improved market conditions that positively impacted investment performance during the fiscal year. Other noncurrent assets decreased by $13.7 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 $186.2 million, or approximately 10 percent. 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 higher than expected increases in tuition and changes to the tuition growth assumptions. The amount also increased somewhat due to the additional estimated obligation for 3,505 new contracts issued during the 2009 – 2010 enrollment period.

Actuarial Highlights

During fiscal year 2010, VPEP's actuarial position, as calculated by the Plan's actuary and reported in the 2010 Actuarial Valuation Report, improved from a deficit of $284.0 million to a deficit of $207.4 million. This improvement is mostly attributable to significant investment gains and revenue from new sales, offset by higher than expected tuition increases and the change to the assumption for future tuition growth.

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

For the prior year's actuarial valuation, a 7.0 percent investment return was assumed. The actual return on investments for the fiscal year ended June 30, 2010 was 17.7 percent on a time-weighted and 17.9 percent on a dollar-weighted basis. This produced a net actuarial gain of approximately $146.8 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 2011	10.0%	8.5%	9.5%	7.5%
Fall 2012	10.0%	7.5%	8.5%	7.5%
Fall 2013 and thereafter	7.5%	7.5%	7.5%	7.5%

As reported by the State Council of Higher Education for Virginia (SCHEV) in its 2010 - 2011 Tuition and Fee report, the average increase in tuition and mandatory fees for in-state undergraduates was 13.1 percent for the 2010 – 2011 academic year. As calculated by the Plan's actuary, the weighted average increase for the 2010 – 2011 academic year increased by 11.3 percent for universities and 18.1 percent for community colleges, higher than the 8.5 percent and 7.5 percent rates assumed in the prior valuation. This resulted in an actuarial loss of $40.3 million.

The Plan sold 3,505 new contracts during the year. Each contract was priced so as to contribute to the Plan's reserve. The reserve was increased by approximately $11.4 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 $20.7 million.

The overall effect of the changes on the actuarial reserve (deficit) is summarized in Table 2. Please note that a copy of the 2010 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, 2010
(dollars in millions)

Actuarial reserve (deficit) at June 30, 2009	$ (284.0)
Interest on the deficit at 7.00%	(19.9)
Investment gain (loss)	146.8
Tuition gain (loss)	(40.3)
Higher than expected actual return account balance	(5.0)
Sales of new contracts	11.4
Administrative fee revenue from Plan programs	20.7
Change in assumptions	(44.1)
Other	7.0
Actuarial reserve (deficit) at June 30, 2010	$ (207.4)

Table 3 reflects a condensed Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year 2010 as compared to the prior year.

Table 3
Virginia Prepaid Education Program
Statement of Revenues, Expenses, and Changes
in Net Assets for June 30, 2010 and 2009
(dollars in millions)

	2010	2009
Operating revenues:		
Interest and dividends	$ 136.2	$ (44.2)
Net increase (decrease) of fair value of investments	101.2	(203.6)
Tuition contributions	101.9	108.8
Charges for Sales and Service	31.3	22.0
Total operating revenue	370.6	(117.0)
Operating expenses:		
Personal services	6.6	5.4
Contractual services	5.1	4.4
Tuition benefits expense	280.8	103.6
Other	1.1	1.6
Total operating expenses	293.6	115.0
Operating income (loss)	77.0	(232.0)
Transfer to Commonwealth	(0.4)	(0.2)
Change in net assets	76.6	(232.2)
Net assets – beginning	(284.0)	(51.8)
Net assets – ending	$ (207.4)	$ (284.0)

Note: Amounts include activities of VPEP and general operating activities

Market conditions improved during fiscal year and the value of VPEP investments had increased as of fiscal year end. For the fiscal year ended June 30, 2010, there was a net increase in the fair value of investments of approximately $101.2 million, versus the decrease in the prior fiscal year of $203.6 million. The difference between the current and prior fiscal years ending net assets was $76.6 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 increased by $8.4 million from prior year receipts. In addition, actuarial tuition contribution revenue decreased by $15.3 million 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 $9.3 million, or 10.9 percent. The actuarial expense also increased from the amount accrued in the prior year by $167.8 million as a result of an increase in tuition benefits payable. 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 increase in the actuarial expense is largely due to actual tuition increases being more than the actuarial estimates and an increase in the long-term tuition growth assumptions. During the past year, the actual rate of return on the portfolio was a 17.7 percent gain and the reasonable rate remained below the 4.1 percent assumed in last year's valuation. These higher than expected actual account balances and lower than expected reasonable rate balances caused the amount of projected payouts to increase, which resulted in an actuarial loss of $5.0 million.

Table 4 reflects the condensed Statement of Cash Flows.

Table 4
Virginia Prepaid Education Program
Statement of Cash Flows for June 30, 2010 and 2009
(dollars in millions)

	2010	2009
Cash provided (used) by:		
Operating activities	$ 42.5	$ 39.4
Noncapital financing activity	(0.4)	(0.2)
Capital and related financing activities	(1.2)	(1.4)
Investing activities	(70.6)	(10.4)
Net increase (decrease) in cash	(29.7)	27.4
Cash – beginning of year	175.4	148.0
Cash – end of year	$ 145.7	$ 175.4

The Plan's year-end cash balance decreased by approximately $30 million, primarily due to the large amount of cash maintained at June 30, 2009 in anticipation of manager transitions compared to no such balances on hand at June 30, 2010. The change in the amount reflected as investing activities for fiscal year 2010 represented an overall net increase in the amounts used to purchase securities versus proceeds from sales or maturities of investments and actual interest earnings.

During fiscal year 2010, the Plan also began investing VPEP and operating cash in a BlackRock money market fund in order to minimize the amount of cash held at the Virginia Treasury to ensure that the Plan earned interest on Enterprise Fund balances while improving operating flexibility by better utilizing its custodian and banking systems for cash management.

In June 2009, the Plan's Board adopted a new target asset allocation strategy for VPEP in order to improve returns with a slightly lower expected volatility 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 the 2010 fiscal year, the Board adopted revised Investment Policies and Guidelines for both VPEP and VEST. The Plan, working with the Investment Advisory Committee and Board, also began the transition process to the new target asset allocation in VPEP. Accordingly, during fiscal year 2010, the Plan hired several investment managers and terminated several others. Manager changes in VPEP are detailed in Table 5 below. A complete list of VPEP managers as of June 30, 2010 can be found in Appendix B.

Table 5
Virginia Prepaid Education Program
Changes in Investment Managers during FY2010

Investment Manager	Strategy	Termination Date	Engagement Date
Tattersall Advisory Group	Core Fixed Income	5/28/2009	-
Vanguard Group	Large Cap Blend Equity	6/24/2009	-
Piedmont Investment Advisors	Intermediate Fixed Income	12/16/2009	-
Sands Capital Management	Large Cap Growth Equity	3/24/2010	-
Chase Investment Counsel	Large Cap Growth Equity	3/24/2010	-
LSV Asset Management	Large Cap Growth Equity	3/24/2010	-
NWQ Investment Management	Large Cap Growth Equity	3/24/2010	-
Century Capital Management	Small Cap Growth Equity	3/24/2010	-
Prudential Investment Management Inc.	High Yield Fixed Income	-	5/28/2009
Aberdeen Asset Management	Diversified Emerging Markets Equity	-	9/16/2009
Wellington Management Company, LLP	Emerging Markets Debt	-	8/19/2009
Aurora Investment Management LLC	Diversified Multi-Strategy Fund of Hedge Funds	-	12/16/2009
BlackRock	Money Market Mutual Fund – Liquidity and Stability	-	2/18/2010
UBS Realty Investors LLC	U.S. Core Direct Real Estate	-	4/21/2010

Note: Above dates represent the Investment Advisory Committee’s decision date.

During fiscal 2010, the Plan, working with the Audit and Actuarial Committee and Board, also began a review of VPEP’s operational and programmatic structure to determine whether VPEP is operating in an efficient manner; whether it should be revised to improve or simplify benefits and to improve operating efficiencies; and to assess sustainability in light of potential changes in tuition structure. Initial findings were presented to the Committee in June 2010 and the review was to be completed during the first half of fiscal 2011.

