COMMONWEALTH of VIRGINIA

VIRGINIA COLLEGE SAVINGS PLAN
9001 Arboretum Parkway, Richmond, VA 23236

Mary G. Morris
Chief Executive Officer

(804) 371-0766

November 30, 2012

The Honorable Robert F. McDonnell
Governor of Virginia
Patrick Henry Building, 3rd Floor
1111 East Broad Street
Richmond, Virginia 23219

Dear Governor McDonnell:

As required by Va. Code §23-38.84, it is my pleasure to present the Annual Financial Report of the Virginia College Savings Plan as well as the Actuarial Valuation of the Virginia Prepaid Education Program (VPEP) for the fiscal year ending June 30, 2012.

The financial statements were prepared in accordance with generally accepted accounting principles. The Actuarial Valuation compares the value of the current and projected assets of VPEP to the value of expected future disbursements and program costs. The Actuarial Valuation was performed based upon generally accepted actuarial principles by Milliman, Inc.

Please do not hesitate to contact me at (804) 371-0766 with any questions or comments that you may have.

Respectfully submitted,

Mary G. Morris
Chief Executive Officer

Virginia529**Annual Report**

For the period ended on June 30, 2012

Virginia529[SM]
College Savings Plan

COMMONWEALTH of VIRGINIA

VIRGINIA COLLEGE SAVINGS PLAN
9001 Arboretum Parkway, Richmond, VA 23236

Mary G. Morris
Chief Executive Officer

LETTER OF TRANSMITTAL

November 1, 2012

Shawn P. McLaughlin
Chairman
Board of the Virginia College Savings Plan
9001 Arboretum Parkway
Richmond, Virginia 23236

Dear Mr. McLaughlin:

It is our pleasure to present the Annual Financial Report (the Report) of the Virginia College Savings Plan (the Plan) for the fiscal year ended June 30, 2012, as required by Section 23-38.84 of the Code of Virginia. This Report will be presented to the Governor, the Senate Committee on Finance, the House Committees on Appropriations and Finance, and the Joint Legislative and Audit Review Commission. The Report also will be available on our web site at Virginia529.com.

MISSION AND PROGRAMS

The Plan's mission is to continue to be a national leader in 529 programs by providing superior, affordable, innovative, tax-advantaged college savings options to assist families and others in achieving their higher education goals, all as part of our statutory mandate to help make college more affordable and accessible. We accomplish our mission primarily through four college savings programs, the Virginia Prepaid Education Program (VPEP℠), the Virginia Education Savings Trust (VEST℠), CollegeAmerica® and CollegeWealth®.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

The Plan's management assumes full responsibility for the accuracy, completeness and reliability of the information presented. The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). The financial statements contain a description of the accounting principles used in the preparation of the statements. In accordance with GASB Statement No. 34, the financial statements include Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it.

The Plan's management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with GAAP. The internal control system includes the organization plan, the appropriate segregation of duties and responsibilities and sound practices in the performance of duties, data security, and personnel with capabilities commensurate with their responsibilities.

VPEP ACTUARIAL VALUATION AND OUTLOOK

The Plan's most recent actuarial valuation report for VPEP was prepared by Milliman, Inc. as of June 30, 2012 and compares the value of the current and projected assets of VPEP to the value of expected future disbursements and program costs. The actuarial valuation was performed based upon generally accepted actuarial principles. The two most significant assumptions used to prepare VPEP's actuarial valuation report are the long-term rates of investment return and future tuition growth. The report indicated an improvement in VPEP's actuarially determined funded position from the position as of June 30, 2011 primarily due to lower than expected tuition increases, offset by lower than expected investment returns. We are pleased to report that VPEP was 103.4 percent funded on an actuarial basis as of June 30, 2012.

The Plan continues to remain optimistic that its asset allocation and investment strategies will result in the VPEP portfolio meeting or exceeding performance expectations over the long-term. The Plan has assumed a long-term rate of return of 6.75 percent on VPEP investments, having reduced the rate from 7 percent for the 2012 valuation report. As of June 30, 2012, the total return since inception was just under 6.3 percent, net of fees, and reflected the lower than expected 1 percent overall performance during fiscal 2012. As of the quarter ended September 30, 2012, the return on VPEP investments since inception had increased to 6.5 percent, reflecting the general increase in global equity and fixed income markets in the first quarter of fiscal year 2013. In June 2009, the Plan adopted a new target asset allocation strategy designed to improve returns with a slightly lower expected volatility of returns versus the prior allocation strategy. Plan staff and the Investment Advisory Committee continued to work diligently during fiscal year 2012 to implement the new target allocation strategy. As of June 30, 2012, the VPEP portfolio was within 3.0 percent of its target allocation in the four major categories.

Many factors may influence our ability to achieve the assumed long-term investment return. As we head further into fiscal 2013, global uncertainty continues as a result of regime changes and other issues in the Middle East, increasing indications of slowing growth in China, and ongoing concerns as to European sovereign debt. During the first quarter, central banks around the globe announced or enacted new or additional monetary stimulus to aid their respective moribund economies.

Faced with the potential "fiscal cliff" in January 2013 along with ongoing regulatory uncertainty, the Federal Reserve (Fed) also took action to increase U.S. investor confidence. In June 2012, the Fed announced that it would extend its maturity extension program (referred to by some as "operation twist") that began in September 2011. The original program was intended to sell $400 billion of shorter-term U.S. Treasury securities by the end of June 2012, with the proceeds used to buy longer-term U.S. Treasury securities. The Fed announced that under the extension, it would purchase an additional $267 billion in longer-term, and sell an equal amount of shorter-term, Treasury securities.

In mid-September 2012, the Fed announced a third round of quantitative easing under which it may purchase additional agency mortgage-backed securities at a pace of $40 billion per month, with no end-date or total purchase limit specified in advance. The Fed also announced that it will maintain its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in additional agency mortgage-backed securities for the foreseeable future. Finally, the Fed announced its decision to retain the target range for the federal funds rate at 0 to 1/4 percent at least through mid-2015, absent changes in inflation. The Fed's goal is to place downward pressure on longer-term interest rates, support mortgage markets, and help make broader financial conditions more accommodative.

As of October 1, 2012, the U.S. unemployment rate was 7.8 percent down from 9.0 percent in September 2011. Although the trend in the unemployment numbers was positive during fiscal 2012 and into fiscal 2013, the underlying numbers reflect sluggish job creation and a lagging recovery. GDP is growing at a mild 1.3 percent. Interest rates remain low both domestically and globally, helping the fixed income market.

U.S. equities continued to climb in the first quarter of fiscal 2013 as measured by the Standard & Poor's 500 Index that rose 6.35 percent during the quarter, and up about 15 percent for the calendar year, despite the global and domestic tail winds. International equities performed well as measured by the MSCI EAFE index's cumulative return of 6.98 percent for the quarter. The cumulative return for the Barclays Capital US Aggregate Bond Index for the period from July 1, 2012 through September 30, 2012 was 1.59 percent. The VPEP portfolio experienced a net performance return of 4.5 percent for the three-month period from July 1, 2012 through September 30, 2012. It is difficult to estimate how these and other factors may impact the performance of VPEP during the remainder of fiscal 2013.

The other significant factor in VPEP's ability to meet its future obligations is the future growth in tuition. The 2012 General Assembly provided approximately $150 million in additional general fund support to higher education institutions in the 2012-14 biennium - $65 million in fiscal 2013 and $83 million in fiscal 2014. According to the State Council of Higher

Education for Virginia (SCHEV), notwithstanding this additional funding, general fund support for Virginia's public colleges and universities remains at its lowest level since fiscal 2006.

As a result of the additional funding and a concerted effort on the part of the colleges and universities to contain tuition growth, full time undergraduate tuition and all mandatory fees at public higher education institutions in Virginia increased by an average of 4.1 percent for the 2012-13 academic year. This increase was less than the tuition increase assumption of 10.0 percent contained in the 2011 VPEP actuarial valuation. The Board reduced its tuition increase assumption of 10.0 percent for fiscal 2014 to 7.5 percent and maintained the 7.5 percent assumption thereafter.

There is an inverse relationship between state funding and the rate at which tuition increases at public higher education institutions. For the third consecutive year, general fund revenue growth surpassed the revenue forecast and the Commonwealth ended fiscal 2012 with a surplus. According to the Governor's Office, the main drivers of the revenue increase were growth in individual income tax receipts from payroll withholding, lower individual income tax refunds and higher than expected sales and corporate income tax collections. While the Commonwealth's economy and general fund revenue are recovering, it is unknown when and to what extent additional resources may become available to restore support to public higher education and mitigate pressure on tuition. Virginia is considered to be one of the most vulnerable states to potential federal spending reductions because of its dependence on defense spending and the large number of federal employees who live and work in Virginia.

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 7.5 percent for four-year and two-year institutions for fiscal year 2014 and thereafter. 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.

2012 Program Highlights

- **Account Growth and Transaction Volume**

During fiscal 2012, the Plan continued to experience positive growth in accounts as shown in the table below. CollegeWealth's 54.8 percent growth rate demonstrates the success of the program with BB&T and Union First Market Bank. This figure should normalize in the future as the program's account base continues to increase following its 2009 re-launch. The

VEST Program's 10 percent growth rate depicts continued strong growth and corresponds to an additional 16,459 accounts opened during the fiscal year.

Fiscal 2012 Growth in Accounts[1]	
VPEP	3.0%
VEST	10.0%
CollegeAmerica	2.8%
CollegeWealth	54.8%

[1]*Gross accounts opened during fiscal year*

Transaction volume also continued to increase as participants utilized their college savings accounts. During fiscal year 2012, the Plan processed 22,073 VEST distribution requests and 26,304 VPEP payments to institutions, representing a 6.8 percent increase and 3.3 percent increase over the prior fiscal year, respectively.

- **Operational Improvements**

During FY2012 the Plan continued to make improvements to better serve our customers. While too numerous to list them all, we offer some examples. The Plan continued to partner with the American Funds to convert shareholder positions at the American Funds to an omnibus environment and the establishment of the customer's account at their brokerage firm by converting Pershing in March 2012. The Plan also implemented changes to its Banner system to automatically load rollover account data, thereby reducing the customer's paperwork required for VPEP to VEST rollovers.

During 2012, we successfully implemented EBOX with Wells Fargo to reduce the volume of manual processing of bill payer payment checks received via lockbox. The Plan processed almost 125,000 checks via lockbox in 2012, representing payments and contributions for VPEP and VEST, respectively. While the total volume of checks is shrinking, a greater percentage are received from bill payer systems that in the past required special manual processing due to lack of information on the check and the absence of a coupon. The change to EBOX allows these checks to be processed along with other checks in the lockbox system, significantly reduced processing and staff time required to post these receipts.

- **Banner Finance Conversion**

The Plan successfully converted its general ledger accounting systems to Banner Finance as of July 1, 2010. This project has resulted in process efficiencies, reduced data entry and improved reporting. During 2012 staff continued to focus on procedure and process changes in Accounting, utilizing the Banner Finance system, and completing the interface system with CARS, the Commonwealth's financial accounting system of record. The financial statements for fiscal 2012 were pulled from the Banner Finance system for the first time rather than from

CARS. Phase I of the CARS interface project was completed in March 2011, at which time the Plan was able to interface directly to transmit certain transaction types. Phase II, which included over 90 percent of the Plan's disbursement transactions, was completed in March 2012. Phase III, which involves a few minor remaining transaction types, is expected to be completed in 2013.

The Department of Accounts is replacing CARS with a new, more robust accounting system (Cardinal Project). It is expected that state agencies, including the Plan, will be involved in the statewide rollout of the Cardinal Project in the next couple of years. As a result, this will likely require additional information technology resources since the Plan will need to interface with Cardinal as well.

- **VEST and CollegeAmerica Investment Changes/Enhancements**

The Plan successfully completed the triennial VEST age-based portfolio evolution on January 1, 2012 and consolidated all of the fully evolved age-based portfolios into the Piedmont portfolio on December 31, 2011. The consolidation retained the participants' underlying stable value investment and provided operating efficiencies for the Plan. The age-based evolving portfolios continue to be the most popular of the diversified VEST investment options.

In the spring of 2012, the Plan approved the inclusion of six new American Funds Portfolio Series mutual funds in the CollegeAmerica fund offerings. The Portfolio Series mutual funds were launched in May 2012, operate under a fund of funds structure, and are intended to supplant the current mix of pre-defined objective-based American Funds portfolios. The new funds eliminate certain operational impediments and challenges faced by advisers and will automatically rebalance to target allocations. The Plan also approved the creation and inclusion of seven new American Funds Target Date Series mutual funds in the CollegeAmerica fund offerings. The Target Date Series mutual funds were launched in September 2012, operate under a fund of funds structure, and are designed to provide advisers with pre-packaged investment options that automatically adjust their asset allocations over time using a pre-determined glide path to coincide with when the underlying beneficiary approaches their estimated date for starting college. The American Funds Target Date Series funds will operate similar to the VEST age-based evolving portfolios. These new CollegeAmerica investment options will further enhance the popularity of the program.

- **2012 General Assembly Session**

During its 2012 Session, the General Assembly passed, and the Governor signed, the Virginia College Savings Plan Oversight Act, which provided for oversight and evaluation on a continuing basis by the Joint Legislative Audit and Review Commission (JLARC). Although the legislation was not the result of a problem or deficiency, JLARC oversight will result in the dedication of Plan staff and financial resources in the future. The Plan began working to familiarize JLARC with Plan operations prior to the end of the fiscal year and will look forward to reviewing the first biennial report during the next fiscal year.

Also during the 2012 Session, the General Assembly approved the Plan's operating budget for the 2012-2014 biennium, which included eight additional positions and a comprehensive compensation plan designed to link compensation adjustments to performance. The operating budget also included increases to support information technology improvements to ensure customer data security and privacy and improve customer service.

ACKNOWLEDGEMENTS

We remain committed to providing the best possible customer service to our program participants and to the citizens of the Commonwealth, and to be responsible stewards of the funds in our care. We express our sincere thanks and appreciation to our outstanding staff, our business partners and the guidance and dedication of our Board and Committee members.

