



Virginia**529**  
College Savings Plan



# ANNUAL REPORT

For the period ended on June 30, 2011





# COMMONWEALTH of VIRGINIA

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

Mary G. Morris  
Chief Executive Officer

## LETTER OF TRANSMITTAL

December 2, 2011

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, 2011 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, and the House Committees on Appropriations and Finance. The Report will also be available on our web site at [Virginia529.com](http://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. We accomplish our mission primarily through four programs, the Virginia Prepaid Education Program (VPEP<sup>SM</sup>), the Virginia Education Savings Trust (VEST<sup>SM</sup>), CollegeAmerica<sup>®</sup> and CollegeWealth<sup>®</sup>.

## 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, 2011 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 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, 2010 primarily due to significant investment gains and lower than expected tuition increases, offset by the change to the assumption for future tuition growth. We are pleased to report that VPEP was 100.5 percent funded on an actuarial basis as of June 30, 2011.

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 7 percent on VPEP investments. As of June 30, 2011, the total return since inception was just under 7 percent net of fees and reflected the prior two years' rebound in equity and fixed income markets. As of the quarter ended September 30, 2011, the return on VPEP investments since inception had declined slightly to 6.0 percent, reflecting the general decline in the global equity markets in the first quarter of fiscal year 2012. 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 2011 to implement the new target allocation strategy. As of June 30, 2011, the VPEP portfolio was within 2.5 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 2012, global uncertainty stemming from recent natural

disasters, regime changes and other issues in the Middle East along with concerns as to European sovereign debt and the resulting impact on European banks has led to significant market volatility. Domestic fiscal issues including the downgrade of the United States' credit rating by Standard & Poor's in August 2011 also contributed to market volatility. As of November 2011, U.S. unemployment remained at 9.0 percent just down from 9.2 percent at the end of June.

Interest rates remain low both domestically and globally, helping the fixed income market. U.S. Treasury yields declined across the yield curve in the first quarter of fiscal 2012 after the Federal Reserve (Fed) ended its second round of quantitative easing in June 2011 which was designed to help combat high unemployment and low inflation. In September 2011, the Fed announced its maturity extension program (referred to by some as "operation twist") under which it intends to sell \$400 billion of shorter-term U.S. Treasury securities by the end of June 2012 and use the proceeds to buy longer-term U.S. Treasury securities. This will extend the average maturity of the securities in the Federal Reserve's portfolio. The Fed also announced its decision to keep the target range for the federal funds rate at 0 to 1/4 percent at least through mid-2013 absent changes in inflation.

U.S. equities declined in the first quarter of fiscal 2012 as measured by the Standard & Poor's 500 Index that dropped 14 percent during the quarter, the largest quarterly drop since December 2008. As of September 30<sup>th</sup>, the S&P 500 was down 10 percent for the year. The Dow Jones industrial average was only down 12 percent for the quarter reflecting investor's appetite for large cap blue-chip stocks. Equity markets remained volatile however, and by October 15<sup>th</sup> the S&P 500 had gained back much of its losses and was only down 2.36 percent for the calendar year and the Dow Jones industrial average was in positive territory.

Through mid-November of fiscal 2012, global and domestic equity and fixed income markets continued to experience significant volatility with domestic equity markets declining and fixed income markets improving. For example, the cumulative return for the Standard & Poor's 500 Index for the period from July 1, 2011 through November 10, 2011 was -5.4 percent. The cumulative return for the Barclays Capital US Aggregate Bond Index for the period from July 1, 2011 through November 10, 2011 was 4.1 percent. The VPEP portfolio experienced a net performance return of -3.16 percent for the four month period from July 1, 2011 through October 31, 2011. It is difficult to estimate how these and other factors may impact the performance of VPEP during the remainder of fiscal 2012.

The other significant factor in VPEP meeting its obligations is the future growth in tuition. The 2011 General Assembly provided an additional \$97 million in general fund support to higher education institutions for fiscal 2012. According to the State Council of Higher Education for Virginia (SCHEV), notwithstanding this additional support, which reduced but did not eliminate the original budget reductions, colleges and universities experience a fifth straight year of general fund operating budget reductions. Funds from the American Recovery and Reinvestment Act of 2009 (ARRA) - an economic stimulus package valued at \$787 billion that helped offset the state budget reductions in fiscal 2010 and 2011 - must have been spent before

October 1, 2011. The General Assembly allocated \$198 million and \$75 million of the ARRA funds to public institutions intending to mitigate the need to raise in-state tuition at colleges and universities in fiscal year 2011 and fiscal 2010, respectively. The cessation of these monies will result in a large gap in Virginia institution's operating budgets.

For the second straight year, general fund revenue growth surpassed the revenue forecast and the Commonwealth ended fiscal 2011 with a small surplus. According to the Governor's Office, the main drivers of the revenue increase were growth in individual income tax receipts from both payroll withholding and non-withholding, key economic indicators. While the Commonwealth's economy and general fund revenue may be recovering, it is unknown when and to what extent resources may become available to restore support to public higher education and mitigate pressure on tuition.

Full time tuition and all mandatory fees at public higher education institutions in Virginia increased by an average of 7.9 percent for the 2011-12 academic year. This increase was less than the tuition increase assumption of 10.0 percent assumed in the 2010 VPEP actuarial valuation, but nonetheless the Board maintained its tuition increase assumptions of 10.0 percent for fiscal 2013 and 2014 given the uncertainty with the cessation of the ARRA monies and continued pressure on Commonwealth general fund revenue.

In assessing VPEP's financial condition and in pricing VPEP contracts, the Plan has projected that tuition and fee increases at Virginia's public higher education institutions will increase annually by approximately 10.0 percent for four-year institutions for fiscal years 2013 and 2014 with the rate reducing to 7.5 percent thereafter. Increases at two-year institutions are projected to increase at 8.5 percent for fiscal 2013 and 7.5 percent thereafter. As of mid-November, it is unclear whether any four-year institutions will adopt midyear tuition increases as some did in fiscal 2010. Tuition increases above the Plan's projections would have an immediate, detrimental impact on the Plan's outstanding long-term VPEP obligations. However, with the statutory requirement that institutions provide updated, long-term tuition projections, the Plan remains in a favorable position to prepare for future tuition and fee increases.

## **2011 PROGRAM HIGHLIGHTS**

- **Account Growth and Transaction Volume**

During fiscal 2011, the Plan continued to experience positive growth in accounts as shown in the table below. CollegeWealth's 103.8% growth rate demonstrates the success of the recently re-launched program with BB&T and Union First Market Bank. This figure should normalize in the future as the program's account base increases. The VEST Program's 12.3% growth rate depicts continued strong growth and corresponds to an additional 17,938 accounts opened during the fiscal year.

<b>Fiscal 2011 Growth in Accounts<sup>1</sup></b>	
<b>VPEP</b>	3.6%
<b>VEST</b>	12.3%
<b>CollegeAmerica</b>	4.5%
<b>CollegeWealth</b>	103.8%

<sup>1</sup>Gross accounts opened during fiscal year

Transaction volume also continued to increase as participants utilized their college savings accounts. During fiscal year 2011 the Plan processed 20,670 VEST distribution requests, representing a 16.1 percent increase over the prior fiscal year. The Plan processed 25,460 payments to institutions under VPEP, equating to a 7.4 percent increase over the previous fiscal year.