Analysis of Fiduciary Fund (VEST) Financial Activities

Contributions from Plan participants increased from the previous year by approximately $41.6 million and over 13,400 new VEST accounts were opened. Contributions represent participation from new account holders as well as continued contributions from existing participants. Due to favorable market conditions during the fiscal year, income on VEST investments increased by $321.1 million over the prior year. As anticipated, overall disbursements to VEST beneficiaries and institutions increased over the prior year by approximately 19.7 percent as more participants withdrew funds to cover higher education expenses.

In October 2009, the Plan added the Parnassus Equity Income Fund, a socially targeted fund, as a static investment option under VEST. During fiscal 2010, the Plan, working with the Investment Advisory Committee and Board, also began a review of the VEST age-based evolving portfolios to determine whether there should be changes made in investment options, managers, portfolio allocation or glide path, and portfolio management (active versus passive). The review also included a review of VEST static portfolios and operational issues and was to be completed during the first half of fiscal 2011.

During the fiscal year, the Board also implemented fee reductions in VEST for money market accounts and for all VEST accounts. In December 2009, the Board reduced VEST administrative fees on the money market portfolio with an initial fee reduction from 25 basis points to 15 basis points to preserve the net asset value in response to extremely low yields on money market accounts. This was followed by another reduction from 15 basis points to 10 basis points in February 2010. The fees on the money market portfolios will increase to the administrative expense rate on all VEST portfolios once money market yields rise sufficiently to accommodate such increase.

In April 2010, the Board approved a 20 percent reduction in administrative fees on all VEST portfolios, from 25 basis points to 20 basis points.

CollegeAmerica and CollegeWealth

Assets under management in CollegeAmerica increased during the fiscal year primarily due to rebounding market conditions from $21.1 billion to $25.0 billion, an approximate 18.5 percent increase. Approximately 86,060 new unique CollegeAmerica accounts were opened during the year. A complete list of CollegeAmerica investment options as of June 30, 2010, can be found in Appendix A.

In the autumn of 2009, the Plan added BB&T Corporation as a banking partner in an effort to significantly expand the availability of CollegeWealth within and outside of the Commonwealth. The partnership made CollegeWealth available throughout Virginia and across the country through BB&T's online account opening platform via the Internet. With BB&T and its existing partnership with Union First Market Bank, net assets held in trust for program participants increased by 179.0 percent in fiscal year 2010 to more than $13.9 million at year-end. The net assets represented amounts held in savings instruments at the participating banks and were thus not subject to fair market value adjustments at year-end.

In previous fiscal years, CollegeAmerica and CollegeWealth were shown as private-purpose trust funds. Beginning with fiscal year 2010, CollegeAmerica and CollegeWealth are no longer included in the fiduciary fund financial statements but will be presented as supplemental information. Removing CollegeAmerica and CollegeWealth from the financial statements better reflects VCSP's role and duties with regard to those programs.

Economic Factors and Outlook

As we head further into fiscal year 2011, global economic recovery remains underway albeit at a slow pace, supported by government monetary and fiscal intervention. Interest rates remained low during the period both domestically and globally. U.S. Treasury yields declined slightly during the first quarter of fiscal year 2011 with the larger declines on the far end of the curve and the Federal Reserve indicated during its August 2010 meeting that the federal funds rate would remain near zero well into 2011 due to low inflation and high unemployment. In addition, the Federal Reserve signaled that it may commence a second round of quantitative easing through the purchase of U.S. Treasuries thereby likely adding to the already strong retail, financial and foreign demand for U.S. Treasury securities. Unemployment remained high at the end of October 2010 at 9.6 percent.

U.S. equities rebounded in the first quarter of fiscal 2011 as measured by the Standard & Poor's 500 Index that rose 10.72 percent during the quarter. Equity markets remained volatile during the quarter as demonstrated by the Standard & Poor's 500 Index which lost 4.7 percent in August 2010 but gained 9 percent in September 2010, the best September since 1939. Through mid-November 2010, the equity and fixed income markets continued their recovery and momentum that began in fiscal 2010. The domestic equity markets reached levels not attained since early September 2008. For example, the cumulative return for the Standard & Poor's 500 Index for the period from June 30, 2010 through November 12, 2010 was 17.2 percent. The cumulative return for the Barclays Capital US Aggregate Bond Index for the period from June 30, 2010 through November 12, 2010 was 2.3 percent. The VPEP portfolio experienced a net performance return of 11.2 percent for the four month period from June 30, 2010 through October 31, 2010. It is difficult to estimate whether these and other factors may impact the performance of VPEP and VEST during the remainder of fiscal 2011.

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, 2010, the total return since inception was just under 6 percent net of fees and reflected the prior year's rebound in equity and fixed income markets. As of the month ended September 30, 2010, the return on the VPEP investments since inception had risen to 6.35 percent reflecting the improvement in investment performance in the first quarter of fiscal year 2011. 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. Plan staff and the Investment Advisory Committee worked diligently during fiscal year 2010 to implement the new target allocation strategy.

The Commonwealth again reduced general fund support to higher education institutions during the 2010 General Assembly Session. According to the State Council of Higher Education for Virginia (SCHEV), the 2010 General Assembly reduced state support for public higher education by more than $400 million or 27 percent by fiscal year 2012 when compared to the original fiscal year 2010 budgets. Funds from the American Recovery and Reinvestment Act of 2009 (ARRA) - an economic stimulus package valued at $787 billion – helped offset the state budget reductions. The General Assembly has allocated $198 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 2011. It allocated $75 million in fiscal 2010.

Commonwealth general fund revenue growth improved over the last quarter of fiscal 2010 and the Commonwealth ended fiscal 2010 with a small surplus. While the Commonwealth's economy and general fund revenue may be recovering, it is unknown when and to what extent resources may become available to restore support to public higher education and mitigate pressure on tuition as ARRA funding disappears after September 2011.

Notwithstanding the ARRA funds, full time tuition and all mandatory fees at public higher education institutions in Virginia increased by an average of 10.6 percent for the 2010-11 academic year. This increase had a significant impact on VPEP and the Board raised its tuition increase assumptions accordingly for fiscal 2012 and 2013.

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 10.0 percent for four-year institutions for fiscal years 2012 and 2013 with the rate reducing to 7.5 percent after 2013. Increases at two-year institutions are projected to increase at 9.5 percent for fiscal 2012, 8.5 percent in fiscal 2013 and 7.5 percent after 2013. As of mid-November, it is unclear whether any four-year institutions will adopt midyear tuition increases as some did in fiscal 2010. Tuition increases above the Plan's 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, 2010

	Administrative & Operating	VPEP	Total
ASSETS			
Current assets:			
Cash and cash equivalents (Note 1D, and 5)	$ 666,249	$ 145,333,993	$ 146,000,242
Investments held by the Treasurer of Virginia (Note 3)	-	165,355	165,355
Interest receivable	-	4,439,755	4,439,755
Tuition contributions receivable (Note 1E)	-	61,374,116	61,374,116
Accounts receivable (Note 1F)	6,576,896	-	6,576,896
Total current assets	7,243,145	211,313,219	218,556,364
Noncurrent assets:			
Investments (Note 1D and 3)	-	1,466,026,871	1,466,026,871
Tuition contributions receivable (Note 1E)	-	205,083,362	205,083,362
Non-depreciable capital assets	120,294	-	120,294
Depreciable capital assets, net (Note 1G and 7)	2,792,790	-	2,792,790
Total noncurrent assets	2,913,084	1,671,110,233	1,674,023,317
Total assets	10,156,229	1,882,423,452	1,892,579,681
LIABILITIES			
Current liabilities:			
Accounts payable	459,663	1,089,290	1,548,953
Due to program participants (Note 1H)	-	57,545	57,545
Obligations under securities lending (Note 5)	-	472,159	472,159
Tuition benefits payable (Note 6 and 8)	-	155,581,671	155,581,671
Compensated absences (Note 1I and 6)	225,700	-	225,700
Obligations under capital lease (Note 6)	560,508	-	560,508
Total current liabilities	1,245,871	157,200,665	158,446,536
Noncurrent liabilities:			
Tuition benefits payable (Note 6 and 8)	-	1,940,375,807	1,940,375,807
Compensated absences (Note 1I and 6)	294,625	-	294,625
Obligations under capital lease (Note 6 and 8)	847,298	-	847,298
Total noncurrent liabilities	1,141,923	1,940,375,807	1,941,517,730
Total liabilities	2,387,794	2,097,576,472	2,099,964,266
NET ASSETS			
Invested in capital assets, net of related debt	1,505,278	-	1,505,278
Unrestricted	6,263,157	(215,153,020)	(208,889,863)
Total net assets	$ 7,768,435	$ (215,153,020)	$ (207,384,585)