Respectfully submitted,

Mary G. Morris
Chief Executive Officer

Gary Ometer, CPA
Chief Financial Officer

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Management's Discussion & Analysis

VIRGINIA COLLEGE SAVINGS PLAN'S MANAGEMENT'S DISCUSSION AND ANALYSIS Unaudited

The Virginia College Savings Plan's Management's Discussion and Analysis 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, 2012. This presentation includes summarized data and 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 plan, which offers four programs, 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 the future payment of undergraduate tuition for the normal full-time course load for students enrolled in a general course of study at any Virginia public higher educational institution and all mandatory fees required as a condition of enrollment of all students and differing payouts at private or out-of-state institutions. Annually, the Plan's actuary determines the actuarial soundness of VPEP. Key factors used in the actuarial analysis include anticipated tuition increases (both short- and long-term) as well as anticipated long-term 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 31 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 two participating banks BB&T and Union First Market Bank.

Overview of Financial Statements

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

Business Type Activities

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 VPEP's financial position.

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.

VEST activities are reported in the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets. The Statement of Fiduciary Net Assets presents information on all VEST assets and liabilities, with the difference between the two reported as total net assets. The Statement of Changes in Fiduciary Net Assets presents the revenues earned and expenses incurred during the year.

CollegeAmerica and CollegeWealth are also defined contribution savings programs and are presented as supplemental information.

Notes to the Financial Statements

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

Fiscal 2012 Financial Highlights

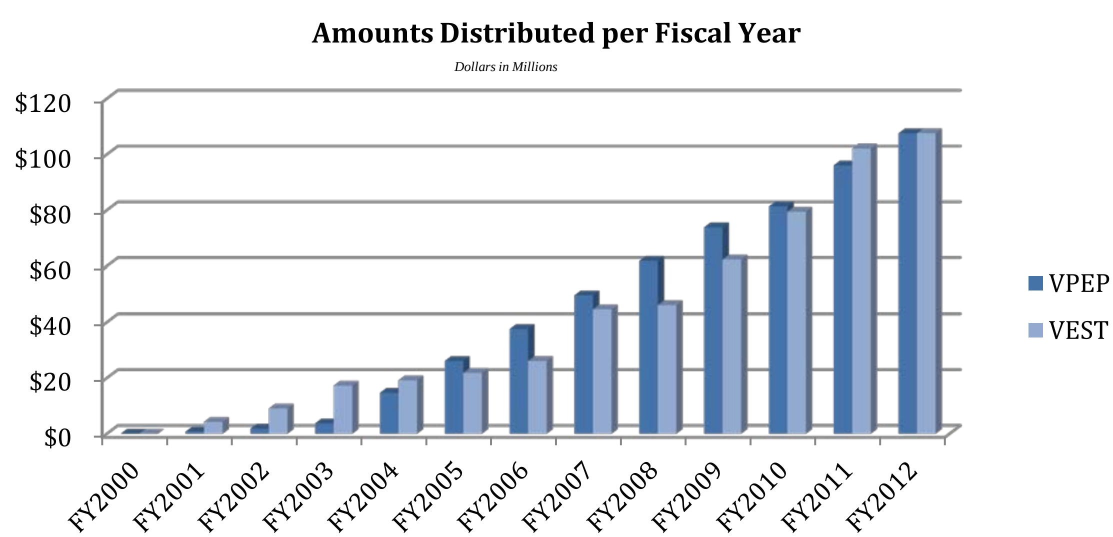
The Plan holds, invests and distributes monies held in trust for program participants. The Plan invests its funds pursuant to statute and Investment Policies and Guidelines under the direction of its Board and Investment Advisory Committee in a mix of equity, fixed income and alternative investments. During the fiscal year ended June 30, 2012, the equity and fixed income markets performed moderately well but with continued volatility and with domestic markets outperforming international markets. The United States domestic equity market, as measured by the Standard & Poor's 500 Index, ended the year up 5.4 percent from June 30, 2011 while international equity markets as measured by the MSCI EAFE Index, were down -13.4 percent. The fixed income markets provided consistent performance as demonstrated by the Barclays Capital US Aggregate Bond Index returning 7.5 percent for the year ended June 30, 2012.

In aggregate, market movements had an overall net positive effect on fixed income and equity security prices in the VPEP, VEST and CollegeAmerica portfolios for the fiscal year ended June 30, 2012.

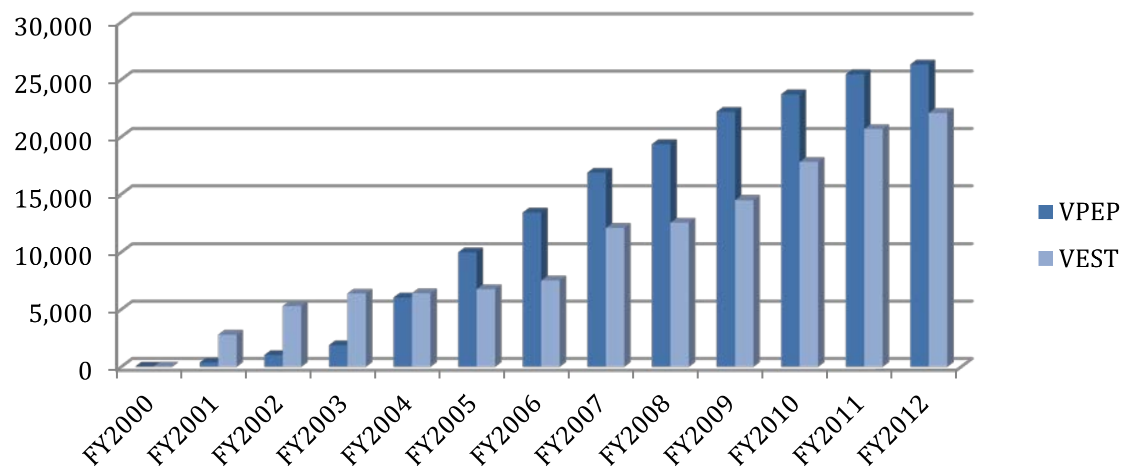
- The Enterprise Fund's total cash, cash equivalents, and investments held in trust for program participants increased by $37 million, or about 1.9 percent from fiscal year-end 2012 .

- VPEP's actual return on investments for the fiscal year ended June 30, 2012 was 1.0 percent on a time-weighted and 0.8 percent on a dollar-weighted basis reflecting the equity and fixed income market performance during the fiscal year.
- The Enterprise Fund's net assets increased by $63.9 million to an actuarially determined surplus of $74.2 million from an actuarial surplus of $10.2 million in the prior year, which was primarily due to lower than expected tuition increases offset by lower than expected investment returns.
- VPEP's actuarially determined tuition benefits payable liability decreased by $40.0 million, or approximately 1.8 percent, which was primarily due to the decreases in the future tuition growth assumptions, the additional obligation of 3,119 new contracts opened during the 2011 – 2012 enrollment period, and the transfer of surplus operating revenue to VPEP.
- VEST net assets held in trust for program participants increased by $177.7 million or about 10.0 percent due to growth in accounts and moderate capital markets performance.
- Both VPEP and VEST applicants continued to increase utilization of on-line applications with more than 90.4 and 93.6 percent, respectively, of applications being filed on-line.
- The Plan continued to experience positive growth in accounts, particularly in VEST and CollegeWealth with 8.6 percent and 52 percent account growth, respectively. CollegeAmerica also experienced positive account growth in 2012 at 2.9 percent. More information on CollegeAmerica and CollegeWealth is provided in Supplemental Information.
- Distributions as measured by dollars and number of transactions, continued to increase for both VPEP and VEST as participants utilized their college savings accounts. Transactional activity for both VPEP and VEST is depicted in the graphs below.

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



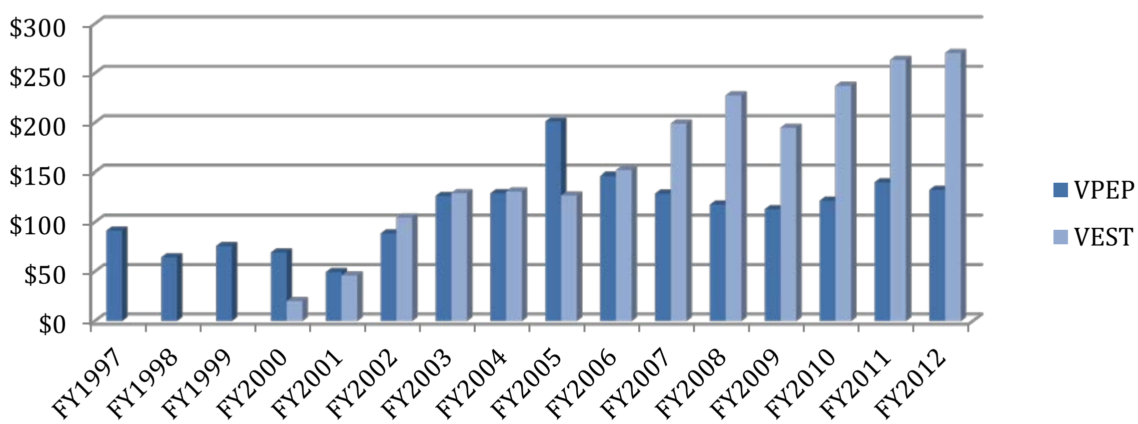
Number of Distributions on Behalf of Beneficiaries per Fiscal Year



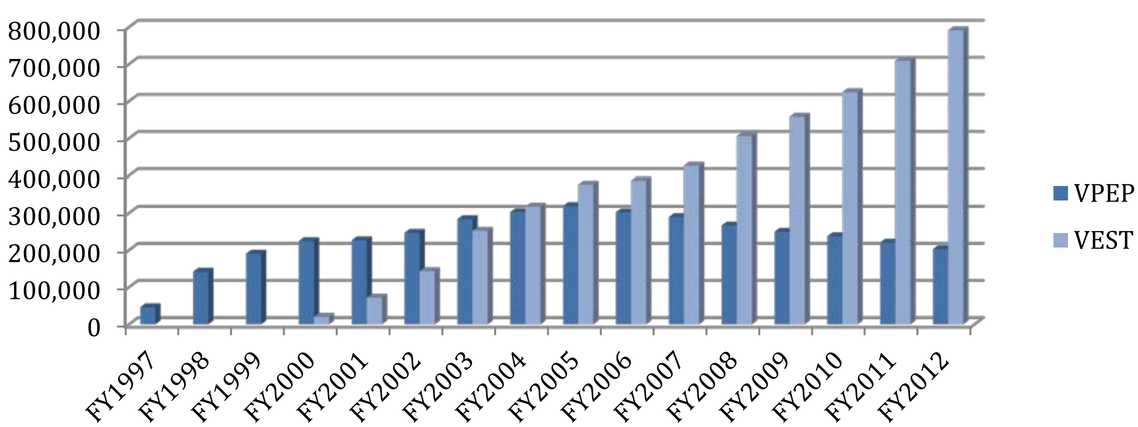
The two graphs below represent VPEP payments and VEST contributions received since fiscal year 1997 – VEST being introduced in fiscal 2000.

Amounts Received per Fiscal Year

Dollars in Millions

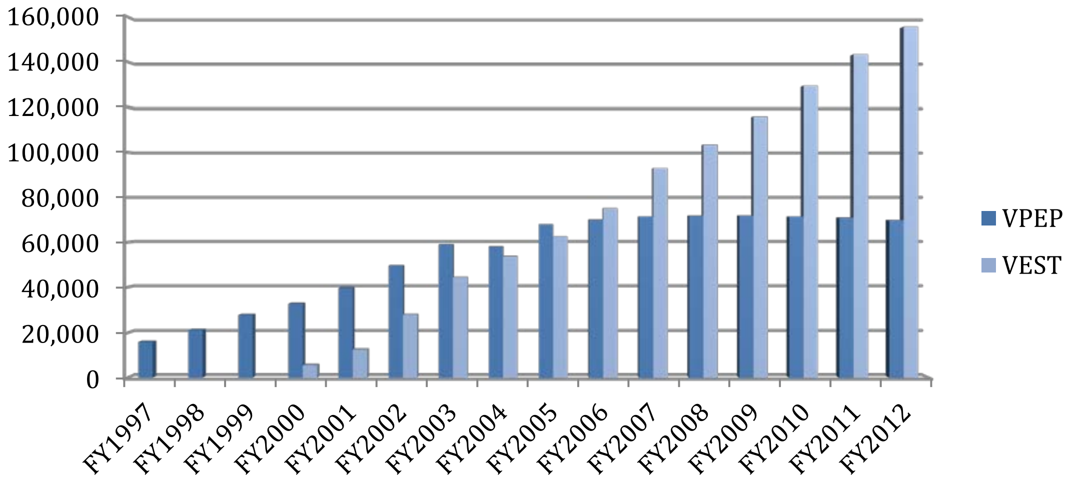


Number of Payments/Contributions Received per Fiscal Year



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

Growth in Accounts Under Management



Analysis of Enterprise Fund Financial Activities

The Enterprise Fund includes the activities of VPEP as well as the Plan's general operating activities. The Enterprise Fund ended the year with net assets of $74.2 million.

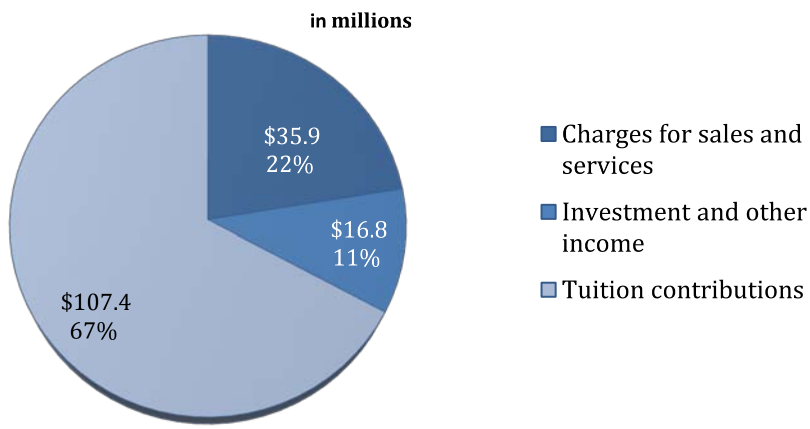
Table 1 is a summary comparison of the VPEP's Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year 2012 as compared to the prior year.