- **CollegeAmerica – Omnibus Accounts**

During fiscal 2011, the Plan worked diligently with the American Funds to allow for the conversion of shareholder positions at the American Funds to an omnibus environment and the establishment of the customer's account at their brokerage firm. Prior to this change, the National Securities Clearing Corporation (NSCC), which provides clearing, settlement and central counterparty services for virtually all broker-dealer transactions, did not accommodate 529 plan transactions. As a result, all CollegeAmerica customers' accounts were held at the American Funds rather than with their broker. Updates to NSCC's systems now allow 529 plan purchases and redemptions to be conducted through the NSCC, thereby enabling a more automated process and broker-dealers having greater access to customer data. Most importantly, financial advisers will be able to hold the accounts on their books and treat the accounts and transactions similar to other client transactions that they process. Accounts would be held in an omnibus account on the books of the American Funds and the account detail would reside on the books of the broker-dealer firm. Ongoing compliance with 529 program rules will be accomplished via a daily data aggregation and sharing process with the American Funds, the Plan and the broker-dealer firms. Edward Jones, CollegeAmerica's top-selling dealer, was the first to successfully convert its accounts on May 30, 2011.

- **Operational Improvements**

During 2011 the Plan continued to make improvements to better serve our customers. While too numerous to list them all, we offer some examples. In March 2011, the Plan moved VEST settlement from weekly to daily. This was a major improvement for our customers and brings us in step with our competitors with regard to settlement. We also made improvements in processing Commonwealth employee payroll deductions ensuring that employees' contributions are received and invested in a timely manner.

The Plan also partnered with Union First Market Bank to convert Union to the dual account platform for CollegeWealth. Under this platform - developed when CollegeWealth re-launched with BB&T in 2009 - customer accounts are simultaneously opened at the Plan and at our banking partner. This allows for improved customer service at the bank and also ensures proper titling for FDIC insurance coverage and compliance with applicable 529 plan regulations.

- **Banner Finance Conversion**

The Plan successfully converted its general ledger accounting systems to Banner Finance as of July 1, 2010. While most of the upfront planning, development and testing was completed during fiscal 2010 prior to the conversion date, during 2011 staff focused primarily on procedure and process changes in Accounting and working on an interface system with the Commonwealth's 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. Phases II and III will be completed in fiscal 2012.

This project will result in process efficiencies, reduced data entry and improved reporting. The project has already yielded benefits. For example, as a result of the conversion, the fee portion of all incoming payments is now segregated and recognized as fee revenue as opposed to being aggregated with the balance of the incoming transaction. This resulted in approximately \$300,000 in additional fee revenue in fiscal 2011.

- **SOAR Virginia**

During fiscal year 2010, the Plan's Board approved the creation and funding of SOAR Virginia<sup>SM</sup> as a pilot program. 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 including maintaining a 2.5 grade point average, working with an access provider, performing community service and complying with their respective school's code of student conduct. 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 an initial funding amount of \$2 million in both fiscal 2011 and 2012 for the development of the pilot program. The SOAR Virginia pilot was offered during the year in the Richmond metropolitan area and Highland County in partnership with Great Aspirations Scholarship Program, Inc. While the details of the program are being developed in the pilot phase, we are very excited to have this opportunity to advance our mission.



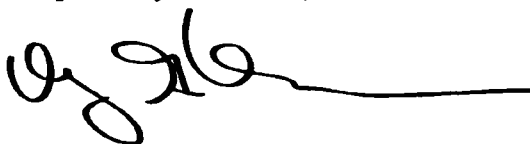
- **Data Loss Prevention Project**

The Plan holds a significant amount of personal and financial customer data. Securing customer data and ensuring customer privacy are priorities. The Plan undertook and completed a data loss prevention review with the goals of preventing unintentional data leaks by Plan employees, preventing data theft, and preventing data loss. The project included classification of all data within the organization, policy formulation, including incident reporting, and review of the information technology systems and implementation of changes as needed. The project was comprehensive and resulted in changes to facility access, internal and external document and information flows, and improvements to data security.

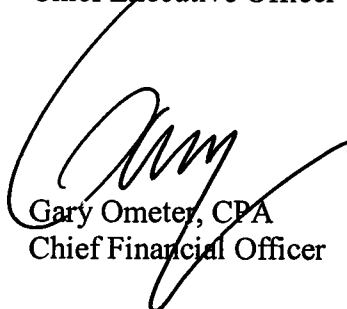
#### **ACKNOWLEDGEMENTS**

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 Discussion & Analysis



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

The Virginia College Savings Plan's Management's and Discussion 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, 2011. 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<sup>SM</sup>), the Virginia Education Savings Trust (VEST<sup>SM</sup>), CollegeAmerica<sup>®</sup> and CollegeWealth<sup>®</sup>. 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 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 25 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.

**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 presented as supplemental information. In fiscal years prior to fiscal year 2010, CollegeAmerica and CollegeWealth were included in the fiduciary fund financial statements. Removing CollegeAmerica and CollegeWealth from the financial statements better reflects the Plan's role and duties with regard to those programs.

#### Notes to the Financial Statements

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

### **Fiscal 2011 Financial Highlights**

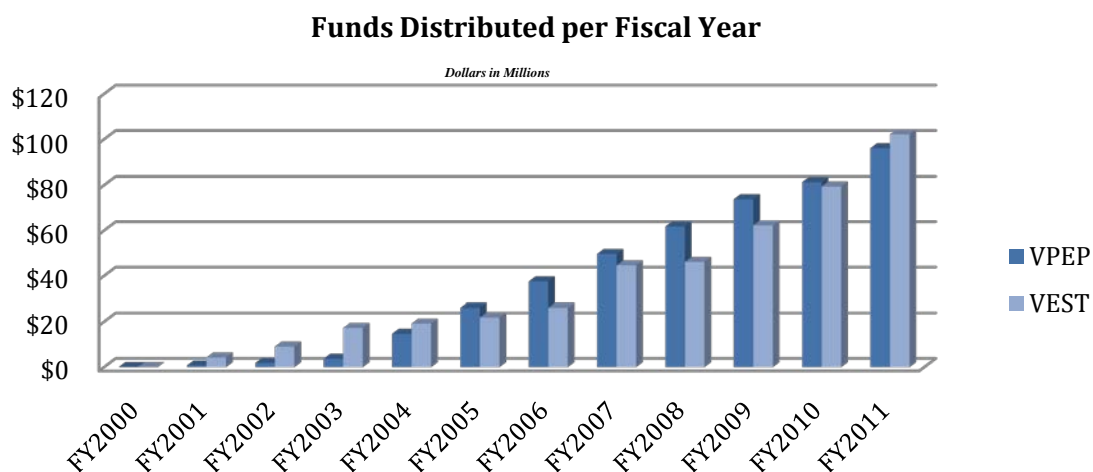
The Plan holds, invests and distributes monies held in trust for program participants. The Plan invests its funds pursuant to statute and Investment Guidelines under the direction of its Board and Investment Advisory Committee in a mix of equity, fixed income and alternative investments. During the fiscal year ended June 30, 2011, the equity and fixed income markets performed well. For example, the United States domestic equity market, as measured by the Standard & Poor's 500 Index, ended the year up 30.7 percent from June 30, 2010. The international equity markets also performed well during the year, as measured by the MSCI EAFE Index, up 30.9 percent. The fixed income markets also provided consistent performance as demonstrated by the Barclays Capital US Aggregate Bond Index returning 3.9 percent for the year ended June 30, 2011.

In aggregate, market movements had a positive effect on fixed income and equity security prices in the VPEP, VEST and CollegeAmerica portfolios for the fiscal year ended June 30, 2011.