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, 2010

	Administrative and Operating	VPEP	Total
Operating revenues:			
Charges for sales and services	$ 31,269,335	$ -	$ 31,269,335
Interest, dividends, rents, and other investment income	-	136,190,568	136,190,568
Net decrease in fair value of investments	-	101,222,078	101,222,078
Tuition contributions	-	120,320,130	120,320,130
Actuarial tuition contributions (Note 8)	-	(18,428,382)	(18,428,382)
Other	-	1,209	1,209
Total operating revenues	31,269,335	339,305,603	370,574,938
Operating expenses:			
Personal services	6,612,938	-	6,612,938
Contractual services	5,115,740	-	5,115,740
Supplies and materials	93,407	-	93,407
Depreciation	706,600	-	706,600
Rent, insurance, and other related charges	76,255	-	76,255
Tuition benefits expense	-	94,626,913	94,626,913
Actuarial tuition benefits expense (Note 8)	-	186,171,619	186,171,619
Expendable equipment	138,262	-	138,262
Other	36,443	-	36,443
Total operating expenses	12,779,645	280,798,532	293,578,177
Operating gain	18,489,690	58,507,071	76,996,761
Transfers:			
Transfers to the General Fund of the Commonwealth	(374,769)	-	(374,769)
Operating transfer in (out) (Note 1)	(16,866,963)	16,866,963	-
Change in net assets	1,247,958	75,374,034	76,621,992
Net assets - July 1, 2009	6,520,477	(290,527,054)	(284,006,577)
Net assets - June 30, 2010	$ 7,768,435	$ (215,153,020)	$ (207,384,585)

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, 2010

Cash flows from operating activities:	
Receipts for sales and services	$ 30,892,436
Internal activity - payments to other funds	(226,967)
Payments to suppliers for goods & services	(877,496)
Payments to employees	(6,500,098)
Contributions received	119,244,555
Other operating revenue	1,209
Payments for contractual services	(5,408,342)
Distributions	(94,626,913)
Other operating expenses	(668)
Net cash provided by (used for) operating activities	$ 42,497,716
Cash flows from noncapital financing activities:	
Transfer to the General Fund of the Commonwealth	$ (374,769)
Net cash provided by (used for) noncapital financing activities	$ (374,769)
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	$ (644,527)
Payment of principal and interest on capital leases	(546,838)
Net cash provided by (used for) capital and related financing activities	$ (1,191,365)
Cash flows from investing activities:	
Purchase of investments	$ (2,052,682,728)
Proceeds from sales or maturities of investments	1,847,110,083
Interest income on cash, cash equivalents, and investments	134,904,931
Net cash provided by (used for) investing activities	$ (70,667,714)
Net decrease in cash and cash equivalents	(29,736,132)
Cash and cash equivalents - July 1, 2009	175,429,570
Cash and cash equivalents - June 30, 2010	$ 145,693,438
Reconciliation of cash and cash equivalents:	
Per the Statement of Net Assets:	
Cash and cash equivalents	$ 146,000,242
Less:	
Securities lending cash equivalents	(306,804)
Cash and cash equivalents per the Statement of Cash Flows	$ 145,693,438

VIRGINIA COLLEGE SAVINGS PLAN
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
VIRGINIA PREPAID EDUCATION PROGRAM (continued)
For the Fiscal Year Ended June 30, 2010

Reconciliation of operating income to net cash provided by operating activities:	
Operating gain	$ 76,996,761
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	706,600
Interest, dividends, rents and other investment income	(134,904,931)
Net increase in fair value of investments	(101,222,078)
Changes in assets and liabilities:	
(Increase) decrease in receivables	(2,162,822)
(Increase) decrease in tuition contributions receivable	18,428,382
Increase (decrease) in accounts payable	(957,373)
Increase (decrease) in amounts due to program participants	(119,277)
Increase (decrease) in current tuition benefits payable	25,960,795
Increase (decrease) current Obligations under Capital Lease	13,670
Increase (decrease) in current compensated absences	82,830
Increase (decrease) in noncurrent tuition benefits payable	160,210,824
Increase (decrease) noncurrentObligations under Capital Lease	(524,734)
Increase (decrease) in noncurrent compensated absences	(10,931)
Net cash provided by (used for) operating activities	$ 42,497,716

Noncash investing, capital, and financing activities:	
The following transaction occurred prior to the Statement of Net Assets date:	
Change in fair value of investments	$ 101,222,078

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

VIRGINIA COLLEGE SAVINGS PLAN
STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUND
VIRGINIA EDUCATION SAVINGS TRUST
As of June 30, 2010

Assets:	
Cash and cash equivalents (Note 1D and 2)	$ 37,016,001
Receivables:	
Interest and dividends	1,361,934
Investments: (Note 1D and 2)	
Mutual funds	702,963,312
Index funds	363,099,882
Guaranteed investment contracts	196,049,689
Common stock	58,865,313
Total investments	1,320,978,196
Total assets	1,359,356,131
Liabilities:	
Accounts payable	1,673,936
Due to program participants (Note 1H)	264,841
Total liabilities	1,938,777
Net assets held in trust for program participants	$ 1,357,417,354

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 FUND
VIRGINIA EDUCATION SAVINGS TRUST
For the Fiscal Year Ended June 30, 2010

Additions:	
Contributions:	
From participants	$ 236,160,970
Charges for services	58,001
Total contributions	236,218,971
Investment income:	
Net increase in fair value of investments	113,851,645
Interest, dividends, and other investment income	38,911,539
Total investment income	152,763,184
Less:	
Investment expenses	(2,563,483)
Net investment income	150,199,701
Total additions	386,418,672
Deductions:	
Educational expense benefits	78,126,393
Shares redeemed	6,328,826
Total deductions	84,455,219
Net increase	301,963,453
Net assets held in trust for program participants:	
July 1, 2009 (Note 2)	1,055,453,901
June 30, 2010	$ 1,357,417,354

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA COLLEGE SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2010

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 101,283 accounts have been opened, with 71,373 contracts remaining active at year-end. The program had total assets invested from contributions, net earnings and other revenue of approximately $1.9 billion as of June 30, 2010. 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 Plan's enabling legislation provides that all moneys remaining in the enterprise fund at the end of a biennium shall not revert to the general fund. The Plan annually assigns net operating revenue to VPEP to support its funded status and to reduce the price of contracts. The program's assets and income are exempt from federal, state, and local income taxation. The Plan's enabling legislation also 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 17 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, 2010, 129,415 accounts had been opened with a net asset value of approximately $1.4 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, is a defined contribution plan and is administered by the American Funds pursuant to a contract using 23 of the American Funds. CollegeWealth is also a defined contribution plan under which participants invest in FDIC-insured savings products offered through participating banks. In previous fiscal years, CollegeAmerica and CollegeWealth were included in the financial statements as private-purpose trust funds. Beginning with fiscal year 2010, CollegeAmerica and CollegeWealth are no longer included in the financial statements but will be presented as supplemental information. Removing CollegeAmerica and CollegeWealth from the financial statements better reflects the Plan's role and duties with regard to those programs.