Table 1 – Enterprise Fund – Changes in Net Assets (in millions)

YEARS ENDED JUNE 30,	2012	2011	CHANGE
Operating revenues			
Charges for Sales and Services	$ 35.9	$ 34.2	$ 1.7
Interest and Dividends	60.7	127.7	(67.0)
Net decrease in fair value			
of investments	(44.0)	177.2	(221.2)
Tuition Contributions	107.4	119.8	(12.4)
Net operating revenues	160.0	458.9	(298.9)
Operating expenses			
Tuition Benefits Expense	78.4	226.9	(148.5)
Other operating expenses	17.2	15.8	1.4
Net operating expenses	95.6	242.7	(147.1)
Non operating interest expense	(0.1)	0.0	(0.1)
Transfer to the Commonwealth	(0.4)	(0.3)	(0.1)
Change in net assets	$ 63.9	$ 215.9	$ (152.0)

Capital markets performed moderately well but with continued volatility and with domestic markets outperforming international markets during the fiscal year. For the fiscal year ended June 30, 2012, there was a net decrease in the fair value of investments of approximately $44 million, versus the increase in the prior fiscal year of $177.2 million. The fair market value of investment securities changes on a daily basis depending upon market conditions. This number will fluctuate from year to year, depending upon market conditions on June 30th, or the last business day of the fiscal year. Investment income represents about 11 percent of enterprise fund revenue, as shown in Chart 1.

Chart 1
2012 Enterprise Fund Revenue



Tuition contribution revenue includes actual and actuarially estimated contributions, and represents approximately 67 percent of enterprise fund revenue. Actual tuition contributions from participants decreased by $8.9 million over prior year receipts. In addition, actuarially determined tuition contribution revenue decreased by $3.4 million. Receipts for charges for sales and services totaled $35.9 in fiscal year 2012. This is a $1.6 million increase over the prior year. The increase is attributable to the growth in assets in the CollegeAmerica and CollegeWealth programs.

Table 1 reflects Tuition Benefits Expense, which is comprised of two components, actuarially determined and actual tuition benefits expenses. The actuarial tuition benefit expense is accrued for estimated expenses, as determined by the Plan's actuary, and it represents the net change in tuition benefits payable over the prior fiscal year end. This actuarially determined amount decreased from the previous fiscal year end accrual by $159.3 million.

Actual tuition benefit expense represents actual distributions made during the fiscal year. This actual amount increased over the prior year by $10.8 million, or 10 percent. The increase in actual distributions is attributable to an increase in the number of students using benefits and increases in tuition and mandatory fees at the higher education institutions. The net change in Tuition Benefits Expense from fiscal year 2011 is $148.5 million.

Table 2 below demonstrates the numbers of students served and the amounts paid from VPEP directly to Virginia public universities and community colleges during the 2011 – 2012 academic year. Virginia's colleges received approximately $89.8 million in VPEP tuition and mandatory fee payments for 10,424 students in the 2011 – 2012 academic year.

Table 2
VPEP Payments to Virginia Public Universities and Community Colleges
2011-2012 Academic Year

PUBLIC COLLEGES	STUDENTS WITH VPEP CONTRACTS	VPEP PAYMENTS TO COLLEGES
Virginia Tech	1879	$ 19.2 million
University of Virginia	1304	$ 14.8 million
Virginia Commonwealth University	1096	$9.7 million
James Madison University	1087	$ 8.8 million
College of William & Mary	608	$ 7.9 million
George Mason University	717	$ 6.3 million
Christopher Newport University	448	$ 4.4 million
Community Colleges *	1460	$4.0 million
Longwood University	396	$ 3.7 million
Old Dominion University	559	$3.6 million
Radford University	431	$ 3.3 million
University of Mary Washington	290	$ 2.5 million
Virginia Military Institute	82	$ 1.0 million
University of Virginia at Wise	31	$ .22 million
Virginia State University	20	$ .13 million
Norfolk State University	16	$ .08 million

*Includes Richard Bland College; Virginia's only 2-year junior college.

As shown in Chart 2, tuition benefit payments represent 87 percent of actual expenses of the Enterprise Fund. Of the $17.2 million expended for administrative and operating services, 83 percent were for personal and contractual services. The net change in actual tuition benefits expense resulted in an increase of $10.8 million over the prior fiscal year.

Chart 2
2012 Enterprise Fund Expenses

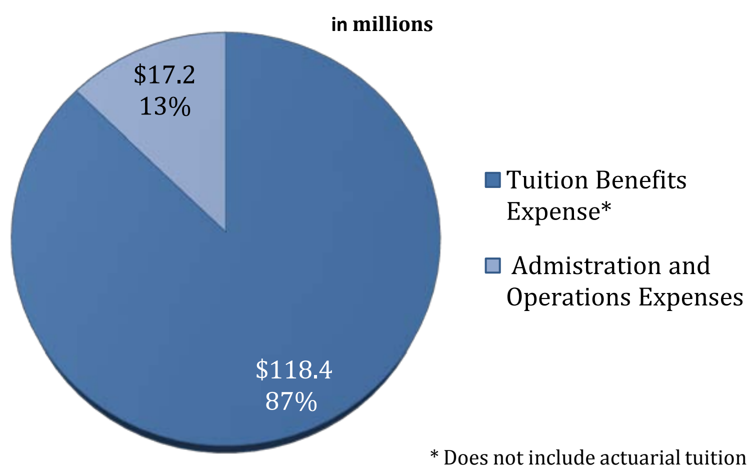


Table 3 provides a comparison of administrative and operating expenses between fiscal years 2012 and 2011.

Table 3 – Enterprise Fund
Plan Administration and Operations Expenses (in thousands)

YEARS ENDED JUNE 30,	2012	2011	CHANGE
Personal Services	$ 7,375	$ 7,061	$ 314
Contractual Services	6,911	5,605	1,306
Supplies & Materials	57	94	(37)
Depreciation	290	320	(30)
Rent, insurance, and other related charges	103	91	12
Expendable equipment	446	571	(125)
SOAR Virginia	2,000	2,000	-
Other	6	79	(73)
Admin. and Operating Expenses	$ 17,188	$ 15,821	$ 1,367

The 4 percent increase in personal services expense, is attributable in part to Plan employees receiving a 5 percent salary increase provided to all state employees to cover newly mandated employee contributions to the Virginia Retirement System (VRS). The increase in contractual services expense is primarily attributable to temporarily funding VEST settlement from operating funds that were reimbursed in the following fiscal year. Other increases were due to items such as custodial fees. The decrease in expendable equipment costs in fiscal year 2012 was due to the replacement of information technology network equipment, including purchases of new servers and software in fiscal year 2011. The major portion of the decrease in other expenses is due to a change in reporting of the interest associated with the capital lease obligation. This is now reported as a non-operating expense.

Table 4 – Enterprise Fund
VPEP Financial Position (in millions)

As of JUNE 30,	2012	2011	CHANGE
Assets:			
Current assets	$ 114.3	$ 150.0	$ (35.7)
Investments	1,935.4	1,866.6	68.8
Other noncurrent assets	188.1	197.9	(9.8)
Total VPEP Assets	$ 2,237.8	$ 2,214.5	$ 23.3
Liabilities:			
Current liabilities	192.6	178.0	14.6
Noncurrent Liabilities	1,982.8	2,037.3	(54.5)
Total VPEP Liabilities	$ 2,175.4	$ 2,215.3	$ (39.9)
Change in VPEP net assets	$ 62.4	$ (0.8)	$ 63.2

Assets

Current assets decreased by approximately $35.7 million from the previous year. The decrease was primarily the result of several investment managers reducing their cash positions during the year.

Long-term investments increased by $68.8 million, or over 3 percent. This increase was partially due to market conditions that positively impacted investment performance as well as the purchase of long-term investments with cash as described in the preceding paragraph. Other noncurrent assets decreased by $9.8 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, decreased by $40.0 million, or approximately 1.8 percent. The total decrease 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 decrease is primarily due to decreases in the tuition growth assumptions.

Actuarial Soundness

The Plan's statute requires that it annually determine the actuarial soundness of VPEP. The purpose of the actuarial valuation is to assess the future value of the Plan's assets and liabilities, which are discounted to reflect their present value.

During fiscal year 2012, VPEP's actuarial position, as calculated by the Plan's actuary and reported in the 2012 Actuarial Valuation Report, improved from an actuarial surplus of $10.2 million to a surplus of $74.2 million. This improvement is mostly attributable to lower than expected tuition increases, offset in part by lower than expected investment returns. Actuarial assumptions are discussed in Note 8 in the Notes to the Financial Statements.

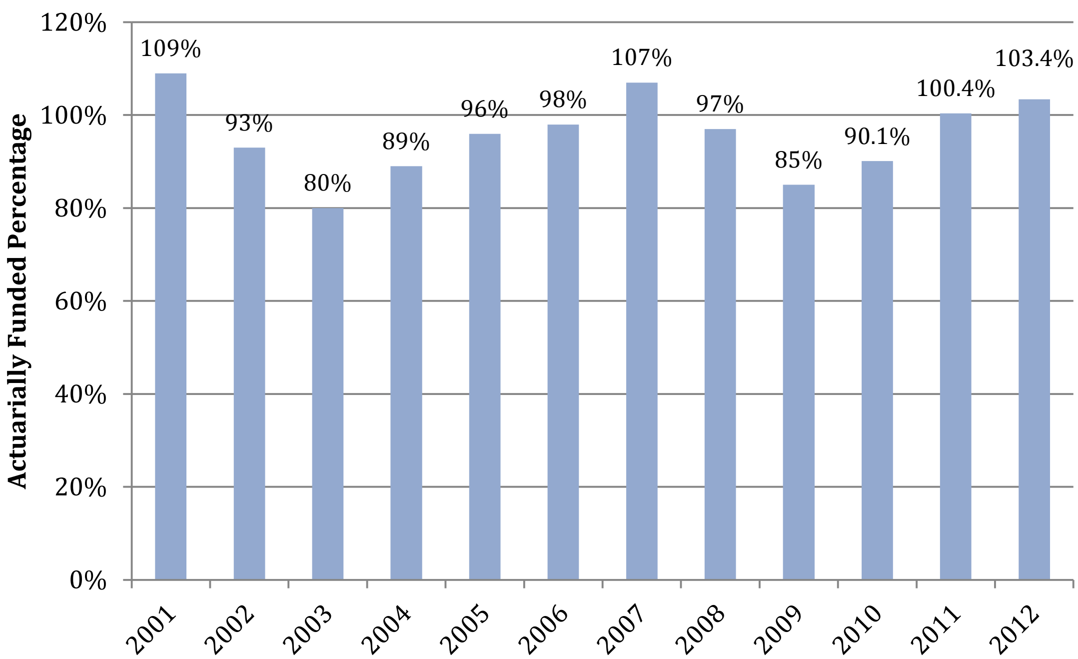
The overall effect of the changes on the actuarial reserve is summarized in Table 5. A copy of the 2012 Actuarial Valuation Report may be obtained from the Plan.

Table 5
VPEP Statement of Changes in Actuarial Reserve (dollars in millions)

Actuarial reserve at June 30, 2012	$	10.2
Interest on the reserve at 7.00%		.7
Investment gain (loss)		(122.0)
Tuition gain (loss)		101.1
Lower than expected account balances		15.5
Sales of new contracts		11.5
Administrative fee revenue from Plan programs		23.2
Change in investment return assumption		(29.4)
Change in tuition assumption		34.8
Change in other assumptions		13.2
Other gains		15.4
Actuarial reserve at June 30, 2012	$	74.2

VPEP's overall funded status, as calculated by the actuary, as of June 30, 2012 was 103.4%. Chart 3 provides VPEP's funded status since2001.

Chart 3
VPEP Actuarially Funded Percentage as of June 30th



As shown in Table 6, the Plan's year-end cash balance in the Enterprise Fund decreased by $31.9 million. The decrease was primarily the result of several investment managers reducing their cash positions during the year. The condensed Statement of Cash Flows for the Enterprise Fund for the fiscal years ended June 30, 2012 and 2011.

Table 6 – Enterprise Fund
Statement of Cash Flows (dollars in millions)

As of June 30,	**2012**	**2011**
Cash provided (used) by:		
Operating activities	$ 21.5	$ 38.1
Noncapital financing activity	(0.4)	(0.3)
Capital and related financing activities	(0.8)	(0.8)
Investing activities	(52.1)	(93.6)
Net increase (decrease) in cash	(31.8)	(56.6)
Cash – beginning of year	89.3	146.0
Cash – end of year	$ 57.5	$ 89.4

The change in the amount reflected as investing activities for fiscal year 2012 represented an overall net decrease in the amounts used to purchase securities versus proceeds from sales or maturities of investments and actual interest earnings.

In December 2011, the Board revised its Investment Policies and Guidelines for VPEP and VEST. The revisions were primarily related to performance monitoring, maintaining complimentary investing styles among managers, ensuring the review of manager diversity during manager searches, review of proxy voting guidelines, and updating applicable benchmarks. The overall asset allocation targets for VPEP, most recently revised in June 2009, did not change.

Since 2009, the Plan, working with the Investment Advisory Committee and Board, has continued the transition process to the new target asset allocation in VPEP (see Chart 4). The transition was largely complete by the end of fiscal 2012 with one manager being added in the alternatives asset category during fiscal 2012. In December 2011, a $40 million allocation was made to Harmonic Capital Partners' Alpha Plus Macro Fund, a global macro hedge fund strategy. This investment was funded by a complete liquidation of the Vanguard REIT index fund and a partial liquidation of the Aurora Offshore Fund Ltd. II. A complete list of VPEP managers as of June 30, 2012 can be found in Appendix B.

Chart 4
VPEP Asset Allocation as of June 30, 2012

Analysis of Fiduciary Fund (VEST) Financial Activities

Contributions from Plan participants increased from the previous year by approximately $7.8 million and there were more than 12,300 additional active VEST accounts at fiscal year end. Contributions represent amounts received from new and existing account holders. Net income on VEST investments decreased by $245 million over the prior year due to modest market conditions compared to the prior year. As anticipated, overall disbursements to VEST beneficiaries and institutions increased over the prior year by approximately 14.3 percent as more participants withdrew funds for higher education expenses.

Table 7
Virginia Education Savings Trust
Change in Fiduciary Net Assets (dollars in millions)

Fiscal year ended June 30	2012	2011	Change
Additions	$ 295.5	$ 532.7	$ (237.2)
Deductions	117.8	105.3	14.3
Net Increase	177.7	427.4	(249.7)
Net assets held in trust, beginning	1,784.8	1,357.4	427.4
Net assets held in trust, ending	$ 1,962.5	$ 1,784.8	$ 177.7

On January 3, 2012 the VEST age-based portfolios were reallocated according to their scheduled triennial evolution towards a more conservative investment mix. The reallocation included a new two-year transition step prior to final evolution to 100 percent stable value. The new transition step was approved during the fiscal 2011 VEST age-based portfolio review and is intended to enhance projected returns during the beneficiary's first two years of college.