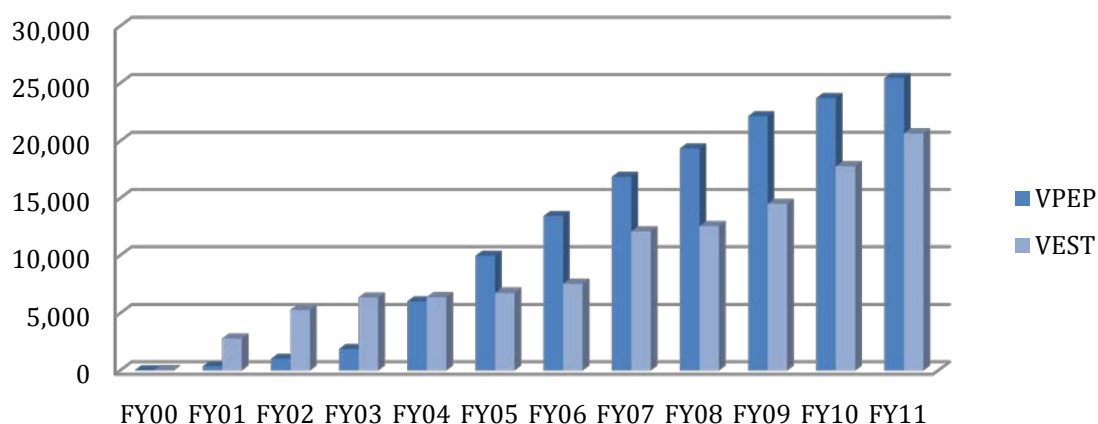


- Total VPEP cash, cash equivalents, and investments held in trust for program participants increased by \$343.7 million, or about 21.3 percent from fiscal year-end 2010, due to strong capital markets performance.
- VPEP's actual return on investments for the fiscal year ended June 30, 2011 was 19.0 percent on both a time-weighted and dollar-weighted basis reflecting the strong equity and fixed income market performance during most of the fiscal year.
- The Enterprise Fund's net assets increased by \$215.9 million to an actuarially determined surplus of \$10.2 million from a deficit of \$205.7 million in the prior year, which was primarily due to significant gains in the investment portfolio and lower than expected tuition increases offset by increases in the future tuition growth assumptions.
- VPEP's actuarially determined tuition benefits payable liability increased by \$119.3 million, or approximately 5.7 percent, which was primarily due to the increases in the future tuition growth assumptions and the additional obligation of 3,618 new contracts opened during the 2010 – 2011 enrollment period.
- VEST net assets held in trust for program participants increased by \$427.4 million or about 31.5 percent due to growth in accounts and strong capital markets performance.
- Both VPEP and VEST applicants continued to increase utilization of on-line applications with more than 83 and 87 percent, respectively, of applications being filed on-line.
- Distributions as measured by dollars and number of transactions, continued to increase for both VPEP and VEST as participants utilized their college savings accounts. In addition the Plan continued to experience positive growth in accounts, particularly in VEST. 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.

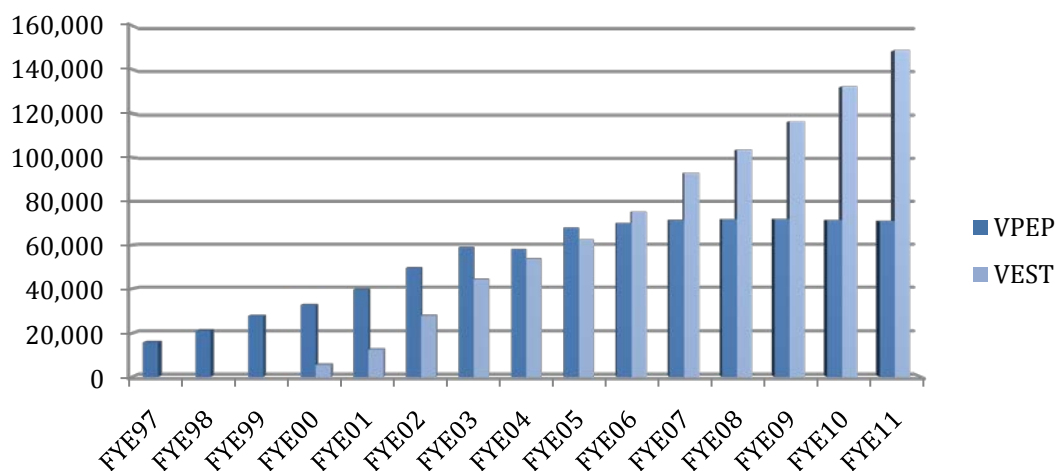


### Number of Distributions Made on Behalf of Beneficiaries per Fiscal Year



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 \$10.2 million.

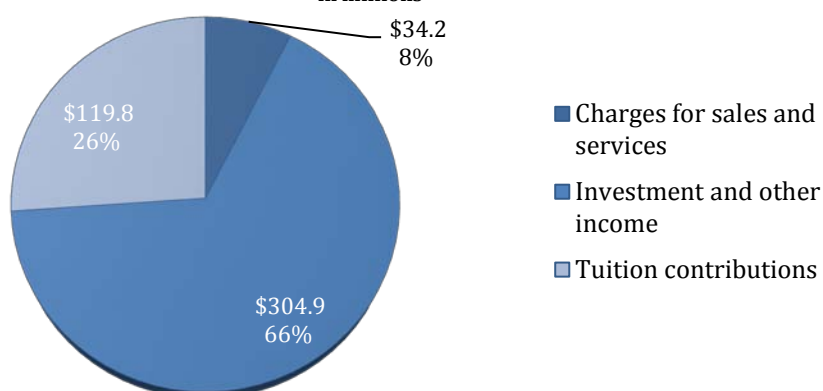
Table 1 is a summary comparison of the VPEP's Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year 2011 as compared to the prior year.

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

<b>YEARS ENDED JUNE 30,</b>	<b>2011</b>	<b>2010</b>	<b>CHANGE</b>
Operating revenues			
Charges for Sales and Service	\$ 34.2	\$ 31.3	\$ 2.9
Interest and Dividends	127.7	136.2	(8.5)
Net increase in fair value of investments	177.2	101.2	76.0
Tuition Contributions	119.8	101.9	17.9
<b>Net operating revenues</b>	<b>458.9</b>	<b>370.6</b>	<b>88.3</b>
Operating expenses			
Tuition Benefits Expense	226.9	280.8	(53.9)
Other operating expenses	15.8	12.8	3.0
<b>Net operating expenses</b>	<b>242.7</b>	<b>293.6</b>	<b>(50.9)</b>
Transfer to the Commonwealth	(0.3)	(0.4)	0.1
<b>Change in net assets</b>	<b>\$ 215.9</b>	<b>\$ 76.6</b>	<b>\$ 139.3</b>

Capital markets performed well during the fiscal year and the value of VPEP investments increased during the year. For the fiscal year ended June 30, 2011, there was a net increase in the fair value of investments of approximately \$177.2 million, versus the increase in the prior fiscal year of \$101.2 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 67% of enterprise fund revenue, as shown in Chart 1.

**Chart 1**  
**2011 Enterprise Fund Revenue**  
in millions



Tuition contribution revenue includes actual and actuarial contributions, and represents approximately 26 percent of enterprise fund revenue. Actual tuition contributions from participants increased by \$8.5 million over prior year receipts. In addition, actuarial tuition contribution revenue increased by \$9.3 million. Receipts for charges for sales and services totaled

\$34.2 in fiscal year 2011. This is a \$2.97 million increase over the prior year. The increase is primarily attributable to the growth in assets in the CollegeAmerica program.

Table 1 reflects tuition benefits expense, which is comprised of two components, actuarial and actual tuition benefits expense. 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 actuarial amount decreased from the previous fiscal year end accrual by \$66.9 million.

Actual tuition benefit expense represents the actual distributions made during the fiscal year. This actual amount increased over the prior year by \$13.0 million, or 13.71 percent. The increase in actual distributions is attributable to an increase in the number of students using benefits and to increases in tuition and mandatory fees at the higher education institutions.