An eleven-member Board administers the Plan, consisting of 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 ex-officio members are the Executive Director of the State Council on Higher Education for Virginia, the Chancellor of the Virginia Community College System, the State Treasurer, and the State Comptroller. The non-legislative citizen members shall have significant experience in finance, accounting, law or investment management. In order to assist the Board is fulfilling its fiduciary duties and other responsibilities, the Plan's enabling legislation also requires that the Board appoint an Investment Advisory Committee and Audit and Actuarial Committee.

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, 2010. For financial reporting purposes, the Plan includes all funds and entities over which the Plan is financially accountable and exercises 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 as a private-purpose trust fund, 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 revenues of the Plan are tuition contributions for program participants and investment income. Expenses of the Plan include tuition benefits expenses. Beginning with fiscal year 2010, the Plan's operating component will be presented in a separate column, improving transparency in reporting operating funds and expenses. Operating revenues include administrative fees received from the VEST, CollegeAmerica, and CollegeWealth programs. Operating expenses include 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 represent the actuarially determined present value of future payments due from contract holders.

F. Accounts Receivable

Accounts receivable reflected in the Plan operating column of the enterprise fund 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, equipment and computer software that have a cost or value greater than $5,000 and an expected useful life greater than two years.

GASB Statement No. 51, *Accounting and Reporting for Intangible Assets* became effective for reporting periods beginning after June 15, 2009. The objective of this statement was to define intangible assets and to resolve inconsistencies in governmental reporting of these assets. Intangible assets are nonfinancial in nature, lack physical substance and have an initial useful life extending beyond a single reporting period. These assets may be acquired by purchase or license, through non-exchange transactions or internally generated. These assets are also capital assets and adhere to the same policies of other property, plant and equipment. The Plan has one type of intangible asset, computer software. These assets were acquired through retail purchases and/or internally generated, and are reported in footnote 7 Capital Assets.

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, 2010, 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, 2010, was computed using salary rates effective at that date and represents vacation and compensatory leave earned up to the allowable ceilings. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, included in the liability is the agency's share of FICA taxes on leave balances for which employees will be compensated.

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

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

J. VPEP – Investment in Real Estate

On February 15, 2008, the Plan established Aventura Holdings LLC, a limited liability company, for the purpose of acquiring and owning real estate. The Plan is the sole member of Aventura. On March 20, 2008 the Plan's Board approved adding Aventura as an investment vehicle under VPEP 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.

As of fiscal year end, the investment in Aventura is reflected in VPEP's assets and is valued at $6,300,000. This is a reduction from the prior year of approximately 25%. This change reflects the reduced value of commercial office space in the County but is offset by the recent upgrades and improvements made to this building as Class-A office space.

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 6 below for a description of the Lease Agreement.

2. BEGINNING NET ASSETS RESTATEMENT (FIDUCIARY FUND)

In previous fiscal years, CollegeAmerica and CollegeWealth were reported as component units of the Plan and were discretely presented in separate columns on the private-purpose trust funds statements. Beginning with fiscal year 2010, CollegeAmerica and CollegeWealth are no longer reported as component units in the fiduciary fund financial statements, but are presented as supplemental information to the financial statements. According to the *Governmental Accounting and Standards Board Statement 14 – The Financial Reporting Entity*, and *Statement 39 – Determining Whether Certain Organizations Are Component Units Statement* for an organization to be included as a component unit of a primary governmental unit, the primary governmental unit must be held financially accountable for the component unit. The Plan is not financially accountable for the assets or liabilities of either program as CollegeAmerica and CollegeWealth are both fiscally independent. The Plan has determined that these affiliated organizations are not component units as defined in GASB, and therefore should not be included in the basic financial statements of the annual financial report. Removing CollegeAmerica and CollegeWealth from the fiduciary financial statements better reflects the Plan's role and duties with regard to those programs.

To properly reflect this change in reporting, a beginning net assets restatement is necessary:

Fiduciary Fund Ending Net Assets, June 30, 2009	$ 22,176,298,764
Restatement adjustments:	
CollegeWealth, Ending Net Assets, June 30, 2009	(4,986,630)
CollegeAmerica, Ending Net Assets, June 30, 2009	(21,115,858,233)
Fiduciary Fund Beginning Net Assets per, July 1, 2009	$ 1,055,453,901

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Board of the Virginia College Savings Plan has established investment guidelines for the Plan's investment programs which are in accordance with §23-38.80 of the *Code of Virginia*, as amended. This section of the *Code* requires the Board to discharge its duties in a manner which will provide the investment return and risk level consistent with the actuarial return requirements and cash flow demands of the Plan and conforming to all statutes governing the investment of Plan funds. The Board shall exercise the judgment of care under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but to the permanent disposition of funds, considering the probable income as well as the probable safety of their capital when investing funds. In order to meet the return requirements, the Plan's portfolio shall be invested in a broadly diversified portfolio of domestic and foreign stocks, bonds, and cash equivalent investments, which are defined as investments with an original maturity of three months or less. The Board's allocation target for the VPEP portfolio, at market value, is 32.5 percent equities, 25.0 percent core fixed income, 27.5 percent non-core fixed income, and 15 percent alternative assets. The Board's allocation targets for the VEST program vary according to the investment objective of each portfolio.

To assist the Board in fulfilling its fiduciary duty with the investment of the Plan assets, the Board has appointed an Investment Advisory Committee (IAC). The IAC is a permanent advisory committee of the Board pursuant to §23-38.71:1 of the *Code of Virginia*, as amended. The IAC provides 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 16 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 23 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, 2010, all investments of the VPEP and VEST programs, except those investments in open-end mutual funds or in hedge funds, were held in the Plan's name by the Plan's custodian, BNY Mellon Asset Servicing. Approximately 49 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, 2010, the Plan had the following fixed income investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Money Market Funds	$145,007,348	$145,007,348	-	-	-
U.S. Treasuries	40,957,796	-	$730,523	$13,498,045	$26,729,228
Agency Mortgage-Backed Securities	30,664,401	-	-	19,376	30,645,025
Non-Agency Mortgage-Backed Securities	36,052,528	-	-	629,698	35,422,830
Unsecured Agency Bonds and Notes	4,137,639	-	3,847,083	14,183	276,373
Asset-Backed Securities	7,197,298	-	739,524	782,042	5,675,732
Corporate Bonds	183,742,920	3,454,216	75,141,473	84,910,738	20,236,493
Convertible Securities	108,078,309	3,169,631	39,815,705	10,050,906	55,042,067
Bond Funds	91,415,538	-	91,415,538	-	-
Other Bonds	2,656,617	-	-	802,948	1,853,669
Stable Value Funds	65,292,144	-	65,292,144	-	-
Total	$715,202,538	$151,631,195	$276,981,990	$110,707,936	$175,881,417

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, 2010 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	Non-Agency Mortgage Backed Securities	Agency Unsecured Bonds & Notes	Asset Backed Securities	Corporate Bonds	Convertibles	Other Bonds	Bond Funds	Stable Value Funds
AAA	$ 145,007,348	$ 40,957,796	$30,664,401	$15,952,865	$3,212,458	$3,019 ,421	$ 792,764	-	$ 477,758	-	-
AA+	-	-	-	70,045	-	-	10,353,508	-	-	-	-
AA	-	-	-	577,033	-	367,093	2,774,828	-	-	-	-
AA-	-	-	-	447,391	-	570,281	2,894,251	$ 2,411,013	774,413	-	-
A+	-	-	-	-	-	-	5,866,218	2,477,875	222,432	-	-
A	-	-	-	497,827	906,595	323,165	14,796,404	1,007,500	-	-	-
A-	-	-	-	604,448	-	51,767	12,128,946	11,734,611	270,683	-	-
BBB+	-	-	-	219,606	-	239,624	7,480,882	6,970,504	-	-	-
BBB	-	-	-	-	-	44,756	5,488,872	6,403,425	911,331	-	-
BBB-	-	-	-	400,855	-	-	13,286,516	7,820,052	-	-	-
BB+	-	-	-	-	-	261,358	12,337,816	3,748,619	-	-	-
BB	-	-	-	1,877,450	-	-	15,255,781	9,261,843	-	-	-
BB-	-	-	-	-	-	83,400	19,196,037	2,389,606	-	-	-
B+	-	-	-	359,218	-	-	14,041,017	2,107,369	-	-	-
B	-	-	-	916,072	-	-	16,021,689	10,631,037	-	-	-
B-	-	-	-	1,143,269	-	-	19,451,806	5,870,063	-	-	-
Less than B-	-	-	-	11,161,609	18,586	860,508	8,241,551	7,781,761	-	-	-
Unrated	-	-	-	-	-	-	1,007,545	25,996,469	-	$91,415,538	$65,292,144