Also during the fiscal year all fully evolved VEST age-based portfolios (100 percent stable value) were consolidated to the Piedmont Portfolio, VEST's 100 percent stable value option. This resulted in the permanent closure of the Tidewater, Highlands and Shenandoah Portfolios. In the future, once portfolios complete the new two-year transition step they will be permanently closed as well and assets will be transferred to the Piedmont Portfolio.

CollegeAmerica and CollegeWealth

Assets under management in CollegeAmerica remained relatively flat during the fiscal year increasing by approximately 2.4 percent from $32.1 billion to $32.9 billion. There were an additional 55,665 unique CollegeAmerica accounts at fiscal year end. A complete list of CollegeAmerica investment options as of June 30, 2012 can be found in Supplemental Information.

Assets under management in CollegeWealth increased by 61.8 percent in fiscal year 2012, to more than $41.5 million at year-end. The assets represented amounts held in savings instruments at the two participating banks (BB&T and Union First Market Bank) and were thus not subject to fair market value adjustments at year-end.

Prior to fiscal year 2010, CollegeAmerica and CollegeWealth were shown as private-purpose trust funds. Beginning in fiscal year 2010, CollegeAmerica and CollegeWealth were no longer included in the fiduciary fund financial statements but are 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.

Economic Factors and Outlook

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 6.75 percent on the VPEP investments, having reduced the rate from 7 percent for the 2012 VPEP valuation report. As of June 30, 2012, the total return since inception was about 6.3 percent net of fees and reflected VPEP's 1.0 percent performance during fiscal 2012. Global and domestic equity and fixed income markets experienced gains from June 30, 2012 into fiscal 2013. As of the month ended September 30, 2012, the return on the VPEP investments since inception had risen to 6.5 percent reflecting the market gains in the first quarter of fiscal year 2013. Portfolio performance through the balance of fiscal 2013 will depend on many factors.

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 7.5 percent for four-year and two-year institutions for fiscal years 2014 and thereafter. 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.

The performance of participants' VEST and CollegeAmerica portfolios will depend on many of the same investment factors as those impacting VPEP. In VEST, CollegeAmerica, and CollegeWealth, the participants rather than the Plan bear the risk of portfolio declines as a result of the market or other factors. As a result, no further information as to economic factors and outlook is provided.

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Financial Statements

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VIRGINIA COLLEGE SAVINGS PLAN
STATEMENT OF NET ASSETS
ENTERPRISE FUND
As of June 30, 2012

	Administration and Operations	VPEP	Total
ASSETS			
Current assets:			
Cash and cash equivalents (Note 1D and 2)	$ 2,941,291	$ 54,535,938	$ 57,477,229
Interest receivable		3,059,942	3,059,942
Tuition contributions receivable (Note 1F and 8)		56,698,608	56,698,608
Prepaids	11,273		11,273
Accounts receivable (Note 1G)	8,115,060		8,115,060
Total current assets	11,067,624	114,294,488	125,362,112
Noncurrent assets:			
Investments (Note 1D and 2)	-	1,935,438,185	1,935,438,185
Tuition contributions receivable (Note 1F)	-	188,097,045	188,097,045
Non-depreciable capital assets	380,892	-	380,892
Depreciable capital assets, net (Note 1I and 7)	3,191,166	-	3,191,166
Total noncurrent assets	3,572,058	2,123,535,230	2,127,107,288
Total assets	14,639,682	2,237,829,718	2,252,469,400
LIABILITIES			
Current liabilities:			
Accounts payable	1,852,451		1,852,451
Program Distributions Payable		118,915	118,915
Due to program participants (Note 1J)		29,682	29,682
Tuition benefits payable (Note 6)		192,470,297	192,470,297
Compensated absences (Note 1K and 6)	186,119		186,119
Obligations under capital lease (Note 6)	449,256		449,256
Total current liabilities	2,487,826	192,618,894	195,106,720
Noncurrent liabilities:			
Tuition benefits payable (Note 6 and 8)		1,982,825,356	1,982,825,356
Compensated absences (Note 1K and 6)	350,156		350,156
Obligations under capital lease (Note 6)	-		-
Total noncurrent liabilities	350,156	1,982,825,356	1,983,175,512
Total liabilities	2,837,982	2,175,444,250	2,178,282,232
NET ASSETS			
Invested in capital assets, net of related debt	3,122,802		3,122,802
Unrestricted	8,678,898	62,385,468	71,064,366
Total net assets	$ 11,801,700	$ 62,385,468	$ 74,187,168

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
For the Fiscal Year Ended June 30, 2012

	Administration and Operations	VPEP	Total
Operating revenues:			
Charges for sales and services	$ 35,863,935	$ -	$ 35,863,935
Interest, dividends, rents, and other investment income	-	60,740,701	60,740,701
Net increase in fair value of investments	-	(43,986,583)	(43,986,583)
Tuition contributions	-	120,007,317	120,007,317
Actuarial tuition contributions (Note 8)	-	(12,565,110)	(12,565,110)
Other	18,178	-	18,178
Total operating revenues	35,882,113	124,196,325	160,078,438
Operating expenses:			
Personal services	7,375,994	-	7,375,994
Contractual services	6,911,863	-	6,911,863
Supplies and materials	56,625	-	56,625
Depreciation	289,658	-	289,658
Rent, insurance, and other related charges	103,336	-	103,336
Tuition benefits expense	-	118,405,487	118,405,487
Actuarial tuition benefits expense (Note 8)	-	(39,965,110)	(39,965,110)
Expendable equipment	445,528	-	445,528
SOAR Virginia (Note 12)	2,000,000	-	2,000,000
Other	5,940	-	5,940
Total operating expenses	17,188,944	78,440,377	95,629,321
Operating gain	18,693,169	45,755,948	64,449,117
Non-operating interest Expense	(105,541)	-	(105,541)
Transfers:			
Transfers to the General Fund of the Commonwealth	(356,626)	-	(356,626)
Operating transfer in (out) (Note 1)	(17,528,488)	17,528,488	-
Change in net assets	702,514	63,284,436	63,986,950
Net assets - July 1, 2011	11,099,186	(898,968)	10,200,218
Net assets - June 30, 2012	$ 11,801,700	$ 62,385,468	$ 74,187,168

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, 2012

Cash flows from operating activities:		
Receipts for sales and services	$	35,836,710
Contributions Received		119,948,326
Internal Activity - Payments to Other Funds		(384,109)
Payments to Suppliers for Goods & Svs.		(1,000,190)
Payments to Employees		(7,284,983)
Other Operating Revenue		5
Payments for Contractual Services		(5,900,734)
Distributions		(118,341,887)
Other Operating Expenses		(2,005,940)
Net cash provided by (used for) operating activities	$	20,867,198
Cash flows from noncapital financing activities:		
Transfer to the General Fund of the Commonwealth	$	(356,626)
Net cash provided by (used for) noncapital financing activities	$	(356,626)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	$	(275,061)
Payment of Principal and Interest on Capital Leases		(574,521)
Net cash provided by (used for) capital and related financing activities	$	(849,582)
Cash flows from investing activities:		
Purchase of investments	$	(774,700,131)
Proceeds from sales or maturities of investments		662,431,191
Interest income on cash, cash equivalents, and investments		60,740,701
Net cash provided by (used for) investing activities	$	(51,528,239)
Net decrease in cash and cash equivalents		
Cash and cash equivalents - July 1, 2011		57,477,229
Cash and cash equivalents - June 30, 2012	$	25,609,980
Reconciliation of cash and cash equivalents:		
Per the Statement of Net Assets:		
Cash and cash equivalents	$	57,477,229
Cash and cash equivalents per the Statement of Cash Flows	$	57,477,229

Reconciliation of operating income to net cash provided by operating activities:	
Operating gain	$ 64,449,117
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	289,658
Interest, dividends, rents and other investment income	(60,862,554)
Net increase in fair value of investments	43,986,508
Changes in assets and liabilities:	
(Increase) decrease in receivables	(530,084)
(Increase) decrease in tuition contributions receivable	12,565,110
(Increase) Decrease in Prepaid Assets	(11,273)
Increase (decrease) in accounts payable	1,431,172
Increase (decrease) in amounts due to program participants	(37,471)
Increase (decrease) in current tuition benefits payable	14,515,792
Increase (decrease) in current compensated absences	(114,104)
Increase (decrease) current obligations under capital lease	(19,724)
Increase (decrease) in noncurrent tuition benefits payable	(54,480,902)
Increase (decrease) in noncurrent compensated absences	135,209
Increase (decrease) non current obligations under capital lease	(449,256)
Net cash provided by (used for) operating activities	$ 20,867,198
Noncash investing, capital, and financing activities:	
The following transaction occurred prior to the statement of net assets date:	
Change in fair value of investments	$ (43,986,508)

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, 2012

Assets:	
Cash and cash equivalents (Note 1D and 2)	$ 49,998,215
Receivables:	
Interest and dividends	1,670,190
Accounts Receivable	1,627
Investments: (Note 1D and 2)	
Bonds	63,470,916
Mutual funds	857,075,670
Index funds	617,616,932
Stable Value	324,832,059
Equities	49,309,395
Total investments	1,912,304,972
Total assets	1,963,975,003
Liabilities:	
Accounts payable	250,588
Due to program participants (Note 1H)	1,251,348
Total liabilities	1,501,936
Net assets held in trust for program participants	$ 1,962,473,067

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, 2012

Additions:	
Contributions:	
From participants	$ 277,703,079
Charges for services	-
Total contributions	277,703,079
Investment income:	
Net increase in fair value of investments	(39,364,685)
Interest, dividends, and other investment income	60,512,843
Other	-
Total investment income	21,148,158
Less:	
Investment expenses	(3,395,070)
Net investment income	17,753,088
Total additions	295,456,167
Deductions:	
Educational expense benefits	107,398,241
Shares redeemed	10,156,131
Other Expenses	209,348
Total deductions	117,763,720
Net increase	177,692,448
Net assets held in trust for program participants:	
July 1, 2011	1,784,780,619
June 30, 2012	$ 1,962,473,067

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

Notes to the Financial Statements

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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 plan, which offers four programs, 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 for the future payment of undergraduate tuition for the normal full-time course load for students enrolled in a general course of study at any Virginia public higher educational institution and all mandatory fees required as a condition of enrollment of all students. The contract provisions also allow benefits to be used at in-state private or out-of-state institutions with payouts based on earnings and the amounts charged by Virginia's public higher education institutions. Calculations and payouts differ between in-state private and out-of-state 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 108,100 accounts have been opened, with 69,847 contracts remaining active at year-end. The program had total assets invested from contributions, net earnings and other revenue of approximately $2.0 billion as of June 30, 2012. 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. The program's assets and income are exempt from federal, state, and local income taxation, except for taxes on unrelated business income. 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. One additional portfolio remains open in the VEST program but is closed to new participants. VEST accounts are subject to investment risks, including the possible loss of principal. The VEST program is open year round and has no age or residency restrictions. VEST began operation in December 1999. As of June 30, 2012, 180,539 accounts had been opened, with 155,670 accounts remaining active at year end. These accounts had a net asset value of approximately $1.95 billion as of June 30, 2012. 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 savings program and is administered by the American Funds pursuant to a contract using 31 of the American Funds mutual funds. CollegeWealth is also a defined contribution savings program 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 were no longer included in the financial statements but were 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 in 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), as applicable.

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, 2012. 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 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.

The Plan's operating component is presented in a separate column, improving transparency in reporting operating funds and expenses. Operating revenues include administrative and other fees received from the VPEP, 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 GASB pronouncements and all FASB 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 no additional distribution of unrealized gains or losses in the fair values of the pool's investments.

E. Use of Estimates

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

F. Tuition Contributions Receivable

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

VPEP offers three payment plans:

- Lump Sum Payment: A single payment amount.
- Five Year Payment Plan: A 60-month payment plan (available only for children who have not completed the seventh grade).
- Extended Payment Plan: Equal monthly payments until the child reaches college age. The last payment will be due on June 1st of the year the student is expected to enroll in college.

Approximately 57.15 percent of contract holders of outstanding (active) contracts as of June 30, 2012 had elected to pay over time.

G. 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 ten basis points (.10 percent) of the average daily net asset value of the underlying funds held in CollegeAmerica up to $30 billion. The fee is reduced to nine basis points (.09 percent) for amounts in excess of $30 billion up to $60 billion with further reductions above $60 billion. This fee is calculated and accrued daily and paid to the Plan on a quarterly basis.

H. Administrative Expenses and Budget

The Plan is an independent state agency that does not receive a general fund appropriation from the Commonwealth of Virginia. However, the Plan's expenditures, funded with non-general fund revenues, are included in the Commonwealth's Appropriation Acts and accordingly are subject to approval by the General Assembly and the Governor. The Board annually reviews and approves an operating budget. Operating expenses are primarily funded from administrative fee revenue. The Plan prepares and submits a biennial budget to the Commonwealth in compliance with biennial budgetary requirements (cash basis). Also, in accordance with its fiduciary responsibility, the Board reviews a comparison of actual versus budgeted expenses each quarter.

I. Capital Assets

Tangible assets are recorded at cost at the time of acquisition and are reported net of accumulated depreciation. The Plan capitalizes all property, plant, and equipment that have a cost or value greater than $5,000 and an expected useful life greater than two years. Depreciation is computed on a straight-line basis over the estimated useful life of the property, ranging from five to 40 years.

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. Beginning in Fiscal Year 2011, only intangible assets with a value of $100,000 or greater will be capitalized. Any intangible asset with a cost less than $100,000 will be expensed. These assets are depreciated over the software's useful life.

J. 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 withdrawals, prior to June 30, 2012, but had not received a refund or disbursement.

K. 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 54 days. All employees leaving the agency are paid for accrued vacation leave up to a maximum limit, not to exceed 36 days for 15-19 years of service and 42 days for 20 or more years of service, 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, 2012, was computed using salary rates effective at that date and represents vacation and compensatory leave earned up to the allowable ceilings, including the liability for the Plan's share of Social Security and Medicare 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 (VSDP). The Virginia Retirement System (VRS) administers the program to provide income protection for absences due to sickness or disability. For employees hired after July 1, 2009, there is a one year waiting period for VSDP and coverage is not provided 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.