Table 2 below demonstrates the numbers of students served and the amounts paid from VPEP to Virginia public universities and community colleges during the fall semester of 2010. Virginia's colleges received approximately \$41.1 million in VPEP tuition and mandatory fee payments for 10,068 students in the fall semester of 2010.

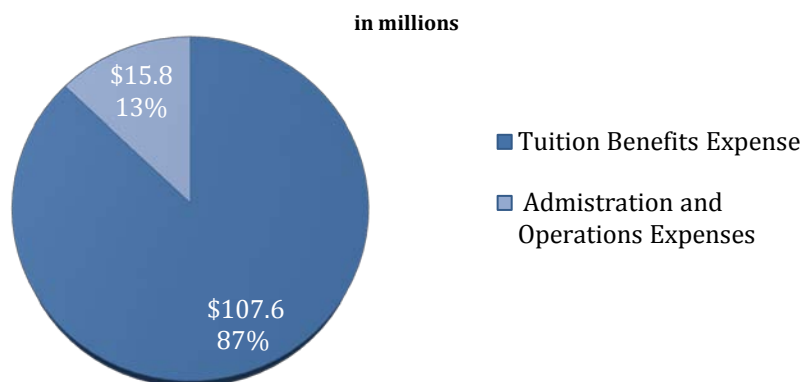
**Table 2**  
**VPEP Payments to Virginia Public Universities and Community Colleges**  
**Fall Semester 2010**

<u>PUBLIC COLLEGES</u>	<u>STUDENTS WITH VPEP CONTRACTS</u>	<u>VPEP PAYMENTS TO COLLEGES</u>
Virginia Tech	1822	\$ 8.6 million
University of Virginia	1246	\$ 6.6 million
Virginia Commonwealth University	1015	\$ 4.3 million
James Madison University	1093	\$ 4.2 million
College of William & Mary	580	\$ 3.6 million
George Mason University	689	\$ 3.0 million
Christopher Newport University	439	\$ 2.0 million
Old Dominion University	527	\$1.8 million
Community Colleges *	1424	\$ 1.9 million
Radford University	408	\$ 1.6 million
Longwood University	343	\$ 1.6 million
University of Mary Washington	325	\$ 1.3 million
Virginia Military Institute	88	\$531,716
University of Virginia at Wise	43	\$148,307
Virginia State University	16	\$50,261
Norfolk State University	11	\$28,112

\*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 \$15.8 million expended for administrative and operating services, 78 percent were for personal and contractual. The net change in tuition benefits expense resulted in a decrease of \$53.9 million over the prior fiscal year end.

**Chart 2**  
**2011 Enterprise Fund Expenses**



\* Does not include actuarial tuition benefits

Table 3 provides a comparison of administrative and operating expenses between fiscal years 2011 and 2010.

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

YEARS ENDED JUNE 30,	2011	2010	CHANGE
Personal Services	\$ 7,061	\$ 6,613	\$ 448
Contractual Services	5,605	5,116	489
Supplies & Materials	94	93	1
Depreciation	320	272	48
Rent, insurance, and other related charges	91	76	15
Expendable equipment	571	138	433
Other	2,079	36	2,043
Admin. and Operating Expenses	\$ 15,821	\$ 12,344	\$ 3,477

The 7 percent increase in personal services, is attributable in part to Plan employees receiving a 3 percent one-time bonus provided to all state employees. The increase in contractual services was due to increases in marketing expenditures, including sponsorships, as well as custodial costs. The large increase in expendable equipment costs in fiscal year 2011 was due to the replacement of information technology network equipment, including purchases of new servers and software. The major portion of the increase in other expenses is due to the initial funding of the SOAR Virginia Early Commitment scholarship program for \$2 million.

**Table 4**  
**VPEP Financial Position** (in millions)

As of JUNE 30,	2011	2010	CHANGE
<b>Assets:</b>			
Current assets	\$ 150.0	\$ 211.3	\$ (61.3)
Investments	1,866.6	1,466.0	400.6
Other noncurrent assets	197.9	205.1	(7.2)
Total VPEP Assets	\$ 2,214.5	\$ 1,882.4	\$ 332.1
<b>Liabilities:</b>			
Current liabilities	178.0	157.2	20.8
Noncurrent Liabilities	2,037.3	1,940.4	96.9
Total VPEP Liabilities	\$ 2,215.3	\$ 2,097.6	\$ 117.7
<b>Change in VPEP net assets</b>	<b>\$ (0.8)</b>	<b>\$ (215.2)</b>	<b>\$ 214.4</b>

### Assets

Current assets decreased by approximately \$61.3 million from the previous year. The decrease is primarily attributable to an investment strategy change in the management of Core Fixed Income as the principal manager within the strategy was terminated and replaced with an index fund manager. The terminated manager held cash equivalents as part of the portfolio account, which is now represented as an investment security.

Long-term investments increased by \$400.6 million, or over 27.3 percent. This increase was due to market conditions that positively impacted investment performance during the fiscal year. Other noncurrent assets decreased by \$7.2 million, which was due to the decrease in the noncurrent portion of the tuition contributions receivable. This represents the decrease in the actuarially determined amount expected to be collected from contract holders of record in future years.

### Liabilities

Total tuition benefits payable, reflected in both current and noncurrent liabilities above, increased by \$119.3 million, or approximately 5.7 percent. The total increase represents the change in the actuarial present value of the future tuition obligation. Changes in the present value of the future tuition benefit obligation can be attributed to the changes in the present value discount due to the passage of time, differences between actual experience and the actuarial assumptions used, and any modification of the actuarial assumptions. However, this increase is primarily due to increases in the tuition growth assumptions. The amount also increased somewhat due to the additional estimated obligation for 3,618 new contracts issued during the 2010 – 2011 enrollment period.

### 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 2011, VPEP's actuarial position, as calculated by the Plan's actuary and reported in the 2011 Actuarial Valuation Report, improved from a deficit of \$207.4 million to a surplus of \$10.2 million. This improvement is mostly attributable to significant investment gains and lower

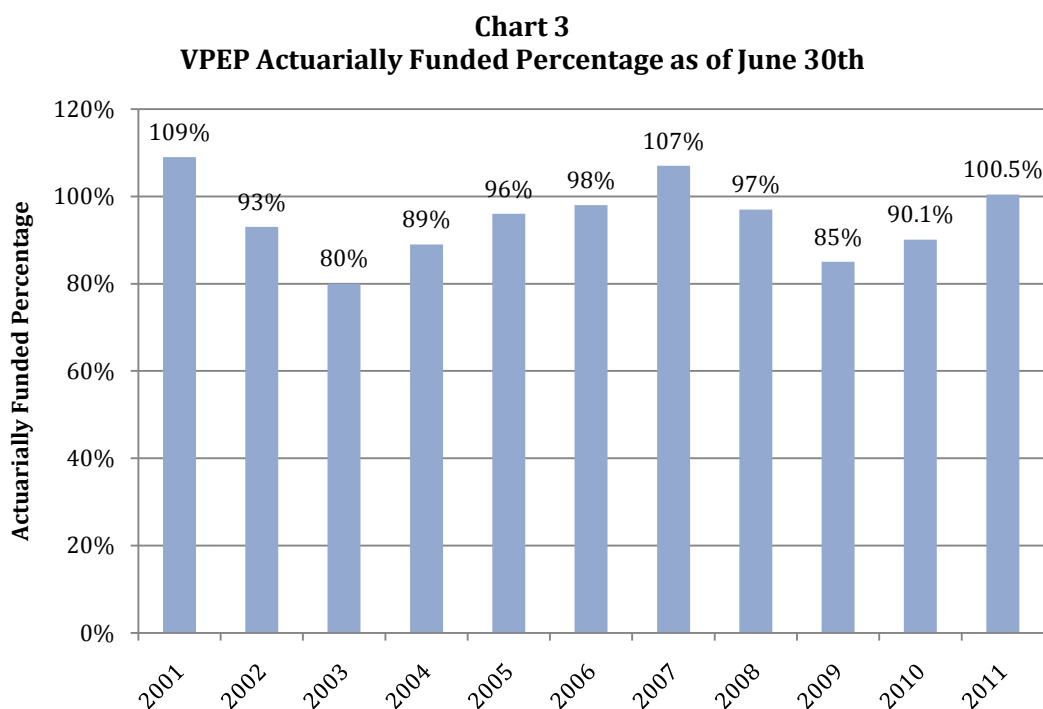
than expected tuition increases, offset by the change to the assumption for future tuition growth. Actuarial assumptions are discussed in Note 8 in the Notes to the financial statements. As reflected in the table below, the \$10.2 million surplus includes the beginning net assets adjustment as discussed in Note 2 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 2011 Actuarial Valuation Report may be obtained from the Plan.