		Investment Type									
Moody's Quality Rating	Money Market Funds	U.S. Treasuries	Agency Mortgage Backed Securities	Non-Agency Mortgage Backed Securities	Agency Unsecured Bonds & Notes	Asset Backed Securities	Corporate Bonds	Convertibles	Other Bonds	Bond Funds	Stable Value Funds
A2	-	-	-	-	-	$973,210	-	-	-	-	-
A3	-	-	-	-	-	-	$671,432	$ 1,133,600	-	-	-
B1	-	-	-	-	-	-	973,750	-	-	-	-
Baa1	-	-	-	-	-	-	148,875	-	-	-	-
Baa2	-	-	-	-	-	-	130,427	-	-	-	-
Baa3	-	-	-	-	-	-	-	332,962	-	-	-
Ba3	-	-	-	1,162,672	-	-	402,005	-	-	-	-
B2	-	-	-	-	-	141,991	-	-	-	-	-
Less than B2	-	-	-	662,168	-	260,724	-	-	-	-	-

Concentration of Credit Risk

At June 30, 2010, the Plan had no investments in any one issuer that represented 5 percent or more of total investments.

Mutual Fund Risks

At June 30, 2010, 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 volatility 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.

4. INVESTMENT DERIVATIVE INSTRUMENTS

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, became effective for reporting periods beginning after June 15, 2009. The statement requires that the Plan disclose its exposure to investment derivative instruments and certain investments described as synthetic guaranteed investment contracts.

Pursuant to the investment guidelines established for the Plan's investment programs, investments in derivative securities are prohibited except where specifically permitted in the investment manager agreement for a separate account or prospectus for a fund. The Board may permit managers in certain asset classes to use derivatives consistent with the overall investment guidelines and objectives of that asset class. As of June 30, 2010, two managers were permitted to use derivatives as shown in the table below.

Program	**Manager**	**Asset Class**
VPEP	Wellington Trust Company, NA	Emerging Market Debt
VPEP	Prudential Investment Management, Inc.	High Yield Fixed Income

The emerging market debt portfolio is invested in the Diversified Emerging Markets Debt Composite commingled pool managed by Wellington Management Company, LLP. The pool accepts purchases and sales monthly. To manage large purchases in an orderly and prudent manner, the Plan entered into a revocable trust agreement with Wellington Trust Company, NA to invest monies in Wellington's Multiple Common Trust Funds Trust, Emerging Markets Debt Portfolio on a temporary basis prior to purchasing into the commingled pool. Wellington may purchase derivative instruments in the Portfolio for risk management and other purposes. At June 30, 2010, no monies were invested in the Portfolio.

Pursuant to its investment management agreement, Prudential Investment Management may invest in derivatives for hedging, duration and cash management. The portfolio's exposure to derivatives, as measured on a net market value basis, is limited to 10 percent of the market value of the high yield account. At June 30, 2010, no derivatives were held in the account.

GASB Statement No. 53 defines stable value investment vehicles as synthetic guaranteed investment contracts. Stable value funds are invested in a high quality, diversified, intermediate term, fixed income portfolio that is protected against interest rate volatility by wrap or investment contracts from banks and insurance companies that guarantee the payment of benefits at book value (cost plus accrued interest) which enables the entire investment to be carried at its book value. The Plan utilizes stable value investments in both the VPEP and VEST programs. The Plan's stable value investments meet the definition of fully benefit-responsive synthetic guaranteed investment contracts and are reported at fair value. At June 30, 2010, the Plan had the following stable value investments outstanding in the respective programs as shown in the table below.

Program	Wrap Provider	Notional Amount	Effective Date	Maturity Date	Crediting Rate
VPEP	ING Life & Annuity	$20,289,558	12/3/2002	Open ended	5.27%
	State Street Bank	$20,328,828	5/1/2002	Open ended	5.22%
	Transamerica Life Ins.	$20,274,666	3/5/2003	Open ended	5.23%
VEST	ING Life & Annuity	$79,564,458	12/3/2002	Open ended	4.96%
	Rabobank Nederland	$52,244,917	1/15/2008	Open ended	5.06%
	State Street Bank	$52,241,136	5/1/2002	Open ended	4.99%

At June 30, 2010, the fair value of the underlying investments for both VPEP and VEST exceeded the book value (notional amount) of the wrap contracts. The book value of the wrap contracts provides a guaranteed minimum value that program participants would receive upon liquidation, and therefore it would have a separate fair value only in the circumstance that the fair value of the associated underlying investment pool fell below the book value of the wrap contracts. In that case the fair value of the wrap contracts would be the amount required to bring the total value of the stable value investments up to the book value of the wrap contracts. Therefore, there is no separate fair value associated with the wrap contracts as of June 30, 2010.

In the VPEP program, the fair value of the stable value investments at June 30, 2010, is $65,292,144.

VPEP - Stable Value Components	**Fair Value**
Underlying Investments	$65,292,144
Wrap Contracts	-
Total	$65,292,144

In the VEST program, the fair value of the stable value investments at June 30, 2010, is $196,049,689.

VEST - Stable Value Components	**Fair Value**
Underlying Investments	$196,049,689
Wrap Contracts	-
Total	$196,049,689

5. 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 2010 is provided in the following chart:

Cash Equivalent	**Investment**	**Income**	**Expense**	**Interest**
$306,804	$165,355	$39,983	$22,950	$17,033

6. 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 VPEP.

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 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, 2009**	**Increases**	**Decreases**	**Balance June 30, 2010**	**Due Within One Year**
Compensated absences	$448,425	$316,151	$244,252	$520,324	$225,700
Tuition benefits payable	1,909,785,859	296,158,481	109,986,862	2,095,957,478	155,581,671
Capital lease obligation	1,918,870	-	511,063	1,407,807	560,508
Total	$1,912,153,154	$296,474,632	$110,742,177	$2,097,885,609	$156,367,879

7. CAPITAL ASSETS

The following schedule presents capital asset activity of the Plan for the year ended June 30, 2010.

Enterprise Fund	July 1, 2009	Increases	Decreases	June 30, 2010
Nondepreciable capital assets:				
Infrastructure - Software	$ -	$ 120,294	$ -	$ 120,294
Total non-depreciable capital assets	-	120,294	-	120,294
Depreciable capital assets:				
Equipment	1,654,331	35,985	364,972	1,325,344
Software	-	488,248	-	488,248
Building	2,347,151	-	-	2,347,151
Total depreciable capital assets	4,001,482	524,233	364,972	4,160,743
Less accumulated depreciation:				
Equipment	635,133	170,060	364,972	440,221
Software	-	67,109	-	67,109
Building	391,192	469,430	-	860,622
Total accumulated depreciation	1,026,325	706,599	364,972	1,367,952
Net depreciable capital assets	2,975,157	(182,366)	-	2,792,791
Total net capital assets	$ 2,975,157	$ (62,072)	$ -	$ 2,913,085

8. 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, 2010, 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

	2010	2009
Tuition Contributions Receivable	$ 266,457,478	$ 284,885,860
Tuition Benefits Payable	$2,095,957,478	$1,909,785,859

9. 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.

10. 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 information technology 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 Plan systems.