One employee, hired prior to January 1, 1999, opted to remain in the traditional sick leave program in which classified employees accrue five hours of leave for each pay period, regardless of the length of service. The employee is not covered under VSDP and remains eligible for disability retirement. Non-VSDP sick leave is payable upon termination of employment and is limited to 25 percent of the value accumulated or $5,000, whichever is less, under the Commonwealth of Virginia's sick leave pay-out policy for employees with five or more years of service.

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.

L. 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.

The investment in Aventura is reflected in VPEP's assets at $6.4 million as of fiscal year end. The value was confirmed by a professional real estate appraisal in June 2012.

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 Long-Term Liabilities Note 6 below for a description of the Lease Agreement.

2. Cash, Cash Equivalents, and Investments

The Board of the Virginia College Savings Plan has established investment guidelines for the Plan's investment programs 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 investment portfolio including, but not limited to, domestic and foreign stocks, bonds, mutual funds 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 alternatives. 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 22 external managers and/or funds. See complete lists of Investment Managers in Appendices A and B. In addition, VPEP contractual payments and VEST contributions received from customers are considered Commonwealth revenue and as a result must pass through the State Treasury. Prior to being moved to the Plan's custodian, these monies along with other minor balances may be invested with the State Treasurer as part of the Commonwealth's General Account. Beginning in mid-fiscal year 2010, the Plan no longer receives interest on balances held at the State Treasury. The Plan minimizes amounts held at Treasury.

The Board has authorized its partner, the American Funds, to offer a subset of their mutual funds to investors in CollegeAmerica. At fiscal year end, 31 mutual funds were available through the CollegeAmerica program. In June 2012, the Board approved the American Funds' new College Target Date Series comprised of seven funds, which were not offered as of fiscal year end. 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.

Private Equity Investment Commitments

In fiscal year 2012, the Plan extended investment commitments under limited partnership agreements for private equity investments in VPEP. At June 30, 2012, the Plan's investment commitments amounted to $103,120,000.

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, 2012, all investments of the VPEP and VEST programs, except those investments in open-end mutual funds, private equity or hedge funds, were held in the Plan's name by the Plan's custodian, BNY

Mellon Asset Servicing. Approximately 74 percent of total VPEP investments (reported as enterprise fund assets) and 78 percent of total VEST investments (reported as a private-purpose trust fund) are invested in these vehicles. All investments of the CollegeAmerica program (also a private-purpose trust fund) are invested in mutual funds. Investments in open-end mutual funds, private equity and hedge funds are not directly exposed to custodial credit risk because their existence is not evidenced by individual securities.

Interest Rate Risk – Fixed Income Securities

As of June 30, 2012, the Plan had fixed income investment securities held in VPEP and VEST with the following maturities and effective duration. Effective duration is a measure of interest rate and price sensitivity that takes into account options, such as early call provisions, embedded in the securities. It is widely used in the management of fixed income portfolios as it quantifies the risk of interest rate changes.

VPEP		Investment Maturities (in Years)				Duration
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**	**Effective Duration (years)**
Money Market Funds	$55,623,448	$55,623,448	-	-	-	-
Non-Agency Mortgage-Backed Securities	5,733,328	1,165,864	-	-	$4,567,464	3.28
Asset-Backed Securities	1,517,132	1,118,444	-	-	398,688	(0.18)
Corporate Bonds	178,102,606	1,610,854	$125,533,279	$49,145,710	1,812,763	3.78
Convertible Securities	140,804,569	44,033,857	48,221,037	2,877,781	45,671,894	-
Bond Funds	615,227,015	-	231,167,118	384,059,897	-	6.66
Treasury and Agency Securities	397,308	397,308	-	-	-	3.57
Stable Value Funds	90,043,502	-	90,043,502	-	-	3.67
Total	**$1,087,448,908**	**$103,949,775**	**$494,964,936**	**$436,083,388**	**$52,450,809**	-

VEST		Investment Maturities (in Years)				Duration
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**	**Effective Duration (years)**
Corporate Bonds	$ 63,470,916	$434,281	$41,747,073	$20,504,911	$784,651	3.81
Money Market Funds	77,597,127	77,597,127	-	-	-	-
Bond Funds	401,663,944	-	-	401,663,944	-	5.84
Stable Value Funds	324,832,058	-	324,832,058	-	-	3.45
Total	**$867,564,045**	**$78,031,408**	**$366,579,131**	**$422,168,855**	**$784,651**	-

The Plan's Investment Policies do not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Although not an explicit requirement, duration of fixed income portfolios is expected to be within +/-20 percent of each portfolio's designated benchmark.

Credit Risk of Fixed Income Securities

The Plan's Investment Policies require 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 fixed income investment securities held in VPEP and VEST as of June 30, 2012 were rated by Standard & Poor's and/or Moody's and the ratings are presented in the following charts.

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Rating Agency	VPEP – Investment Type							
Standard & Poor's Quality Rating	Non-Agency Mortgage Backed Securities	Asset-Backed Securities	Corporate Bonds	Convertibles	Money Market Funds	Bond Funds	Treasury and Agency Securities	Stable Value Funds
AAA	$250,881	-	$216	-	$55,623,448	-	-	-
AA+	-	-	-	-	-	-	$397,308	-
AA	-	$296,429	-	-	-	-	-	-
A+	-	-	-	$5,329,218	-	-	-	-
A	-	-		4,770,750	-	-	-	-
A-	-	28,639	(4,404)	11,137,087	-	-	-	-
BBB+	212,426	-	805,659	13,663,999	-	-	-	-
BBB	-	-	-	6,400,524	-	-	-	-
BBB-	-	-	9,484,349	17,370,348	-	-	-	-
BB+	-	-	25,324,249	11,357,244	-	-	-	-
BB	-	-	30,751,627	9,549,467	-	-	-	-
BB-	-	-	32,849,576	8,239,775	-	-	-	-
B+	-	550,723	26,328,473	3,363,625	-	-	-	-
B	572,124	40,809	16,136,490	5,465,394	-	-	-	-
B-	586,622	-	12,158,815	6,550,420	-	-	-	-
Less than B-	3,653,953	600,532	9,518,669	1,327,048	-	-	-	-
Unrated	-	-	9,337,164	36,279,670	-	$615,227,015	-	$90,043,502
Moody's Quality Rating								
Ba2	-	-	$1,818,639	-	-	-	-	-
Ba3	-	-	2,089,080	-	-	-	-	-
B1	-	-	1,504,004	-	-	-	-	-
Less than B2	$457,322	-	-	-	-	-	-	-

Rating Agency	VEST – Investment Type			
Standard & Poor's Quality Rating	Corporate Bonds	Money Market Funds	Bond Funds	Stable Value Funds
AAA	-	$77,597,127	-	-
A-	$(1,651)	-	-	-
BBB+	311,869	-	-	-
BBB-	3,087,173	-	-	-
BB+	9,956,823	-	-	-
BB	12,026,960	-	-	-
BB-	10,645,556	-	-	-
B+	8,791,479	-	-	-
B	6,568,149	-	-	-
B-	5,125,756	-	-	-
Less than B-	3,463,159	-	-	-
Unrated	1,963,455	-	$401,663,944	$324,832,058
Moody's Quality Rating				
Baa3	$298,039	-	-	-
Ba2	128,000	-	-	-
Ba3	624,024	-	-	-
B1	482,125	-	-	-

Concentration of Credit Risk

At June 30, 2012, the Plan had no investment securities held in separately managed accounts in VPEP and VEST in any one issuer that represented 5 percent or more of total investments.

Mutual Fund Risks

At June 30, 2012, the Plan participated in a number of open-end domestic and foreign equity and fixed income mutual funds in VPEP and VEST. 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 in which the Plan participates may be requested from the Virginia College Savings Plan, 9001 Arboretum Parkway, Richmond, VA 23236, or at 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 Supplemental Information for a listing of VPEP, VEST and CollegeAmerica mutual funds.

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value, in U.S. dollars, of non-U.S. dollar denominated securities. At June 30, 2012 the Plan had indirect exposure to this risk through its investments in certain mutual funds and other pooled vehicles. More information relating to foreign currency risk in the Plan's mutual fund investments can be found in each fund's prospectus.

Counterparty Risk

Counterparty risk is the risk of loss arising from the failure of one party to a transaction to fulfill its contractual obligation to the other. The Plan has exposure to counterparty risk through its investments. Higher levels of this risk are attributable to the Plan's investments in hedge funds, as these types of investments are subject to the potential usage of over the counter derivatives transactions. Other potential examples of risk for over the counter transactions may include transaction costs/inefficiencies/errors, fraud or reputation risk. As of June 30, 2012 approximately 7 percent of VPEP investments were invested in these vehicles.

3. Investment Derivative Instruments

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, 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, 2012, one separate account manager was permitted to use derivatives as shown in the table below.

Program	Manager	Asset Class
VPEP	Prudential Investment Management, Inc.	High Yield Fixed Income
VEST	Prudential Investment Management, Inc.	High Yield Fixed Income

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, 2012, 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, 2012, 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	$46,027,403	12/3/2002	Open ended	2.95%
	State Street Bank	$22,195,256	5/1/2002	Open ended	3.58%
	Transamerica Life Ins.	$16,609,218	3/5/2003	Open ended	3.79%
VEST	Aviva Life & Annuity Co.	$110,064,072	5/1/2012	Open ended	0.35%
	ING Life & Annuity	$86,682,448	12/3/2002	Open ended	3.78%
	Rabobank Nederland	$57,010,327	1/15/2008	Open ended	3.89%
	State Street Bank	$56,917,801	5/1/2002	Open ended	3.81%

At June 30, 2012, 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, 2012.

In the VPEP program, the fair value of the stable value investments at June 30, 2012, was $90,043,502.

VPEP - Stable Value Components	Fair Value
Underlying Investments	$90,043,502
Wrap Contracts	-
Total	$90,043,502

In the VEST program, the fair value of the stable value investments at June 30, 2012, was $324,832,058.

VEST - Stable Value Components	Fair Value
Underlying Investments	$324,832,058
Wrap Contracts	-
Total	$324,832,058

4. Securities Lending Transactions

A portion of the balance sheet line item Cash and Cash Equivalents represents cash held in the General Account of the Commonwealth and thus represents the Plan's allocated share of securities received for securities lending transactions conducted therein. 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. Beginning in mid-fiscal year 2010, the Plan no longer receives interest on balances held at the State Treasury. Accordingly, the Plan did not share in any gain or loss on securities lending transactions during fiscal 2012.

5. Commitments

The Plan is committed under operating leases for business equipment and building space rental. The equipment lease is for a three-year term. The space rental is for one year, automatically renewing each year. In both cases, the Plan expects that in the normal course of business, these leases will be renewed or replaced by similar leases. Rental expense for the fiscal year ended 2012 was $79,865.

The Plan has, as of June 30, 2012, the following total future minimum rental payments due under the above leases.

Fiscal Year	Amount
2013	$ 88,987
2014	88,987
2015	52,447
2016	29,360
2017	29,360
Total future minimum rental payments	$ 289,141

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. There are 3 renewal options of 5 year terms each. 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, 2011**	**Increases**	**Decreases**	**Balance June 30, 2012**	**Due Within One Year**
Compensated absences	$515,170	$350,388	$329,283	$536,275	$186,119
Tuition benefits payable	2,215,260,763	93,315,770	133,280,880	2,175,295,653	192,470,297
Capital lease obligation	918,237	-	468,980	449,257	-
Total	$2,216,694,170	$93,671,667	$134,084,652	$2,176,281,185	$192,660,900

7. Capital Assets

The following schedule presents capital asset activity of the Plan for the year ended June 30, 2012.

Enterprise Fund	July 1, 2011	Increases	Decreases	June 30, 2012
Nondepreciable capital assets:				
Software	$ 245,546	$ 135,346	$ -	$ 380,892
Total non-depreciable capital assets	245,546	135,346	-	380,892
Depreciable capital assets:				
Equipment	1,435,456	139,716	-	1,575,171
Software	488,248		77,160	411,088
Building	2,347,151	-	-	2,347,151
Total depreciable capital assets	4,270,855	139,716	77,160	4,333,410
Less accumulated depreciation:				
Equipment	615,945	190,616	-	806,560
Software	146,798	41,109	77,160	110,747
Building	166,257	58,679	-	224,936
Total accumulated depreciation	929,000	290,403	77,160	1,142,243
Net depreciable capital assets	3,341,855	(150,687)	-	3,191,167
Total net capital assets	$ 3,587,401	$ (15,341)	$ -	$ 3,572,060

8. Summary of Actuarial Assumptions and Methods

The Plan's statute requires that it annually determine the actuarial soundness of VPEP. 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 two most significant assumptions used to prepare VPEP's actuarial valuation report are the rates of investment return and future tuition growth. The following assumptions were used in the actuarial valuation for June 30, 2012:

Investment Rate of Return: 6.75 percent per annum.

Projected Tuition Increase: 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 2013	7.5%	10.0%	7.5%	7.5%
Fall 2014 and thereafter	7.5%	7.5%	7.5%	7.5%

Attendance and Bias: It is assumed that 80 percent of beneficiaries will attend a public university in Virginia, 10 percent will attend a private university in Virginia and 10 percent will attend a university in another state. Weighted average tuition for four-year public universities in Virginia was adjusted with a 10.0 percent load to add a bias for attendance at more expensive schools. The highest tuition for a public university in Virginia was assumed to be 50 percent 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.

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

Expenses: The expenses included in the present value of future obligations are those relating to Annual Maintenance Expense per Contract of $55.35 and Annual Distribution Cost per Contract in Payment Status of $13.84. These expenses are assumed to increase annually at the rate of inflation plus 0.5 percent.

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, 2012, the accrual of the actuarially determined tuition contributions receivable decreased over the prior year, which resulted in negative actuarial tuition contributions reported as a reduction in operating revenue.

Actuarial Valuation Results

	2012	**2011**
Tuition Contributions Receivable	$ 244,795,653	$ 257,360,763
Present Value of Tuition Benefits Payable	$2,175,295,653	$2,215,260,763

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. The co-location has a fully equipped network environment as well as multiple direct-access Internet feeds necessary to facilitate recovery of mission critical Plan systems.