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

Actuarial reserve (deficit) at June 30, 2010	\$	(207.4)
Effect of beginning net assets adjustment (Note 2)		3.0
Interest on the deficit at 7.00%		(14.3)
Investment gain (loss)		191.8
Tuition gain (loss)		31.7
Change in payout assumption for community colleges		(6.7)
Higher than expected actual return account balances		( 11.9)
Sales of new contracts		12.3
Administrative fee revenue from Plan programs		21.9
Change in assumptions		(26.5)
Other gains		16.3
Actuarial reserve (deficit) at June 30, 2011	\$	10.2

The Plan's overall funded status, as calculated by the actuary, as of June 30, 2011 was 100.5%. Chart 3 provides the Plan's funded status since the inception of the VPEP program.



As shown in Table 6, the Plan's year-end cash balance in the enterprise fund decreased by \$56.6 million. The decrease was primarily due to a change in cash equivalents caused by an investment strategy change in the management of Core Fixed Income. The condensed Statement of Cash Flows for the enterprise fund for the fiscal years ended June 30, 2011 and 2010.

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

As of June 30,	2011	2010
Cash provided (used) by:		
Operating activities	\$ 38.1	\$ 42.5
Noncapital financing activity	(0.3)	(0.4)
Capital and related financing activities	(0.8)	(1.2)
Investing activities	(93.6)	(70.6)
Net increase (decrease) in cash	(56.6)	(29.7)
Cash – beginning of year	146.0	175.4
Cash – end of year	\$ 89.4	\$ 145.7

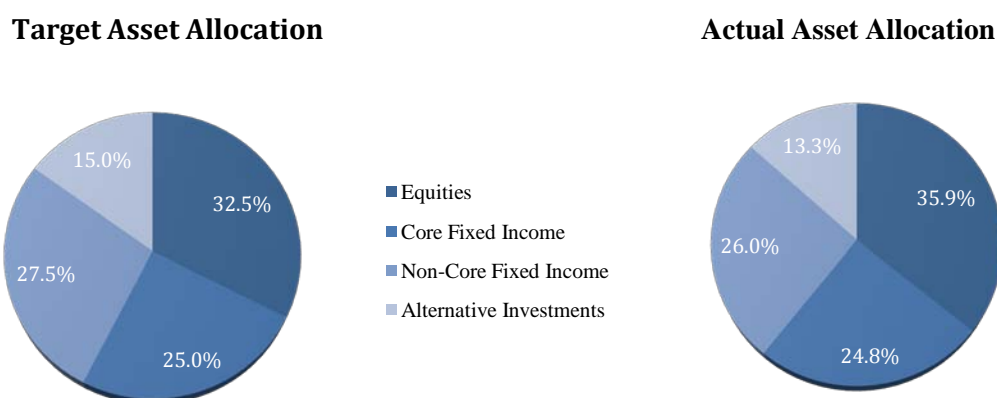
The change in the amount reflected as investing activities for fiscal year 2011 represented an overall net increase in the amounts used to purchase securities versus proceeds from sales or maturities of investments and actual interest earnings.

During the 2010 fiscal year, the Board adopted revised Investment Policies and Guidelines for VPEP. The Plan, working with the Investment Advisory Committee and Board, also began the transition process to the new target asset allocation in VPEP (see Chart 4). Accordingly, during fiscal years 2010 and 2011, the Plan hired and terminated several investment managers. Manager



changes made during fiscal 2011 in VPEP are detailed in Table 7. A complete list of VPEP managers as of June 30, 2011 can be found in Appendix B.

**Chart 4**  
**VPEP Asset Allocation as of June 30, 2011**



**Table 7**  
**Changes in VPEP Investment Managers during FY2011**

<u>Investment Manager</u>	<u>Strategy</u>	<u>Termination Date</u>	<u>Engagement Date</u>
Rothschild Asset Management	Small/Mid Cap Core Equity	9/17/2010	-
Western Asset Management	Core Fixed Income	11/23/2010	-
Vanguard Group	Small Cap Blend Equity	3/31/2011	-
Vanguard Group	Inflation Protected Fixed Income	3/31/2011	-
Stone Harbor Investment Partners LP	Emerging Markets Debt Blend	-	3/31/2011

During fiscal 2010, the Plan, working with the Audit and Actuarial Committee and Board, also began a review of VPEP's operational and programmatic structure to determine whether VPEP is operating in an efficient manner; whether it should be revised to improve or simplify benefits and to improve operating efficiencies; and to assess sustainability in light of potential changes in tuition structure. The Committee completed its review during the first half of fiscal 2011, and recommended no major changes in VPEP's operational and programmatic structure. The Committee recommended, and the Board adopted, changes in pricing VPEP contracts to simplify pricing.

### **Analysis of Fiduciary Fund (VEST) Financial Activities**

Contributions from Plan participants increased from the previous year by approximately \$33.7 million and there were more than 13,900 additional VEST active accounts at fiscal year end. Contributions represent participation from new account holders as well as continued contributions from existing participants. Due to favorable market conditions during the fiscal year, net income on VEST investments increased by \$112.6 million over the prior year. As anticipated, overall

disbursements to VEST beneficiaries and institutions increased over the prior year by approximately 16.8 percent as more participants withdrew funds to cover higher education expenses.

**Table 8**  
**Virginia Education Savings Trust**  
**Change in Fiduciary Net Assets (dollars in millions)**

<b>Fiscal year ended June 30</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Additions	\$ 532.7	\$ 386.4	\$ 146.3
Deductions	105.3	84.5	20.8
Net Increase	427.4	301.9	125.5
Net assets held in trust, beginning	1,357.4	1,055.5	301.9
Net assets held in trust, ending	\$ 1,784.8	\$ 1,357.4	\$ 427.4

During fiscal year 2011, the Investment Advisory Committee completed its review of the age-based evolving and static portfolios available in VEST to determine whether there should be changes made in investment options, managers, portfolio allocation or glide path (as applicable), and portfolio management (active versus passive). As a result of this review, changes were made to the VEST age-based evolving portfolios to increase returns while minimizing increases in portfolio volatility and maintaining each portfolio's original overall mix of equity and fixed income. Accordingly, during fiscal year 2011, the Plan hired and terminated several investment managers. Manager changes made during fiscal 2011 in VEST are detailed in Table 9 below. A complete list of VEST managers as of June 30, 2011 can be found in Appendix B.