11. 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, 2010, there were 30 VPEP and 409 VEST scholarship 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.

At June 30, 2010 there were 38 VPEP and 156 VEST promotional accounts.

12. DEFICIT NET ASSETS (ENTERPRISE FUND)

The Virginia Prepaid Education Program (VPEP) ended the 2010 fiscal year with net assets of ($207.4) 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 2010 fiscal year, the Plan's position improved from a deficit of $284.0 million to a deficit of $207.4 million. This improvement is mostly attributable to significant investment gains and revenue from new sales, offset by higher than expected tuition increases and the change to the assumption for future tuition growth.

13. SUBSEQUENT EVENTS – EQUITY AND FIXED INCOME MARKETS

The equity and fixed income markets improved from June 30, 2010 into fiscal 2011. Continued improved performance through the balance of fiscal 2011 will depend on many factors such as business and consumer spending, inflation/deflation and unemployment. From June 30, 2010 through November 12, 2010, management estimates the market value of investments held in trust for participants in the VPEP and VEST programs improved as reflected in the following table.

Program	**Market Value June 30, 2010**	**Market Value November 12, 2010**	**Dollar Increase**	**Percent Increase**
VPEP	$1,611,720,310	$1,774,763,970	$163,043,660	10.1%
VEST	$1,357,994,196	$1,545,379,987	$187,385,791	13.8%

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 $45,801,946 for qualified educational expenses and cancellations from July 1, 2010 through November 12, 2010. In addition, VPEP received $21,566,137 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 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.

SUPPLEMENTAL INFORMATION

CollegeAmerica

CollegeAmerica, a broker-sold IRC §529 college savings option, was launched on February 15, 2002. CollegeAmerica is a defined contribution plan and 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 23 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. Virginia College Savings Plan has contracted these services with American Funds through February 15, 2027.

As of June 30, 2010, 23 American Funds mutual funds were approved by the Plan and available through the program. A complete list is shown in Appendix A. 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, 2010, approximately 1.9 million unique accounts had been opened with net assets in excess of $25 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's assets and income are exempt from federal, state, and local income taxation for Virginian residents.

A separate audited report for each of the 23 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. The individual fund reports are available in their entirety from the American Funds. A summary of the 529 Share Class Net Assets as of Fund Fiscal Year End and at June 30, 2010 for each portfolio are presented in the following charts.

Supplemental Information
Virginia College Savings Plan
CollegeAmerica

529 Share Class Net Assets as of Fund Fiscal Year End

(dollars and shares in thousands.)

Fund	Shares	Net Assets	Fiscal Year End
Growth funds			
AMCAP Fund®	44,625	$ 727,188	02/28/10
EuroPacific Growth Fund®	34,981	1,332,223	03/31/10
The Growth Fund of America®	160,132	3,938,701	08/31/09
The New Economy Fund®	7,999	172,402	11/30/09
New Perspective Fund®	47,729	1,161,301	09/30/09
New World Fund®	12,005	531,588	10/31/09
SMALLCAP World Fund®	23,076	686,587	09/30/09
Growth-and-income funds			
American Mutual Fund	16,229	349,138	10/31/09
Capital World Growth and Income Fund	77,337	2,604,586	11/30/09
Fundamental InvestorsSM	32,679	1,068,634	12/31/09
International Growth and Income FundSM	1,800	46,512	06/30/10
The Investment Company of America®	68,239	1,767,634	12/31/09
Washington Mutual Investors FundSM	57,015	1,468,735	04/30/10
Equity-income funds			
Capital Income Builder	41,336	1,917,755	10/31/09
The Income Fund of America	70,484	987,566	07/31/09
Balanced fund			
American Balanced Fund	136,168	2,204,854	12/31/09
Bond funds			
American High-Income Trust	27,074	278,487	09/30/09
The Bond Fund of America	110,108	1,299,599	12/31/09
Capital World Bond Fund®	17,431	353,249	09/30/09
Intermediate Bond Fund of America®	26,108	341,892	08/31/09
Short-Term Bond Fund of AmericaSM	11,779	118,018	08/31/09
U.S. Government Securities FundSM	18,907	266,686	08/31/10
Money market fund			
American Funds Money Market FundSM	957,159	957,215	09/30/09

Supplemental Information
Virginia College Savings Plan
CollegeAmerica

529 Share Class Net Assets as of June 30, 2010

(dollars and shares in thousands.)

Fund	Shares	Net Assets
Growth funds		
AMCAP Fund	45,770	$ 691,991
EuroPacific Growth Fund	35,344	1,183,103
The Growth Fund of America	167,603	4,157,125
The New Economy Fund	8,594	173,891
New Perspective Fund	49,984	1,148,537
New World Fund	13,795	613,468
SMALLCAP World Fund	24,768	752,611
Growth-and-income funds		
American Mutual Fund	17,948	387,156
Capital World Growth and Income Fund	82,968	2,429,904
Fundamental Investors	34,774	1,042,328
International Growth and Income Fund	1,800	46,512
The Investment Company of America	69,836	1,634,463
Washington Mutual Investors Fund	57,366	1,298,054
Equity-income funds		
Capital Income Builder	44,645	1,969,410
The Income Fund of America	76,763	1,120,647
Balanced fund		
American Balanced Fund	141,740	2,202,615
Bond funds		
American High-Income Trust	31,210	332,699
The Bond Fund of America	119,189	1,451,726
Capital World Bond Fund	22,860	448,956
Intermediate Bond Fund of America	33,341	449,099
Short-Term Bond Fund of America	22,860	231,113
U.S. Government Securities Fund	21,123	306,701
Money market fund		
American Funds Money Market Fund	948,833	948,833
Total Assets		**$ 25,020,944**

CollegeWealth

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, 2010, there were 2,760 unique accounts with net assets in excess of $13.9 million. A unique account represents all accounts with the same contributor and beneficiary combination. 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.

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 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
Aberdeen Asset Management	Emerging Market Equity Fund
BlackRock, Inc.	TempFund (Cash and Equivalents)

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
Parnassus Investments	Equity Income Fund

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

APPENDIX B

Separate Account Managers by Program

<u>VPEP</u>

Investment Manager	Investment Strategy
Westfield Capital Management	Mid Cap Growth Domestic Equity
Rothschild Asset Management	Small/Mid Cap Value Domestic Equity
Donald Smith & Co.	Small Cap Value Domestic Equity
Thompson, Siegel & Walmsley	Small Cap Value Domestic Equity
Western Asset Management	Core Plus Fixed Income
Lord Abbett	Convertible Fixed Income
INVESCO Institutional	Stable Value Fixed Income
Prudential Investment Management	High Yield Fixed Income
Prudential Investment Management	Core Fixed Income Transition
Wellington Management Co., LLP	Emerging Market Debt
Aurora Investment Management, LLC	Market Neutral Hedge Fund of Funds

<u>VEST</u>

Investment Manager	Investment Strategy
Rothschild Asset Management	Small/Mid Cap Value Domestic 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 8, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
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, 2010, 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, 2010, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Virginia College Savings Plan. As discussed in Note 2, the Virginia College Savings Plan restated beginning net assets for the fiduciary funds. The Virginia College Savings Plan is not financially accountable for the assets or liabilities of CollegeAmerica and CollegeWealth. These affiliated programs are not component units and, therefore, are not included in the basic financial statements. The supplemental information on pages 41 through 44 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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, 2010, 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 14 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 8, 2010 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

MMR/clj

VIRGINIA COLLEGE SAVINGS PLAN
Richmond, Virginia

BOARD MEMBERS
As of June 30, 2010

Mr. Shawn McLaughlin, Chairman

Mr. Vincent Carpenter, Vice-Chairman

Ms. Lee E. Brazzell

Dr. Glenn DuBois

Ms. Manju Ganeriwala

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Mr. David A. Von Moll

Mr. John D. Whitlock

CHIEF EXECUTIVE OFFICER

Ms. Mary G. Morris

ACTUARIAL VALUATION
OF THE
VIRGINIA PREPAID
EDUCATION PROGRAM
AS OF JUNE 30, 2010

By:

ALAN H. PERRY, FSA, CFA
JILL M. STANULIS, EA

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January 5, 2011

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, 2010.