11. SOAR Virginia

The Plan's Board approved the creation and funding of SOAR Virginia® as a pilot program in fiscal 2010. SOAR Virginia is an early commitment scholarship program created to inspire and assist high school students to reach their post-secondary education goals. To participate, eligible students pledge to meet program requirements. In return, participating students receive a range of assistance and accumulate scholarship support up to $2,000 to apply toward their post-secondary education expenses. SOAR Virginia is a unique program created by the Plan to further its mission to make college more affordable and accessible to all Virginians and is offered in partnership with local Virginia college access providers.

The Board approved initial funding of $2 million per fiscal year beginning in 2011 and continuing through 2014 into a VEST account in the name of the Plan for the development of the pilot program. As of June 30, 2012, $4 million had been deposited in the SOAR account. Amounts deposited, plus earnings thereon, remain in the account until distributed. Amounts will be allocated to students once awarded pursuant to program rules. The Plan will not commit support in excess of amounts on-hand in the SOAR Virginia account. As of June 30, 2012, the SOAR Virginia account had a balance of $4.16 million. Details as to the number of students enrolled in the pilot program and amounts committed as of June 30, 2012 are shown below.

Number of Students Enrolled (1)	Award Amounts Allocated to Enrolled Students	Additional Awards Enrolled Students May Receive	Total SOAR Commitment
269	$42,750	$480,750	$523,500

(1) Number of students that have completed a SOAR application and pledge, and have been admitted to and are currently enrolled in the program

12. Scholarship Program And Promotional Accounts

The Virginia College Savings Plan scholarship program consists of VPEP and VEST third party scholarship accounts (excluding SOAR Virginia) 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 Plan's scholarship program's mission is to work with community partners to make the dream of college a reality for deserving youth in Virginia.

In addition to scholarship accounts, the Plan awards VPEP or VEST promotional accounts that do not specifically qualify as scholarships as defined by federal law. Like scholarship accounts, these accounts are funded by the Plan, individuals, organizations, school groups, or other entities.

Active scholarship (excluding SOAR) and promotional accounts at June 30, 2012:

Program	Scholarship		Promotional	
	Accounts	Value	Accounts	Value
VEST	341	$935,742	173	$996,659
VPEP	28	$493,897	26	$414,095
VPEP value represents the cancellation value of accounts at June 30, 2012 VEST value represents the aggregate market value of the investments in the portfolios at June 30, 2012				

13. Unrelated Business Income Tax

As a qualified tuition program under IRC §529, the Plan is subject to tax on unrelated business income. The Plan invests in certain agreements and funds that may produce unrelated business income. As such, the Plan may pay taxes on unrelated business income. During fiscal year 2012, the Plan paid taxes in the amount of $7,879. During fiscal year 2012, the Plan did not earn unrelated business income. Thus, no such taxes are due in fiscal year 2013.

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Supplemental Information

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CollegeAmerica

CollegeAmerica, a broker-sold IRC §529 college savings option, was launched on February 15, 2002. CollegeAmerica is a defined contribution savings program 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. 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, 2012, 31 American Funds mutual funds were approved by the Plan and available through the program. A complete list is shown in the tables on the following pages. In June 2012 the Board approved the American Funds' new College Target Date Series comprised of seven funds, which were not offered as of fiscal year end. CollegeAmerica is available year round and has no age or residency restrictions. Accounts are subject to market risk, including the possible loss of principal. As of June 30, 2012, approximately 2 million unique accounts were open with net assets in excess of $32.9 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.

A separate audited report for each of the 31 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, 2012 for each portfolio are presented in the following charts.

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®	51,448	$ 1,052,124	02/29/12
EuroPacific Growth Fund®	36,394	1,416,233	03/31/12
The Growth Fund of America®	169,076	4,873,347	08/31/11
The New Economy Fund®	9,816	233,256	11/30/11
New Perspective Fund®	51,671	1,269,103	09/30/11
New World Fund®	17,043	835,380	10/31/11
SMALLCAP World Fund®	27,078	836,586	09/30/11
Growth-and-income funds			
American Mutual Fund®	21,391	542,047	10/31/11
Capital World Growth and Income Fund®	87,513	2,839,912	11/30/11
Fundamental Investors℠	39,040	1,380,168	12/31/11
International Growth and Income Fund℠	3,430	95,274	06/30/12
The Investment Company of America®	70,115	1,895,362	12/31/11
Washington Mutual Investors Fund℠	59,825	1,825,709	04/30/12
Equity-income funds			
Capital Income Builder®	48,289	2,381,760	10/31/11
The Income Fund of America®	83,946	1,421,132	07/31/11
Balanced funds			
American Balanced Fund®	148,299	2,697,428	12/31/11
American Funds Global Balanced Fund℠	3,986	97,399	10/31/11
Bond funds			
American Funds Mortgage Fund℠	246	2,505	08/31/11
American High-Income Trust℠	39,240	406,487	09/30/11
The Bond Fund of America℠	126,790	1,591,272	12/31/11
Capital World Bond Fund®	28,315	579,422	09/30/11
Intermediate Bond Fund of America®	37,913	517,812	08/31/11
Short-Term Bond Fund of America℠	32,112	324,605	08/31/11
U.S. Government Securities Fund℠	20,464	296,394	08/31/11
Money market fund			
American Funds Money Market Fund®	979,796	979,837	09/30/11
American Funds Portfolio Series℠ funds			
American Funds Global Growth Portfolio℠	N/A*	N/A*	10/31/12
American Funds Growth Portfolio℠	N/A*	N/A*	10/31/12
American Funds Growth and Income Portfolio℠	N/A*	N/A*	10/31/12
American Funds Balanced Portfolio℠	N/A*	N/A*	10/31/12
American Funds Income Portfolio℠	N/A*	N/A*	10/31/12
American Funds Preservation Portfolio℠	N/A*	N/A*	10/31/12

**Most recent fiscal year ending data for the fund is unavailable as the fund is a new offering and had yet to publish audited financial statements at June 30, 2012*

Data compiled from American Funds audited fund statements

CollegeAmerica
529 Share Class Net Assets as of June 30, 2012 (dollars and shares in thousands)

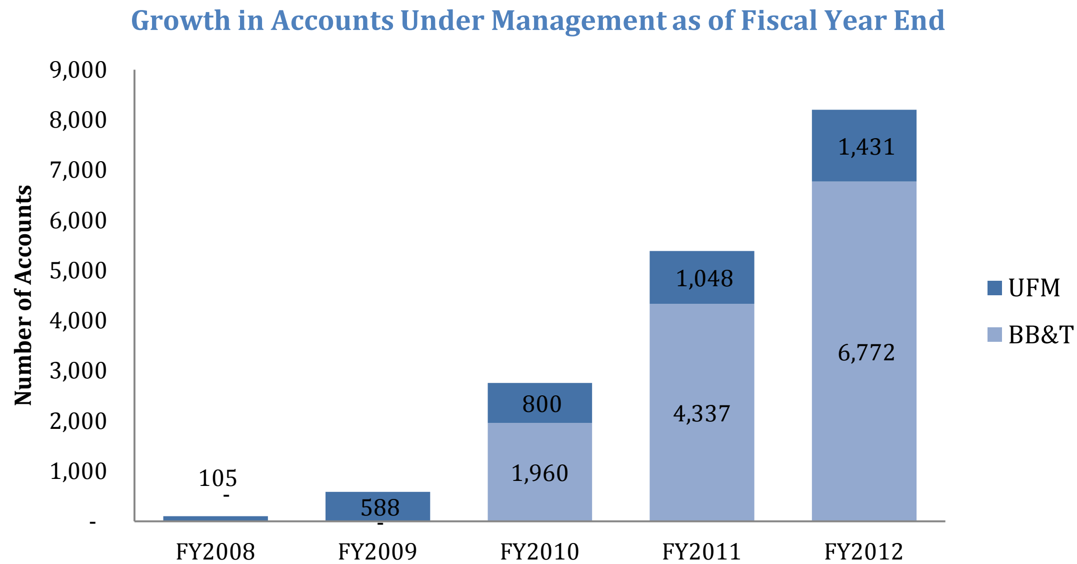
Fund	Shares	Net Assets
Growth funds		
AMCAP Fund®	53,300	$ 1,066,313
EuroPacific Growth Fund®	36,291	1,323,612
The Growth Fund of America®	168,058	5,229,300
The New Economy Fund®	10,186	269,061
New Perspective Fund®	52,611	1,481,740
New World Fund®	17,674	854,048
SMALLCAP World Fund®	27,057	973,256
Growth-and-income funds		
American Mutual Fund®	23,664	646,374
Capital World Growth and Income Fund®	88,601	2,990,805
Fundamental Investors℠	40,344	1,523,604
International Growth and Income Fund℠	3,431	95,247
The Investment Company of America®	70,441	2,045,842
Washington Mutual Investors Fund℠	60,327	1,810,414
Equity-income funds		
Capital Income Builder®	50,478	2,582,182
The Income Fund of America®	92,265	1,597,630
Balanced funds		
American Balanced Fund®	154,024	2,986,171
American Funds Global Balanced Fund℠	5,498	138,806
Bond funds		
American Funds Mortgage Fund℠	1,678	17,181
American High-Income Trust℠	45,375	494,590
The Bond Fund of America℠	134,728	1,723,172
Capital World Bond Fund®	30,766	642,589
Intermediate Bond Fund of America®	44,429	609,127
Short-Term Bond Fund of America℠	39,873	401,923
U.S. Government Securities Fund℠	23,424	340,580
Money market fund		
American Funds Money Market Fund®	1,032,837	1,032,837
American Funds Portfolio Series℠ funds		
American Funds Global Growth Portfolio℠	243	2,545
American Funds Growth Portfolio℠	685	7,151
American Funds Growth and Income Portfolio℠	1,080	11,211
American Funds Balanced Portfolio℠	1,066	11,039
American Funds Income Portfolio℠	417	4,277
American Funds Preservation Portfolio℠	710	7,107
Total Assets		**$ 32,919,736**

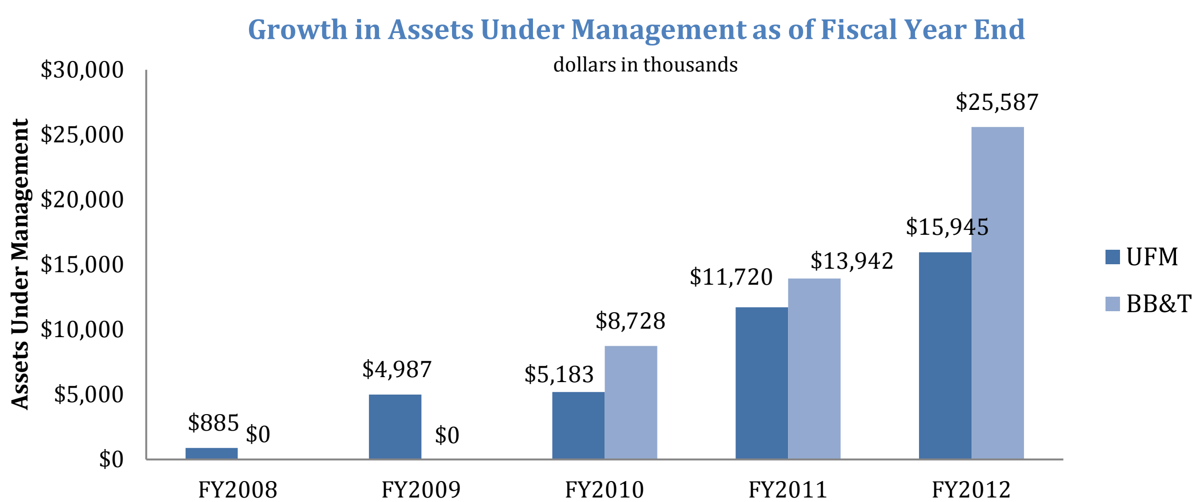
Data compiled from American Funds reports

CollegeWealth

CollegeWealth is the Plan's FDIC-insured defined contribution 529 college savings program, provided in partnership with two participating financial institutions; BB&T and Union First Market Bank. Each CollegeWealth college savings account with a value up to $250,000 (when combined with any other holdings of an individual at any one bank) is insured by the FDIC. CollegeWealth began in the autumn of 2007 with Union First Market Bank (UFM) as the Plan's first banking partner. In the autumn of 2009, the Plan added Branch Banking and Trust (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. As of June 30, 2012 there were 8,203 unique accounts with net assets in excess of $41.5 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 banks and were thus not subject to fair market value adjustments at year end.

Since its inception, the CollegeWealth program has continued to grow. The charts below provide details on the growth in the number of accounts and assets for the program.