**Table 9**  
**Changes in VEST Investment Managers during FY2011**

<u>Investment Manager</u>	<u>Strategy</u>	<u>Termination Date</u>	<u>Engagement Date</u>
Western Asset Management	Core Fixed Income	1/3/2011	-
Aberdeen Asset Management	Diversified Emerging Markets Equity	-	1/3/2011
Morgan Stanley Institutional Fund, Inc	Global Real Estate	-	1/3/2011
Prudential Investment Management	High Yield Fixed Income	-	1/3/2011
Stone Harbor Investment Partners LP	Emerging Markets Debt	-	1/3/2011

### CollegeAmerica and CollegeWealth

Assets under management in CollegeAmerica increased during the fiscal year primarily due to continued rebounding market conditions from \$25.0 billion to \$32.1 billion, an approximate 28.4 percent increase. There were an additional 47,393 unique CollegeAmerica accounts at fiscal year end. A complete list of CollegeAmerica investment options as of June 30, 2011 can be found in Supplemental Information.

Assets under management in CollegeWealth increased by 84.5 percent in fiscal year 2011 to more than \$25.6 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 VCSP'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 7 percent on the VPEP investments. As of June 30, 2011, the total return since inception was just under 7 percent net of fees and reflected the prior two year's rebound in equity and fixed income markets. Global and domestic equity and fixed income markets experienced significant volatility from June 30, 2011 into fiscal 2012 with domestic equity markets declining and fixed income markets improving. Portfolio performance through the balance of fiscal 2012 will depend on many factors. As of the quarter ended September 30, 2011, the return on the VPEP investments since inception had declined slightly to 6.0 percent reflecting the decline in the global equity markets in the first quarter of fiscal year 2012. In June 2009, the Plan adopted a new target asset allocation strategy designed to improve returns with a slightly lower than expected volatility of returns versus the prior allocation strategy. Plan staff and the Investment Advisory Committee continued to work diligently during fiscal year 2011 to implement the new target allocation strategy. As of June 30, 2011, the VPEP portfolio was within 2.5 percent of its target allocation in the four major categories.

In assessing VPEP's financial condition and in pricing VPEP contracts, the Plan has projected that tuition and fee increases at Virginia's public higher education institutions will increase annually by approximately 10.0 percent for four-year institutions for fiscal years 2013 and 2014 with the rate reducing to 7.5 percent thereafter. Increases at two-year institutions are projected to increase at 8.5 percent for fiscal 2013 and 7.5 percent thereafter. As of mid-November, it is unclear whether any four-year institutions will adopt midyear tuition increases as some did in fiscal 2010. Tuition increases above the Plan's projections would have an immediate, detrimental impact on the Plan's outstanding long-term VPEP obligations. However, with the statutory requirement that institutions provide updated, long-term tuition projections, the Plan remains in a favorable position to prepare for future tuition and fee increases.

The performance of participants' VEST portfolios will depend on many of the same investment factors as those impacting VPEP. In VEST, however, the participants rather than the Plan bear the risk of market declines. 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, 2011

	Administration and Operations	VPEP	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (Note 1D and 3)	1,398,485	87,945,993	89,344,478
Interest receivable	-	2,557,271	2,557,271
Tuition contributions receivable (Note 1F and 8)	-	59,452,620	59,452,620
Accounts receivable (Note 1G)	8,087,647	-	8,087,647
Total current assets	9,486,132	149,955,884	159,442,016
Noncurrent assets:			
Investments (Note 1D and 3)	-	1,866,564,921	1,866,564,921
Tuition contributions receivable (Note 1E and 8)	-	197,908,143	197,908,143
Non-depreciable capital assets (Note 7)	245,546	-	245,546
Depreciable capital assets, net (Note 1I and 7)	3,341,109	-	3,341,109
Total noncurrent assets	3,586,655	2,064,473,064	2,068,059,719
Total assets	13,072,787	2,214,428,948	2,227,501,735
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	540,195	-	540,195
Due to program participants (Note 1J)	-	67,153	67,153
Tuition benefits payable (Note 6 and 8)	-	177,954,505	177,954,505
Compensated absences (Note 1K and 8)	300,223	-	300,223
Obligations under capital lease (Note 7)	468,980	-	468,980
Total current liabilities	1,309,398	178,021,658	179,331,056
Noncurrent liabilities:			
Tuition benefits payable (Note 6 and 8)	-	2,037,306,258	2,037,306,258
Compensated absences (Note 1K and 8)	214,947	-	214,947
Obligations under capital lease (Note 7)	449,256	-	449,256
Total noncurrent liabilities	664,203	2,037,306,258	2,037,970,461
Total liabilities	1,973,601	2,215,327,916	2,217,301,517
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,668,420	-	2,668,420
Unrestricted	8,430,766	(898,968)	7,531,798
Total net assets	\$ 11,099,186	\$ (898,968)	\$ 10,200,218

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, 2011

	Administration and Operations	VPEP	Total
Operating revenues:			
Charges for sales and services	\$ 34,243,049	\$ -	\$ 34,243,049
Interest, dividends, rents, and other investment income	-	127,706,594	127,706,594
Net decrease in fair value of investments	-	177,202,560	177,202,560
Tuition contributions	-	128,860,540	128,860,540
Actuarial tuition contributions (Note 8)	-	(9,096,715)	(9,096,715)
Other	-	-	-
Total operating revenues	34,243,049	424,672,979	458,916,028
Operating expenses:			
Personal services	7,061,262	-	7,061,262
Contractual services	5,604,772	-	5,604,772
Supplies and materials	94,051	-	94,051
Depreciation	320,326	-	320,326
Rent, insurance, and other related charges	90,918	-	90,918
Tuition benefits expense	-	107,597,133	107,597,133
Actuarial tuition benefits expense (Note 8)	-	119,303,285	119,303,285
Expendable equipment	570,672	-	570,672
Other (Note 11)	2,078,557	-	2,078,557
Total operating expenses	15,820,558	226,900,418	242,720,976
Operating gain	18,422,491	197,772,561	216,195,052
Transfers:			
Transfers to the General Fund of the Commonwealth	(338,416)	-	(338,416)
Operating transfer in (out) (Note 1)	(15,506,367)	15,506,367	-
Change in net assets	2,577,707	213,278,928	215,856,636
Net assets - July 1, 2010 (Note 2)	8,521,479	(214,177,896)	(205,656,418)
Net assets - June 30, 2011	\$ 11,099,186	\$ (898,968)	\$ 10,200,218

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, 2011

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Cash flows from operating activities:	
Receipts for sales and services	\$ 32,732,297
Contributions Received	128,870,149
Internal Activity - Payments to Other Funds	(343,491)
Payments to Suppliers for Goods & Svs.	(1,307,716)
Payments to Employees	(7,042,168)
Other Operating Revenue	0
Payments for Contractual Services	(5,305,678)
Distributions	(107,520,588)
Other Operating Expenses	(2,007,618)
Net cash provided by (used for) operating activities	<u>\$ 38,075,187</u>
Cash flows from noncapital financing activities:	
Transfer to the General Fund of the Commonwealth	<u>\$ (338,416)</u>
Net cash provided by (used for) noncapital financing activities	<u>\$ (338,416)</u>
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	\$ (225,254)
Payment of Principal and Interest on Capital Leases	(560,508)
Net cash provided by (used for) capital and related financing activities	<u>\$ (785,762)</u>
Cash flows from investing activities:	
Purchase of investments	\$ (1,813,025,765)
Proceeds from sales or maturities of investments	1,590,919,103
Interest income on cash, cash equivalents, and investments	<u>128,499,889</u>
Net cash provided by (used for) investing activities	<u>\$ (93,606,773)</u>
Net decrease in cash and cash equivalents	(56,655,764)
Cash and cash equivalents - July 1, 2010	<u>146,000,242</u>
Cash and cash equivalents - June 30, 2011	<u><u>\$ 89,344,478</u></u>

VIRGINIA COLLEGE SAVINGS PLAN  
STATEMENT OF CASH FLOWS - ENTERPRISE FUND  
VIRGINIA PREPAID EDUCATION PROGRAM (continued)  
For the Fiscal Year Ended June 30, 2011