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, 2010 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 to meet the VPEP obligations, and the General Assembly has included the provision in subsequent Appropriation Acts, including Chapter 874 of the 2010 Acts of Assembly (2010 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 2011	10.0%	8.5%	9.5%	7.5%
Fall 2012	10.0%	7.5%	8.5%	7.5%
Fall 2013 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, 2010 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	$2,068.9	n/a	n/a
Administrative Expenses	27.1	n/a	n/a
Grand Total	$2,096.0	$1,888.6	$(207.4)

As indicated above, the Virginia Prepaid Education Program has assets that fall short of the "best estimate" of the obligations by roughly $207.4 million or 9.9%. 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, 2010) 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 $27.1 million administrative expense obligation is equivalent to about $380 per contract.

Actuarial Gain/Loss Analysis

During the 2010 fiscal year, the actuarial reserve position of the Program improved from a deficit of $284.0 million to a deficit of $207.4 million or 9.9% of obligations. Actuarial gains add to the reserve (decrease the deficit) while actuarial losses decrease the reserve (increase the deficit). This year's decrease to the deficit is mostly attributable to significant investment gains and revenue from new sales, offset by higher than expected tuition increases and the change to the assumption for future tuition growth. 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 $19.9 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 17.7% on a time-weighted basis and 17.9% on a dollar-weighted basis. For the previous valuation, a 7.00% return was assumed. This produced a net actuarial gain of approximately $146.8 million.

Average tuition rates for the 2010-2011 school year increased by 11.3% for universities and 18.1% for community colleges, higher than the 8.5% and 7.5% rates assumed in the prior valuation. This resulted in an actuarial loss of $40.3 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 17.7% gain and the reasonable rate remained below the 4.1% assumed in last year's valuation. These higher than expected actual account balances and lower than expected reasonable rate balances resulted in an actuarial loss of approximately $5.0 million.

The Program sold 3,505 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 $11.4 million from these new contracts.

The Prepaid Program received $29.6 million in administrative fee revenue from all the VCSP programs, including CollegeAmerica. Total agency operating expenses were $13.2 million, of which $4.3 million was expected to be provided by the VPEP expense reserve. The balance of the fee revenue, $20.7 million, is an increase to the reserve.

The assumption for future tuition growth for universities was increased from 8.5% for fall 2011 and 7.5% each year thereafter to 10.0% for both fall 2011 and fall 2012 and 7.5% per year thereafter. The tuition growth assumption for community colleges was increased from 7.5% for all years to 9.5% for fall 2011, 8.5% for fall 2012, and 7.5% per year thereafter. In addition, the assumption for the reasonable rate of return was decreased from a mean of 4.1% to a mean of 4.0% per year. These three changes resulted in a combined increase to the deficit of approximately $44.1 million.

Other experience gains added about $7.0 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, 2009	$ (284.0)
Interest on the deficit at 7.00%	(19.9)
Investment gain (loss)	146.8
Tuition gain (loss)	(40.3)
Higher than expected actual return account balances	(5.0)
Sales of new contracts	11.4
Administrative fee revenue from VCSP	20.7
Change in the assumptions	(44.1)
Other	7.0
Actuarial Reserve / (Deficit) as of June 30, 2010	$ (207.4)

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, 2010	Probability of VPEP Funds Exceeding Obligation
80%	$1,676.8	8%
90.1%	1,888.6	26%*
100%	2,096.0	50%
110%	2,305.6	70%
120%	2,515.1	83%
130%	2,724.7	92%
140%	2,934.3	96%
150%	3,143.9	98%

*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, 2010 of $1,888.6 million is 90.1% of the actuarially determined "Best Estimate" Reserve amount of $2,096.0 million. As indicated in the above table, this VPEP fund balance is estimated to have a 26% 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 10.0% for both fall 2011 and fall 2012 and 7.5% per year thereafter and the tuition growth assumption for community colleges of 9.5% for fall 2011, 8.5% for fall 2012, and 7.5% per year thereafter.

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 10.0% for two years and 7.5% thereafter, Community College tuition increases 9.5% next year, 8.5% for the following year, and 7.5% thereafter, and Plan assets earn 6.85% each year. The starting Market Value of Invested Assets as of July 1, 2010 is $1,622.1 million. At the end of the 2035 Fiscal Year all tuition obligations associated with contracts already purchased are expected to have been paid resulting in a final cumulative deficit of $619.4 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

Jill M Stanulis

Jill M. Stanulis, EA
Member American Academy of Actuaries

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Virginia Prepaid Education Program

I. Statement of Assets as of June 30, 2010

	Investments	Market Value
1)	Equities	$ 721,893,201
2)	Fixed Income including Accrued Interest	677,574,810
3)	REIT Index Fund and Real Estate	66,558,861
4)	Cash & Cash Equivalents	145,693,439
5)	Other Investments	472,159
6)	Other Receivables	4,439,755
7)	Accounts Receivable	6,576,896
8)	Property, Plant & Equipment	1,384,984
9)	Nondepreciable Capital Assets	120,294
10)	Payables	(1,606,498)
11)	Accrued Liabilities	(520,325)
12)	Other Liabilities	(472,159)
	Total Market Value of Investments	$ 1,622,115,417
	Present Value of Installment Contract Receivables	266,457,478
	Value of Total Fund Assets	$ 1,888,572,895

II. Reconciliation of Investments

1)	Investments at June 30, 2009	$1,340,893,425
2)	Adjustment to Match Financial Statements	4,128,278
3)	Contract Purchase Payments	129,414,158
4)	Application Fees	58,325
5)	Administrative Fee Revenue	29,648,449
6)	Interest and Dividends	42,132,282
7)	Realized and Unrealized Gains/(Losses)	200,283,855
8)	Tuition Payments, Refunds and Rollovers	(105,910,370)
9)	Administrative Expenses	(13,176,858)
10)	Investment Management Fees	(4,981,358)
11)	Transfers to the Commonwealth	(374,769)
12)	Investments at June 30, 2010	$ 1,622,115,417