APPENDIX A

Mutual Funds by Program

Virginia Prepaid Education Program

Aberdeen Asset Management, Inc.	Emerging Market Equity Fund
BlackRock, Inc.	T-Fund (Cash and Equivalents)
Capital Research & Management Co.	American Funds EuroPacific Growth Fund
Franklin Templeton Investments	Templeton Foreign Equity Series
The Vanguard Group, Inc.	Institutional Index Fund
The Vanguard Group, Inc.	Total Bond Market Index Fund

Virginia Education Savings Trust

Aberdeen Asset Management, Inc.	Emerging Market Equity Fund
Capital Research & Management Co.	American Funds EuroPacific Growth Fund
Franklin Templeton Investments	Templeton Foreign Equity Series
Morgan Stanley Institutional Fund, Inc.	Institutional Global Real Estate Fund
Parnassus Investments	Equity Income Fund
Stone Harbor Investment Partners LP	Emerging Market Debt Fund
The Vanguard Group, Inc.	Institutional Index Fund
The Vanguard Group, Inc.	Small Cap Index Fund
The Vanguard Group, Inc.	LifeStrategy Growth Fund
The Vanguard Group, Inc.	LifeStrategy Moderate Growth Fund
The Vanguard Group, Inc.	LifeStrategy Income Fund
The Vanguard Group, Inc.	Prime Money Market Fund
The Vanguard Group, Inc.	Total Stock Market Index Fund
The Vanguard Group, Inc.	Total Bond Market Index Fund
The Vanguard Group, Inc.	Total International Stock Index Fund
The Vanguard Group, Inc.	Inflation-Protected Securities Fund
The Vanguard Group, Inc.	REIT Index Fund

APPENDIX B

Separate Account, Commingled Fund & Alternative Managers by Program

Virginia Prepaid Education Program

Investment Manager	Investment Strategy
Adams Street Partners	Private Equity Fund of Funds
Aurora Investment Management, LLC	Market Neutral Hedge Fund of Funds
Donald Smith & Co.	Small Cap Value Domestic Equity
Harmonic Capital Partners	Global Macro Hedge Fund
Invesco Advisers, Inc.	Stable Value Fixed Income
Lord Abbett & Co., LLC	Convertible Fixed Income
Private Advisors, LLC	Private Equity Fund of Funds
Prudential Investment Management, Inc.	High Yield Fixed Income
State Street Global Advisors	Indexed US Inflation Protected Securities
Stone Harbor Investment Partners LP	Emerging Market Debt
Thompson, Siegel & Walmsley, LLC	Small Cap Value Domestic Equity
UBS Realty Investors, LLC	Private Real Estate
Wellington Management Co., LLP	Emerging Market Debt
Westfield Capital Management Co., LP	Mid Cap Growth Domestic Equity

Virginia Education Savings Trust

Investment Manager	Investment Strategy
Invesco Advisers, Inc.	Stable Value Fixed Income
Prudential Investment Management, Inc.	High Yield Fixed Income
Rothschild Asset Management	Small/Mid Cap Value Domestic Equity

Appendix C
Investment Details by Program as of June 30, 2012
Virginia Prepaid Education Program

Investment Manager	Asset Class	Mutual Fund(s) (if applicable)	Aggregate Fair Value	% of Total Fund[1]
Equities				
Aberdeen Asset Management, Inc.	Emerging Market	Emerging Market Equity	$ 150,862,657	7.6%
Capital Research & Management Co.	International Core	American Funds EuroPacific Growth	98,635,474	5.0%
Donald Smith & Co.	Small Cap Value	N/A	48,626,122	2.5%
Franklin Templeton Investments	International Value	Templeton Foreign Equity Series	96,902,170	4.9%
The Vanguard Group, Inc.	Large Cap Domestic Blend	Institutional Index	122,735,720	6.2%
Thompson, Siegel & Walmsley, LLC	Small/Mid Cap Value	N/A	54,213,242	2.7%
Westfield Capital Management Co., LP	Mid Cap Growth	N/A	103,361,029	5.2%
Total Equities			*675,336,413*	*34.2%*
Core Fixed Income				
BlackRock, Inc.[2]	Cash Equivalents	T-Fund	1,620,619	0.1%
Invesco Advisers, Inc.	Stable Value	N/A	97,244,011	4.9%
State Street Global Advisors	Inflation Protected Securities	N/A	198,664,705	10.1%
The Vanguard Group, Inc.	Intermediate Core Fixed Income	Total Bond Market Index	199,163,005	10.1%
Treasurer of Virginia	Cash Equivalents	N/A	1,853,882	0.1%
VCSP Transition Account	N/A	N/A	1,015,576	0.1%
Total Core Fixed Income			*499,561,798*	*25.3%*
Non-Core Fixed Income				
Lord Abbett & Co., LLC	Convertible Bonds	N/A	143,933,060	7.3%
Prudential Investment Management, Inc.	High Yield Bonds	N/A	195,101,136	9.9%
Stone Harbor Investment Partners LP	Emerging Markets Debt Blend	Emerging Markets Debt & Local Markets	65,590,815	3.3%
Wellington Management Co., LLP	Emerging Markets Debt	N/A	151,808,489	7.7%
Total Non-Core Fixed Income			*556,433,501*	*28.2%*
Alternative Investments				
Adams Street Partners	Private Equity Fund of Funds	N/A	6,095,718	0.3%
Aurora Investment Management, LLC	Hedge Fund of Funds	N/A	115,166,945	5.8%
Aventura Holdings, LLC	Private Real Estate	N/A	6,978,140	0.4%
Harmonic Capital Partners	Hedge Fund	N/A	46,017,946	2.3%
Private Advisors, LLC	Private Equity Fund of Funds	N/A	9,553,180	0.5%
UBS Realty Investors, LLC	Private Real Estate	N/A	57,702,652	2.9%
Total Alternative Investments			*241,514,581*	*12.2%*
Grand Total			*$1,972,846,292*	*100.0%*

[1]May not total 100% due to rounding

[2]BlackRock, Inc. operating cash in the amount of $20,069,222 is not included in the total above.

Appendix C (cont.)

Investment Details by Program as of June 30, 2012

Virginia Education Savings Trust

Investment Manager	Asset Class	Mutual Fund (if applicable)	Aggregate Fair Value
Age-Based Evolving Portfolios			
Aberdeen Asset Management, Inc.	Emerging Markets Equity	Emerging Market Equity Fund	$ 84,898,568
Capital Research & Management Co.	International Core Equity	American Funds EuroPacific Growth	73,726,152
Franklin Templeton Investments	International Value Equity	Templeton Foreign Equity Series	70,862,182
Invesco Advisers, Inc.	Stable Value	N/A	367,868,185
Morgan Stanley Institutional Fund, Inc.	Global REITs	Institutional Global Real Estate Fund	91,305,659
Prudential Investment Management, Inc.	High Yield Bonds	N/A	66,794,034
Rothschild Asset Management	Small/Mid Cap Domestic Equity	N/A	50,827,981
Stone Harbor Investment Partners LP	Emerging Markets Debt	Emerging Market Debt Fund	122,590,970
The Vanguard Group, Inc.	Intermediate Core Fixed Income	Total Bond Market Index Fund	238,392,452
The Vanguard Group, Inc.	Large-Cap Domestic Equity Blend	Institutional Index Fund	156,164,774
The Vanguard Group, Inc.	Small Cap Domestic Equity Blend	Small Cap Index Fund	36,121,575
Total Age-Based Evolving Portfolios			*1,359,552,531*
Static Non-Index Portfolios			
Parnassus Investments	Socially Responsible Large Cap Core Equity	Equity Income Fund	3,996,615
The Vanguard Group, Inc.	80% Equities 20% Fixed Income	LifeStrategy Growth Fund	232,261,885
The Vanguard Group, Inc.	60% Equities 40% Fixed Income	LifeStrategy Moderate Growth Fund	105,478,141
The Vanguard Group, Inc.	20% Equities 80% Fixed Income	LifeStrategy Income Fund	42,237,571
The Vanguard Group, Inc.	Cash Equivalents	Prime Money Market Fund	29,717,926
Total Non-Evolving Non-Index Portfolios			*413,692,139*
Static Index Portfolios			
The Vanguard Group, Inc.	Inflation Protected Securities	Inflation-Protected Securities Fund	21,804,619
The Vanguard Group, Inc.	Real Estate Investment Trust	REIT Index Fund	16,961,781
The Vanguard Group, Inc.	Intermediate Core Fixed Income	Total Bond Market Index Fund	18,875,903
The Vanguard Group, Inc.	International Equity	Total International Stock Index Fund	40,006,376
The Vanguard Group, Inc.	Domestic Equity Blend	Total Stock Market Index Fund	89,282,964
Total Non-Evolving Index Portfolios			*186,931,643*
Grand Total			*$1,960,176,313*

Cash held with the Treasurer of Virginia as well with BNY Mellon (custodian) in the amount of $2,120,385 is not included in the total above.

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 1, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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, 2012, 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, 2012, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Virginia College Savings Plan as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 1 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 1, 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 CollegeAmerica and CollegeWealth supplemental information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The CollegeAmerica and CollegeWealth supplemental information have 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 accordance with Government Auditing Standards, we have also issued our report dated November 1, 2012 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

WJK/clj

VIRGINIA COLLEGE SAVINGS PLAN
Richmond, Virginia

BOARD MEMBERS
As of June 30, 2012

Mr. Shawn P. McLaughlin, Chairman

Mr. Vincent D. Carpenter, Vice-Chairman

Mr. Peter A. Blake

Dr. Glenn Dubois

Ms. Manju Ganeriwala

Mr. Phillip R. Langham

Ms. Amy Nisenson

Ms. R. Fern Spencer

Mr. Mark A. Steppel

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, 2012

By:

ALAN H. PERRY, FSA, CFA
RICHARD L. GORDON, FSA, EA
JILL M. STANULIS, EA

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November 30, 2012

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, 2012.

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, 2012 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 3 of the 2012 Special Session I Acts of Assembly (2012 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 Investments	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 6.75% per year, net of investment related expenses (this is lower than the 7.00% 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 2013	7.5%	10.0%	7.5%	7.5%
Fall 2014 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, 2012 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	$2,148.3	n/a	n/a
Administrative Expenses	27.0	n/a	n/a
Grand Total	$2,175.3	$2,249.5	$74.2

As indicated above, the Virginia Prepaid Education Program has assets that exceed the "best estimate" of the obligations by roughly $74.2 million or 3.4%. 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, 2012) 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 $27.0 million administrative expense obligation is equivalent to about $386 per contract.

Actuarial Gain/Loss Analysis

During the 2012 fiscal year, the actuarial reserve position of the Program improved from a surplus of $10.2 million to a surplus of $74.2 million or 3.4% of obligations. Actuarial gains add to the reserve while actuarial losses decrease the reserve. This year's increase to the reserve is mostly attributable to lower than expected tuition increases, offset by lower than expected investment returns. Each of the factors affecting the change in the actuarial reserve/(deficit) is discussed below.

The actuarial surplus was expected to grow during the year by about $0.7 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 1.0% on a time-weighted and 0.8% on a dollar-weighted basis. For the previous valuation, a 7.0% rate of return was assumed. This produced a net actuarial loss of approximately $122.0 million.

The enrollment-weighted average university tuition and mandatory fee amount for the 2012-2013 school year increased by 3.7%, a smaller increase than the 10.0% rate assumed in the prior valuation. Enrollment-weighted tuition and mandatory fees at community colleges increased by about 5.9%, a smaller increase than the 7.5% rate assumed in the prior valuation. These smaller increases resulted in an actuarial gain of $101.1 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 1.0% (6.0% less than the 7.0% assumption) and the reasonable rate remained well below the 4.0% assumed in last year's valuation. The lower than expected actual account balances and lower than expected reasonable rate balances resulted in an actuarial gain of approximately $15.5 million.

The Program sold 3,119 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 $11.5 million from these new contracts.

The Prepaid Program received $35.2 million in administrative fee revenue from all the VCSP programs, including CollegeAmerica. Total agency operating expenses were $16.6 million, of which $4.5 million was expected to be provided by the VPEP expense reserve. The balance of the fee revenue, $23.1 million, is an increase to the reserve.

The assumption for the rate of return on investments was decreased from 7.00% per annum to 6.75% per annum. This decreased the reserve by $29.4 million.

The assumption for future tuition growth for universities was decreased from 10.0% for fall 2013 and 7.5% per year thereafter to 7.5% per year. The tuition growth assumption for community colleges was unchanged. The change resulted in an increase to the reserve of approximately $34.8 million.

The assumption for the reasonable rate was changed from 4.0% in all years to 0.04% for 2012-2013 and then 4.0% thereafter. The volatility and correlation assumptions for the investment returns and tuition increases were updated. The combined impact of these changes was a $13.2 million increase to the reserve.

Other experience gains added about $15.5 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, 2011	$ 10.2
Interest on the reserve at 7.00%	0.7
Investment gain (loss)	(122.0)
Tuition gain (loss)	101.1
Lower than expected account balances	15.5
Sales of new contracts	11.5
Administrative fee revenue from VCSP	23.1
Change in investment return assumption	(29.4)
Change in tuition assumption	34.8
Change in other assumptions	13.2
Other gains	15.5
Actuarial Reserve / (Deficit) as of June 30, 2012	$ 74.2

<u>Valuation Basis</u>

The present values of the obligations shown above were based on assumptions which represent an estimate of anticipated experience under the Fund that are reasonably related to past educational cost and investment data. Differences between those projections and actual amounts will depend on the extent to which future experience conforms to the assumptions made for this analysis.

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, 2012	Probability of VPEP Funds Exceeding Obligation
80%	$1,740.2	8%
90%	1,957.8	26%
100%	2,175.3	50%
103.4%	2,249.5	59%*
110%	2,392.8	72%
120%	2,610.4	85%
130%	2,827.9	92%
140%	3,045.4	97%
150%	3,262.9	99%

*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, 2012 of $2,249.5 million is 103.4% of the actuarially determined “Best Estimate” Reserve amount of $2,175.3 million. As indicated in the above table, this VPEP fund balance is estimated to have a 59% probability of being adequate to satisfy all Program obligations using current assumptions.

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 and Community College tuition increase 7.5% per year, and Plan assets earn 6.52% each year. The starting Market Value of Invested Assets as of July 1, 2012 is $2,004.7 million. At the end of the 2037 Fiscal Year all tuition obligations associated with contracts already purchased are expected to have been paid resulting in a final cumulative surplus of $359.8 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.

Variability of Results

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.

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 6.75% per year, and;

2) the tuition growth assumption for universities of 7.5% per year and the tuition growth assumption for community colleges of 7.5% per year.

Certification

Based on the foregoing assumptions, the Virginia Prepaid Education Program has 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.

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.

Third Party Distribution

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.

Qualifications

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.

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.