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Reconciliation of operating income to net cash provided  
by operating activities:

Operating gain	\$ 216,195,051
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Adjustments to reconcile operating income to net cash provided  
by (used for) operating activities:

Depreciation	320,326
Interest, dividends, rents and other investment income	(128,499,889)
Net increase in fair value of investments	(177,202,560)

Changes in assets and liabilities:

(Increase) decrease in receivables	371,734
(Increase) decrease in tuition contributions receivable	9,096,715
(Increase) Decrease in Other Assets	(15,600)
Increase (decrease) in accounts payable	(1,008,758)
Increase (decrease) in amounts due to program participants	9,608
Increase (decrease) in current tuition benefits payable	22,372,834
Increase (decrease) in current compensated absences	74,523
Increase (decrease) current obligations under capital lease	(91,528)
Increase (decrease) in noncurrent tuition benefits payable	96,930,451
Increase (decrease) non current obligations under capital lease	(79,678)
Increase (decrease) in noncurrent compensated absences	(398,042)
	<hr/>
Net cash provided by (used for) operating activities	<u>\$ 38,075,187</u>

Noncash investing, capital, and financing activities:  
The following transaction occurred prior to the statement of net assets date:

Change in fair value of investments	<u>\$ (177,202,560)</u>
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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, 2011

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Assets:	
Cash and cash equivalents (Note 1D and 3)	\$ 40,810,461
Receivables:	
Interest and dividends	1,670,544
Investments: (Note 1D and 3)	
Bonds	55,024,003
Mutual funds	837,503,416
Index funds	582,986,779
Guaranteed investment contracts	206,257,595
Common stock	<u>61,657,174</u>
Total investments	<u>1,743,428,967</u>
Total assets	<u>1,785,909,972</u>
Liabilities:	
Accounts payable	1,098,453
Due to program participants (Note 1J)	<u>30,900</u>
Total liabilities	<u>1,129,353</u>
Net assets held in trust for program participants	<u>\$ 1,784,780,619</u>

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, 2011

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Additions:

Contributions:

From participants \$ 269,914,143

Total contributions 269,914,143

Investment income:

Net increase in fair value of investments 173,807,726

Interest, dividends, and other investment income 92,158,113

Other 5

Total investment income 265,965,844

Less:

Investment expenses (3,172,480)

Net investment income 262,793,364

Total additions 532,707,507

Deductions:

Educational expense benefits 93,941,471

Shares redeemed 11,253,378

Other Expenses 149,395

Total deductions 105,344,244

Net increase 427,363,263

Net assets held in trust for program  
participants:

July 1, 2010 1,357,417,356

June 30, 2011 \$ 1,784,780,619

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



## Notes on 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 104,900 accounts have been opened, with 70,957 contracts remaining active at year-end. The program had total assets invested from contributions, net earnings and other revenue of approximately \$1.9 billion as of June 30, 2011. 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 18 investment portfolios. Three additional portfolios remain open in the VEST program but are 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, 2011, 164,080 accounts had been opened, with 143,354 accounts remaining active at year end. These accounts had a net asset value of approximately \$1.78 billion as of June 30, 2011. Investment management fees and VEST operating expenses are paid on a pro-rata basis by each VEST account owner and vary according to the portfolio selected. VEST accounts provide investors with the same federal and state tax benefits available to participants in the prepaid program.

CollegeAmerica, a broker-sold IRC §529 college savings option, is a defined contribution plan and is administered by the American Funds pursuant to a contract using 25 of the American Funds mutual funds. CollegeWealth is also a defined contribution plan under which participants invest in FDIC-insured savings products offered through participating banks. In previous fiscal years, CollegeAmerica and CollegeWealth were included in the financial statements as private-purpose trust funds. Beginning with fiscal year 2010, CollegeAmerica and CollegeWealth 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, 2011. 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.

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#### 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 57.6 percent of contract holders of outstanding (active) contracts as of June 30, 2011 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. The Board reviews and approves an operating budget, annually. 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 6, 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, 2011, 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 the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of GASB Codification, the monetary value of accumulated annual leave payable upon termination is included in the accompanying financial statements. The liability at June 30, 2011, 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 FICA taxes on leave balances for which employees will be compensated.

Employees of the Plan have elected to participate in the Virginia Sickness and Disability Program (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 \$6.3 million as of fiscal year end. The value was confirmed by a professional real estate appraisal in July 2011.

The building is leased to the Plan pursuant to a five-year Lease Agreement dated September 10, 2008. The Plan relocated into the new office facility in September 2008 coincident with executing the Lease Agreement. It is a five-year lease, and although it does not meet the specific criteria for classification as a capital lease under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 13 (FASB No. 13), *Accounting for Leases*, the lease is shown as a capital lease in VPEP's financial statements. Accordingly, the financial statements reflect the lease obligations as a liability and the office building as an asset in VPEP's financial statements. See the Capital Lease Note 5 below for a description of the Lease Agreement.

## 2. Beginning Net Assets Restatement (Enterprise Fund)

According to FASB 13, *Accounting for Leases*, a capital leased asset should be depreciated over the lease term. As referenced in Footnote 1L – VPEP – Investment in Real Estate, the Arboretum building is classified as a capital leased asset. Pursuant to this standard, the Plan depreciated the Arboretum building over the five-year lease term. Because the Plan will not relocate at the end of the lease period, it has been determined that the asset should be depreciated over its useful life (40 years), and not the lease term. Because of this change in accounting estimate, a beginning net assets adjustment is necessary.

In addition to the change in accounting estimate, the Plan also determined that rental payments to Aventura in the first two years of the lease had not been included in the value of the asset previously reported. A beginning net assets adjustment is also necessary to properly reflect the increase in the fair market value of investments in VPEP.

To properly reflect these changes, the following restatement is necessary.

Enterprise Fund Ending Net Assets, June 30, 2010	\$ (207,384,585)
Restatement Adjustments:	
Depreciation Adjustment	753,044
Fair Market Value of Investments	<u>975,123</u>
Enterprise Fund Beginning Net Assets, July 1, 2010	\$ (205,656,418)

### 3. 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 portfolio of domestic and foreign stocks, bonds, and cash equivalent investments, which are defined as investments with an original maturity of three months or less. The Board's allocation target for the VPEP portfolio, at market value, is 32.5 percent equities, 25.0 percent core fixed income, 27.5 percent non-core fixed income, and 15 percent 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 21 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 25 of their mutual funds to investors in CollegeAmerica. The Board has oversight and review authority for the investment activity and operations of the CollegeAmerica program. The American Funds is required to seek renewed approval of the use of these mutual funds on an annual basis.

### Private Equity Investment Commitments

In fiscal year 2011, the Plan extended investment commitments under limited partnership agreements for private equity investments in VPEP. At June 30, 2011, the Plan's investment commitments amounted to \$72,580,000.

### 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, 2011, 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 67 percent of total VPEP investments (reported as enterprise fund assets) and 80 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 exposed to custodial credit risk because their existence is not evidenced by individual securities.