Time-weighted rate of return	17.9%
Dollar-weighted rate of return	17.7%

Appendix A

Virginia Prepaid Education Program

Participant Data as of June 30, 2010 – Number of Contracts*

Plan Type

Total Years of Community College Purchased
Total Years of University Purchased

Matriculation Year	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	**Total by Payout Year**	**Percent of Total**
2000-2001	1	0	0	0	0	0	7	0	1	0	0	0	0	0	0	0	0	0	1	3	1	42	1	57	0.1%
2001-2002	1	0	1	0	0	0	25	0	3	0	1	0	2	0	0	0	0	0	4	5	1	84	3	130	0.2%
2002-2003	2	0	0	1	0	0	25	4	5	0	0	0	0	0	0	0	1	0	18	13	4	138	13	224	0.3%
2003-2004	2	1	0	2	1	0	19	0	13	1	0	0	2	0	0	0	0	0	16	25	4	234	13	333	0.5%
2004-2005	4	1	0	1	0	0	37	4	15	0	1	0	6	0	0	0	0	1	36	38	10	315	26	495	0.7%
2005-2006	6	1	0	2	0	0	60	2	29	1	2	0	5	0	0	0	0	2	68	78	13	537	52	858	1.2%
2006-2007	4	6	2	1	1	0	67	4	51	1	1	1	8	0	0	0	0	1	90	101	35	930	88	1392	1.9%
2007-2008	6	4	0	5	0	0	88	6	99	2	0	0	13	2	0	0	0	0	154	270	54	2674	110	3487	4.9%
2008-2009	9	8	7	7	0	0	101	12	119	2	0	0	11	3	0	0	0	3	233	326	119	2849	126	3935	5.5%
2009-2010	12	19	3	7	1	0	175	6	142	3	0	1	16	3	0	0	0	1	281	500	126	3131	127	4554	6.4%
2010-2011	53	15	7	9	1	0	182	12	160	5	0	1	17	2	0	0	0	3	509	610	126	3079	138	4929	6.9%
2011-2012	45	16	9	6	0	0	187	10	166	1	2	0	24	3	1	0	0	3	488	564	132	3141	134	4932	6.9%
2012-2013	53	20	9	12	2	0	194	10	140	2	0	1	36	1	1	1	0	1	580	631	137	3133	152	5116	7.2%
2013-2014	52	18	11	17	2	0	170	8	162	1	1	1	22	1	2	1	0	2	518	659	142	3077	130	4997	7.0%
2014-2015	57	12	7	17	1	1	177	15	161	2	0	0	32	0	0	0	0	1	596	581	156	2984	145	4945	6.9%
2015-2016	43	14	6	6	0	0	155	19	138	1	0	0	18	2	0	1	0	3	489	587	115	2845	125	4567	6.4%
2016-2017	41	10	6	8	0	1	130	15	141	0	3	0	15	1	0	0	0	2	446	493	135	2600	122	4169	5.8%
2017-2018	38	15	3	4	0	0	109	7	140	5	1	0	19	1	0	0	0	1	425	435	118	2333	134	3788	5.3%
2018-2019	28	10	4	6	0	0	87	7	132	2	0	0	14	3	0	1	0	1	355	414	93	2205	149	3511	4.9%
2019-2020	29	20	1	8	1	1	76	8	133	2	1	0	19	1	0	0	0	2	323	381	93	1934	133	3166	4.4%
2020-2021	32	7	2	4	1	0	61	7	97	2	0	0	11	2	0	0	0	0	264	278	70	1619	102	2559	3.6%
2021-2022	30	9	1	4	2	0	67	4	84	1	0	1	11	3	0	1	0	4	263	317	86	1524	116	2528	3.5%
2022-2023	31	3	2	4	1	0	60	5	57	4	0	0	3	2	0	0	0	0	253	273	54	1012	38	1802	2.5%
2023-2024	30	3	2	4	2	0	46	6	63	2	2	0	8	0	0	0	0	2	203	178	51	922	42	1566	2.2%
2024-2025	21	0	2	2	0	1	31	2	41	0	0	1	6	2	0	0	0	1	157	177	36	637	51	1168	1.6%
2025-2026	20	2	3	3	0	0	24	2	33	2	0	0	3	0	0	0	0	1	147	119	18	496	32	905	1.3%
2026-2027	10	1	1	2	1	0	34	3	21	0	0	0	9	1	0	0	0	1	108	101	10	368	12	683	1.0%
2027-2028	10	2	1	1	1	0	15	0	15	1	1	0	3	0	0	0	0	0	88	91	20	283	24	556	0.8%
2028-2029	5	0	1	1	0	0	10	0	3	0	0	0	0	0	0	0	0	0	26	21	4	78	1	150	0.2%
Total	675	217	91	144	18	4	2419	178	2364	43	16	7	333	33	4	5	1	36	7139	8269	1963	45204	2339	71502	
Percent of Total	0.9%	0.3%	0.1%	0.2%	0.0%	0.0%	3.4%	0.2%	3.3%	0.1%	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.1%	10.0%	11.6%	2.7%	63.2%	3.3%		

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

Appendix B
(Page 1 of 2)

Virginia Prepaid Education Program

Participant Data as of June 30, 2010 – Remaining Years of Tuition

Expected Payout Year	University Years	Community College Years
2010-2011	16,490	1,196
2011-2012	16,468	1,070
2012-2013	16,505	1,017
2013-2014	16,343	1,069
2014-2015	15,508	1,043
2015-2016	15,360	1,024
2016-2017	14,850	979
2017-2018	13,856	892
2018-2019	12,951	807
2019-2020	11,898	746
2020-2021	10,690	675
2021-2022	9,694	601
2022-2023	8,318	521
2023-2024	6,999	439
2024-2025	5,728	358
2025-2026	4,456	286
2026-2027	3,485	236
2027-2028	2,663	176
2028-2029	1,877	122
2029-2030	1,169	74
2030-2031	644	39
2031-2032	262	20
2032-2033	86	9
2033-2034	31	3
2034-2035	5	1
Total	206,336	13,403

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%	4.00%	9.74%	6.24%	4.50%	11.24%	7.49%	7.60%	7.66%
Standard Deviation	2.00%	2.00%	18.00%	9.15%	4.55%	25.20%	19.20%	4.85%	6.20%
Correlation:									
Inflation	1.00	0.58	0.20	0.01	0.15	0.09	0.13	0.14	-0.06
Reasonable Rate		1.00	0.30	0.17	0.35	0.00	0.00	-0.09	-0.41
Global Equity			1.00	0.57	0.12	0.44	0.44	0.02	-0.20
High Volume Fixed Income				1.00	0.60	0.32	0.49	0.31	0.39
Low Volume Fixed Income					1.00	-0.25	0.26	0.29	0.35
Private Equity						1.00	0.22	-0.38	-0.31
Real Estate							1.00	0.22	0.20
Univ Tuition								1.00	0.79
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 10.0% for the next two years and 7.5% per year thereafter for university tuition, and 9.5% for the next year, 8.5% for the following year, and 7.5% per year thereafter for community college tuition. The expected annual means shown above for University tuition are increased by 2.5% in the first two years, and the expected annual means shown above for community college tuition are increased by 2.0% in the first year and 1.0% in the second year 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 = $52.19
Annual Distribution Cost per Contract in Payment Status = $13.05

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%
2010-2011	8,803	11.3%	3,284	18.1%

Compounded Increase in Tuition

	University	Community College
Over last 5 years:	8.0%	9.0%
Over last 10 years:	8.8%	11.0%
Over last 15 years	5.5%	5.6%
Over last 20 years:	6.1%	6.7%
Over last 25 years:	6.4%	n/a

Appendix D

Virginia Prepaid Education Program

Cash Flow Projection
(amounts in millions)

Fiscal Year	Beginning Balance	Monthly Payments	Tuition Benefits	Expenses	Investment Income	Ending Balance
2011	$1,622.1	$61.4	$155.6	$4.0	$105.3	1,629.2
2012	1,629.2	53.5	169.7	4.0	104.7	1,613.7
2013	1,613.7	45.7	186.5	3.8	102.5	1,571.6
2014	1,571.6	37.7	199.2	3.6	98.6	1,505.1
2015	1,505.1	29.8	203.8	3.2	93.6	1,421.5
2016	1,421.5	23.4	217.0	3.0	87.1	1,312.0
2017	1,312.0	20.2	225.2	2.8	79.1	1,183.3
2018	1,183.3	17.3	225.5	2.5	70.0	1,042.6
2019	1,042.6	14.5	226.1	2.3	60.4	889.1
2020	889.1	11.9	223.1	2.0	50.0	725.9
2021	725.9	9.8	215.5	1.8	39.1	557.5
2022	557.5	7.6	210.4	1.5	27.6	380.8
2023	380.8	5.8	195.2	1.3	16.4	206.5
2024	206.5	4.2	177.7	1.1	5.1	37.0
2025	37.0	2.9	157.4	0.9	0.0	(118.4)
2026	(118.4)	1.8	132.7	0.7	0.0	(250.0)
2027	(250.0)	0.9	112.3	0.5	0.0	(361.9)
2028	(361.9)	0.2	92.7	0.4	0.0	(454.8)
2029	(454.8)	0.0	70.4	0.3	0.0	(525.5)
2030	(525.5)	0.0	47.2	0.2	0.0	(572.9)
2031	(572.9)	0.0	27.9	0.1	0.0	(600.9)
2032	(600.9)	0.0	12.2	0.0	0.0	(613.1)
2033	(613.1)	0.0	4.3	0.0	0.0	(617.4)
2034	(617.4)	0.0	1.7	0.0	0.0	(619.1)
2035	(619.1)	0.0	0.3	0.0	0.0	(619.4)

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.