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

Respectfully submitted,

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

Richard L. Gordon, FSA, EA
Member American Academy of Actuaries

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, 2012

	Investments	Market Value
1)	Equities	$ 716,754,329
2)	Fixed Income including Accrued Interest	1,154,561,180
3)	REIT Fund and Real Estate	64,122,676
4)	Cash & Cash Equivalents	57,477,229
5)	Prepaid Expenses	11,273
6)	Other Receivables	3,059,942
7)	Accounts Receivable	8,115,060
8)	Property, Plant & Equipment	3,572,058
9)	Payables	(1,971,366)
10)	Accrued Liabilities	(985,531)
11)	Other Payables	(29,682)
	Total Market Value of Investments	$ 2,004,687,168
	Present Value of Installment Contract Receivables	244,795,653
	Value of Total Fund Assets	$ 2,249,482,821

II. Reconciliation of Investments

1)	Investments at June 30, 2011	$ 1,968,100,218
2)	Adjustment to match Financial Statements	(1,091,350)
3)	Contract Purchase Payments	131,349,899
4)	Application Fees	319,446
5)	Administrative Fee Revenue	35,172,454
6)	Interest and Dividends	54,695,627
7)	Realized and Unrealized Gains/(Losses)	(32,791,517)
8)	Tuition Payments, Refunds and Rollovers	(129,059,433)
9)	Administrative Expenses	(16,611,826)
10)	Investment Management Fees	(5,039,724)
11)	Net Transfers to the Commonwealth	(356,626)
12)	Investments at June 30, 2012	$ 2,004,687,168

Time-weighted rate of return	1.0%
Dollar-weighted rate of return	0.8%

Appendix A

Virginia Prepaid Education Program

Participant Data as of June 30, 2012 – Number of Contracts*

Virginia Prepaid Education Program

Participant Data as of June 30, 2012

Plan Type

Matriculation Year	Total Years of Community College Purchased / Total Years of University Purchased																							**Total by Payout Year**	**Percent of Total**
	1	1	1	1	1	1	2	2	2	2	2	2	3	3	3	3	3	3	0	0	0	0	0		
	0	1	2	3	4	5	0	1	2	3	4	5	0	1	2	3	4	5	1	2	3	4	5		
2000-2001	1	0	0	0	0	0	6	0	1	0	0	0	0	0	0	0	0	0	1	3	1	36	1	50	0.1%
2001-2002	1	0	1	0	0	0	23	0	3	0	1	0	1	0	0	0	0	0	4	4	0	61	2	101	0.1%
2002-2003	2	0	0	0	0	0	18	4	3	0	0	0	0	0	0	0	1	0	14	8	3	91	10	154	0.2%
2003-2004	2	1	0	2	1	0	16	0	10	1	0	0	2	0	0	0	0	0	9	15	4	169	9	241	0.3%
2004-2005	4	1	0	1	0	0	26	1	13	0	1	0	4	0	0	0	0	1	28	23	6	218	14	341	0.5%
2005-2006	5	0	0	0	0	0	46	2	18	0	2	0	2	0	0	0	0	2	48	58	9	369	33	594	0.9%
2006-2007	3	5	1	0	1	0	42	3	35	1	1	1	5	0	0	0	0	1	58	58	25	489	52	781	1.1%
2007-2008	5	2	0	2	0	0	66	2	53	1	0	0	9	1	0	0	0	0	65	118	19	713	63	1119	1.6%
2008-2009	4	6	3	3	0	0	59	11	76	2	0	0	5	2	0	0	0	3	107	142	50	1130	103	1706	2.4%
2009-2010	5	12	0	5	0	0	98	3	128	3	0	1	11	2	0	0	0	1	162	250	84	2937	117	3819	5.5%
2010-2011	30	9	5	9	1	0	134	5	144	5	0	1	14	2	0	1	0	3	261	348	121	2950	133	4176	6.0%
2011-2012	25	14	9	6	0	0	170	9	162	1	2	0	20	2	1	0	0	3	356	526	127	3034	131	4598	6.6%
2012-2013	53	21	9	12	2	0	190	8	140	3	0	1	34	1	1	1	0	1	577	629	138	3107	149	5077	7.3%
2013-2014	44	18	11	17	2	0	163	6	161	2	1	1	21	1	2	1	0	2	506	649	144	3052	128	4932	7.1%
2014-2015	60	13	8	19	1	1	176	16	164	3	0	0	32	0	0	0	0	1	636	611	167	3032	143	5083	7.3%
2015-2016	45	15	6	6	0	0	171	21	139	1	0	0	18	2	0	1	0	3	585	668	123	2972	123	4899	7.0%
2016-2017	53	11	6	8	0	1	137	17	153	0	3	0	13	1	0	0	0	2	556	564	153	2758	126	4562	6.5%
2017-2018	45	21	3	6	0	0	121	10	137	5	1	0	18	1	0	0	0	1	534	506	143	2525	141	4218	6.0%
2018-2019	31	11	3	6	0	0	95	7	135	3	0	0	15	3	0	1	0	1	469	485	105	2412	152	3934	5.6%
2019-2020	34	21	3	8	1	1	83	8	127	3	0	0	18	1	0	0	0	2	409	461	108	2129	134	3551	5.1%
2020-2021	40	10	3	4	2	0	80	9	100	3	0	0	11	2	0	0	0	0	336	370	90	1784	104	2948	4.2%
2021-2022	40	10	0	4	2	0	80	5	90	1	0	1	11	3	0	1	0	4	373	386	98	1716	121	2946	4.2%
2022-2023	36	5	3	4	1	0	75	5	66	4	0	0	3	3	1	0	0	0	346	348	68	1208	40	2216	3.2%
2023-2024	34	4	2	6	2	0	56	7	63	3	2	0	7	0	0	0	0	2	302	257	65	1107	47	1966	2.8%
2024-2025	31	2	2	4	0	1	38	5	50	0	0	1	5	1	0	0	0	1	232	240	48	838	57	1556	2.2%
2025-2026	28	3	4	3	0	0	34	4	33	4	0	0	3	0	0	0	0	1	215	167	27	672	36	1234	1.8%
2026-2027	11	2	1	3	1	0	34	6	23	0	0	0	9	0	0	0	0	1	184	152	16	507	13	963	1.4%
2027-2028	18	4	1	1	1	0	31	0	21	1	1	1	5	0	1	0	0	0	181	146	30	441	30	914	1.3%
2028-2029	16	2	2	1	0	0	23	1	9	0	0	0	1	0	0	0	0	0	133	94	11	317	8	618	0.9%
2029-2030	10	0	0	1	0	0	25	0	8	0	0	0	2	0	0	0	0	0	80	56	6	226	8	422	0.6%
2030-2031	5	0	1	0	0	0	3	2	5	0	1	1	1	0	0	0	0	0	21	20	2	62	4	128	0.2%
Total	721	223	87	141	18	4	2319	177	2270	50	16	9	300	28	6	6	1	36	7788	8362	1991	43062	2232	69847	
Percent of Total	1.0%	0.3%	0.1%	0.2%	0.0%	0.0%	3.3%	0.3%	3.2%	0.1%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.1%	11.2%	12.0%	2.9%	61.7%	3.2%		

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

Virginia Prepaid Education Program

Participant Data as of June 30, 2012 – Remaining Years of Tuition

Expected Payout Year	University Years	Community College Years
2012-2013	18,217	1,225
2013-2014	17,256	971
2014-2015	16,865	860
2015-2016	16,463	883
2016-2017	15,117	830
2017-2018	14,639	792
2018-2019	13,993	722
2019-2020	12,913	652
2020-2021	11,741	596
2021-2022	10,764	547
2022-2023	9,368	485
2023-2024	8,048	421
2024-2025	6,798	354
2025-2026	5,491	296
2026-2027	4,449	249
2027-2028	3,607	211
2028-2029	2,858	169
2029-2030	2,189	131
2030-2031	1,547	93
2031-2032	962	54
2032-2033	521	33
2033-2034	212	17
2034-2035	71	8
2035-2036	24	3
2036-2037	5	1
Total	194,118	10,603

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 6.75%, which is the assumption set by the Board.

	Inflation	Reason-able Rate	Global Equity	Non-Core Fixed Income	Core Fixed Income	Alternative Investments	University Tuition	CC Tuition
Expected Arithmetic Mean Annual Return	2.50%	4.00%	9.50%	6.00%	4.35%	9.10%	7.58%	7.64%
Standard Deviation	2.00%	2.00%	17.70%	10.70%	4.55%	17.90%	4.70%	7.35%
Correlation:								
Inflation	1.00	0.54	0.23	0.02	0.13	0.23	0.15	-0.01
Reasonable Rate		1.00	0.26	0.17	0.35	0.01	-0.05	-0.46
Global Equity			1.00	0.58	0.09	0.61	0.05	-0.03
Non-Core Fixed Income				1.00	0.59	0.46	0.32	0.39
Core Fixed Income					1.00	-0.12	0.28	0.26
Alternative Investments						1.00	-0.08	-0.02
University Tuition							1.00	0.80
CC Tuition								1.00

Based on the economic assumptions above, the expected long-term annualized compound rate of return on investments is 6.75%. The expected long-term annualized compound rate of tuition growth is 7.5% per year for university and community college tuition. The Reasonable Rate for 2012-2013 was set equal to 0.04% for all simulations.

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.

Summary of Actuarial Assumptions
(continued)

Combination Contracts:

For combination contracts (those with both university and community college tuition years), the community college value is assumed to be 30% of the university value (as determined by the Virginia College Savings Plan). For combination contracts not currently in payout, the community college years are assumed to be paid prior to the university years. For combination contracts currently in payout with university and community college years left, a portion of the remaining university and community college years are assumed to be paid each year. For combination contracts currently in payout with only university years or community college years remaining, the appropriate remaining years are assumed to be paid.

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	Number of Years of Tuition Purchased							
Year	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%							

Summary of Actuarial Assumptions
(continued)

Forfeiture: It is assumed that contracts will be forfeited prior to the year of matriculation at the following sample rates:

Years Prior to Matriculation	Rate
17	0.07%
14	0.03%
11	0.03%
8	0.02%
5	0.04%
2	0.10%

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

Annual Maintenance Expense per Contract = $55.37
Annual Distribution Cost per Contract in Payment Status = $13.84

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

Virginia Prepaid Education Program

Derivation of Enrollment-Weighted Average Tuition
and Mandatory Fees at Four Year Universities

University	Tuition and Fees 2012-2013	Matriculation/ Orientation Fees	In-State FTE Enrollment for Academic Year 2010-2011	Percent Distribution
Christopher Newport	$10,572	$250	4,431	3.55%
George Mason	9,620	180	15,875	12.72%
James Madison	8,808	175	12,528	10.04%
Longwood	10,890	0	3,974	3.18%
Mary Washington	9,306	150	3,302	2.65%
Norfolk State	6,860	287	4,350	3.48%
Old Dominion	8,450	75	15,049	12.05%
Radford	8,590	275	7,423	5.95%
University of Virginia	12,014	210	10,228	8.19%
UVA - Wise	8,107	0	1,519	1.22%
Virginia Commonwealth	9,885	25	19,267	15.43%
Virginia Military Institute	13,835	0	1,113	0.89%
Virginia Tech	10,923	175	18,387	14.73%
Virginia State	7,420	0	3,498	2.80%
William and Mary	13,570	200	3,894	3.12%
Weighted Average	**$9,816**	**$142**	124,838	100.00%
Matric/Orient Fees per Year		$40		
Total Weighted Average Tuition And Fees	**$9,856**			

Matriculation/Orientation Fees per year are calculated assuming a mean university contract length of 3.5 years.

Virginia Prepaid Education Program

Derivation of Enrollment-Weighted Average Tuition and Mandatory Fees at Community Colleges

School	Tuition and Fees 2012-2013	Fall Undergraduate Headcount for Academic Year 2010-2011	Percent Distribution
Blue Ridge	$4,697	4,983	2.53%
Central Virginia	4,144	5,466	2.77%
Dabney S. Lancaster	4,064	1,521	0.77%
Danville	4,048	4,534	2.30%
Eastern Shore	4,048	1,052	0.53%
Germanna	4,264	7,582	3.85%
J Sargeant Reynolds	4,339	12,629	6.41%
John Tyler	4,037	10,518	5.34%
Lord Fairfax	4,095	7,005	3.56%
Mountain Empire	4,080	3,404	1.73%
New River	4,066	5,178	2.63%
Northern Virginia	4,808	48,996	24.87%
Patrick Henry	4,059	3,289	1.67%
Paul D Camp	4,053	1,656	0.84%
Piedmont Virginia	4,085	5,551	2.82%
Rappahannock	4,118	3,757	1.91%
Richard Bland	3,658	1,587	0.81%
Southside Virginia	4,064	6,353	3.22%
Southwest Virginia	4,032	3,755	1.91%
Thomas Nelson	4,035	11,086	5.63%
Tidewater	4,859	31,308	15.89%
Virginia Highlands	4,064	2,948	1.50%
Virginia Western	4,323	8,778	4.46%
Wytheville	4,064	4,068	2.06%
Weighted Average Tuition and Fees	**$4,426**	197,004	100.00%

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
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%	3,285	18.1%
2011-2012	9,507	8.0%	4,179*	27.2%*
2012-2013	9,856	3.7%	4,426	5.9%

* Starting with the 2011-2012 year, Community College Tuition and Fees is measured as an enrollment-weighted average. Prior to that, a non-enrollment-weighted average was used.

Compounded Increase in Average Tuition

Over last 5 years:	7.2%	13.0%
Over last 10 years:	9.1%	10.2%
Over last 15 years	6.0%	7.7%
Over last 20 years:	5.5%	6.6%
Over last 25 years:	6.1%	n/a

Virginia Prepaid Education Program

Cash Flow Projection
(amounts in millions)

Fiscal Year	Beginning Balance	Installment Payments*	Tuition Benefits	Expenses	Investment Income	Ending Balance
2013	$2,004.7	$56.7	$192.5	$4.1	$123.0	$1,987.8
2014	1,987.9	49.8	194.0	4.1	121.6	1,961.1
2015	1,961.1	42.3	203.2	3.9	119.4	1,915.7
2016	1,915.7	35.0	214.9	3.7	115.5	1,847.6
2017	1,847.6	27.3	213.5	3.1	110.8	1,769.1
2018	1,769.1	21.0	222.4	2.9	105.2	1,670.0
2019	1,670.0	18.1	228.4	2.7	98.3	1,555.3
2020	1,555.3	15.2	226.4	2.4	90.8	1,432.5
2021	1,432.5	12.7	221.7	2.1	83.0	1,304.4
2022	1,304.4	10.2	219.1	1.9	74.7	1,168.3
2023	1,168.3	8.1	206.3	1.6	66.4	1,034.9
2024	1,034.9	6.2	191.5	1.4	58.3	906.5
2025	906.5	4.6	175.1	1.1	50.7	785.6
2026	785.6	3.3	153.4	0.9	43.9	678.5
2027	678.5	2.2	134.3	0.7	37.7	583.4
2028	583.4	1.2	117.6	0.6	32.5	498.9
2029	498.9	0.7	100.4	0.4	27.6	426.4
2030	426.4	0.1	83.0	0.3	23.8	367.0
2031	367.0	0.0	62.9	0.2	20.8	324.7
2032	324.7	0.0	42.0	0.1	19.1	301.7
2033	301.7	0.0	24.7	0.1	18.6	295.5
2034	295.5	0.0	10.8	0.0	18.6	303.3
2035	303.3	0.0	4.0	0.0	19.6	318.9
2036	318.9	0.0	1.5	0.0	20.8	338.2
2037	338.2	0.0	0.3	0.0	21.9	359.8

* Future installment payments for contracts as of June 30, 2012.

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 for a normal full-time course load for a general course of study 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 payments 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.