### Interest Rate Risk – Fixed Income Securities

As of June 30, 2011, 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
Money Market Funds	\$88,858,532	\$88,858,532	-	-	-	-
Non-Agency Mortgage-Backed Securities	7,469,138	-	-	-	\$7,469,138	2.16
Asset-Backed Securities	1,879,644	-	-	-	1,879,644	1.28
Corporate Bonds	144,736,870	-	\$5,700,781	\$109,547,222	29,488,867	3.98
Convertible Securities	133,071,145	-	43,940,125	35,640,402	53,490,618	-
Bond Funds	572,918,546	-	225,684,118	347,234,428	-	5.56
Stable Value Funds	73,345,696	-	73,345,696	-	-	3.86
Total	\$1,022,279,571	\$88,858,532	\$348,670,720	\$492,422,052	\$92,328,267	-

VEST		Investment Maturities (in Years)				Duration
Investment Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10	Effective Duration
Corporate Bonds	\$ 55,024,003	-	\$ 4,568,471	\$ 40,432,701	\$ 10,022,831	3.97
Money Market Funds	66,623,727	\$ 66,623,727	-	-	-	-
Bond Funds	357,072,807	-	-	357,072,807	-	5.65
Stable Value Funds	206,257,595	-	206,257,595	-	-	3.88
Total	<b>\$684,978,132</b>	<b>\$66,623,727</b>	<b>\$210,826,066</b>	<b>\$397,505,508</b>	<b>\$10,022,831</b>	-

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, 2011 were rated by Standard & Poor's and/or Moody's and the ratings are presented in the following charts.

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	Stable Value Funds
AAA	\$819,486	-	-	-	\$88,858,532	-	-
AA	430,497	\$333,583	-	-	-	-	-
AA-	-	-	-	\$3,067,500	-	-	-
A+	-	-	-	1,461,813	-	-	-
A	470,821	-	-	-	-	-	-
A-	-	40,428	-	16,695,749	-	-	-
BBB+	211,736	-	-	10,459,750	-	-	-
BBB	-	-	-	11,681,872	-	-	-
BBB-	362,210	-	\$5,385,205	14,960,531	-	-	-
BB+	-	-	15,634,158	9,740,363	-	-	-
BB	-	-	17,176,216	9,330,016	-	-	-
BB-	-	-	32,398,492	4,072,763	-	-	-
B+	-	631,340	21,140,353	2,920,212	-	-	-
B	446,639	57,537	18,389,887	5,018,410	-	-	-
B-	291,247	-	11,473,272	3,034,875	-	-	-
Less than B-	3,447,052	816,756	7,507,953	7,659,000	-	-	-
Unrated	445,288	-	14,840,844	32,968,291	-	\$572,918,546	\$73,345,696
Moody's Quality Rating							
Ba2	-	-	492,051	-	-	-	-
Ba3	-	-	298,439	-	-	-	-
Less than B2	544,162	-	-	-	-	-	-



Rating Agency	VEST – Investment Type			
Standard & Poor's Quality Rating	Corporate Bonds	Money Market Funds	Bond Funds	Stable Value Funds
AAA	-	\$66,623,727	-	-
A-	\$263,750	-	-	-
BBB-	2,836,591	-	-	-
BB+	6,480,057	-	-	-
BB	7,599,565	-	-	-
BB-	13,610,692	-	-	-
B+	8,583,778	-	-	-
B	8,331,230	-	-	-
B-	4,452,876	-	-	-
Less than B-	2,506,964	-	-	-
Unrated	-	-	\$357,072,807	\$206,257,595
Moody's Quality Rating				
Ba3	358,500	-	-	-

### Concentration of Credit Risk

At June 30, 2011, 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, 2011, 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](http://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, 2011 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.

#### 4. Investment Derivative Instruments

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

Pursuant to the investment guidelines established for the Plan's investment programs, investments in derivative securities are prohibited except where specifically permitted in the investment manager agreement for a separate account or prospectus for a fund. The Board may permit managers in certain asset classes to use derivatives consistent with the overall investment guidelines and objectives of that asset class. As of June 30, 2011, two managers were permitted to use derivatives as shown in the table below.

<b>Program</b>	<b>Manager</b>	<b>Asset Class</b>
VPEP	Wellington Trust Company, NA	Emerging Market Debt
VPEP	Prudential Investment Management, Inc.	High Yield Fixed Income
VEST	Prudential Investment Management, Inc.	High Yield Fixed Income

The emerging market debt portfolio is invested in the Diversified Emerging Markets Debt Composite commingled pool managed by Wellington Management Company, LLP. The pool accepts purchases and sales monthly. To manage large purchases in an orderly and prudent manner, the Plan entered into a revocable trust agreement with Wellington Trust Company, NA to invest monies in Wellington's Multiple Common Trust Funds Trust, Emerging Markets Debt Portfolio on a temporary basis prior to purchasing into the commingled pool. Wellington may purchase derivative instruments in the Portfolio for risk management and other purposes. At June 30, 2011, no monies were invested in the Portfolio.

Pursuant to its investment management agreement, Prudential Investment Management may invest in derivatives for hedging, duration and cash management. The portfolio's exposure to derivatives, as measured on a net market value basis, is limited to 10 percent of the market value of the high yield account. At June 30, 2011, 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, 2011, 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	\$31,274,956	12/3/2002	Open ended	4.66%
	State Street Bank	\$21,313,262	5/1/2002	Open ended	4.89%
	Transamerica Life Ins.	\$15,940,330	3/5/2003	Open ended	4.89%
VEST	ING Life & Annuity	\$83,254,952	12/3/2002	Open ended	4.63%
	Rabobank Nederland	\$54,713,187	1/15/2008	Open ended	4.71%
	State Street Bank	\$54,672,200	5/1/2002	Open ended	4.60%

At June 30, 2011, 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, 2011.

In the VPEP program, the fair value of the stable value investments at June 30, 2011, is \$73,345,696.

<b><u>VPEP - Stable Value Components</u></b>	<b><u>Fair Value</u></b>
Underlying Investments	\$73,345,696
Wrap Contracts	-
Total	<u>\$73,345,696</u>

In the VEST program, the fair value of the stable value investments at June 30, 2011, is \$206,257,595.

<b><u>VEST - Stable Value Components</u></b>	<b><u>Fair Value</u></b>
Underlying Investments	\$206,257,595
Wrap Contracts	-
Total	<u>\$206,257,595</u>

## 5. 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 2011.

## 6. Long-Term Liabilities

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

### A. Tuition Benefits Payable

This liability represents the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for VPEP.

### B. Capital Lease

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

<b><u>Base Rent Periods (1)</u></b>	<b><u>Annual Base Rent</u></b>
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:

<b><u>Enterprise Fund</u></b>	<b><u>Balance July 1, 2010</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Balance June 30, 2011</u></b>	<b><u>Due Within One Year</u></b>
Compensated absences	\$520,324	\$340,390	\$345,544	\$515,170	\$300,223
Tuition benefits payable	2,095,957,478	245,539,613	126,236,328	2,215,260,763	177,954,505
Capital lease obligation	<u>1,407,807</u>	<u>-</u>	<u>489,570</u>	<u>918,237</u>	<u>468,980</u>
Total	<u>\$2,097,885,609</u>	<u>\$245,880,003</u>	<u>\$127,071,442</u>	<u>\$2,216,694,170</u>	<u>\$178,723,708</u>

## 7. Capital Assets

The following schedule presents capital asset activity of the Plan for the year ended June 30, 2011.

<b><u>Enterprise Fund</u></b>	<b><u>July 1, 2010</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>June 30, 2011</u></b>
Nondepreciable capital assets:				
Software	\$ 120,294	\$ 125,252	\$ -	\$ 245,546
Total non-depreciable capital assets	120,294	125,252	-	245,546
Depreciable capital assets:				
Equipment	1,325,344	115,601	21,568	1,419,377
Software	488,248	-	-	488,248
Building	2,347,151	-	-	2,347,151
Total depreciable capital assets	4,160,743	115,601	21,568	4,254,776
Less accumulated depreciation:				
Equipment	440,221	183,243	21,568	601,896
Software	67,109	78,405	-	145,514
Building	107,578	58,679	-	166,257
Total accumulated depreciation	614,908	320,327	21,568	913,667
Net depreciable capital assets	3,545,835	(204,726)	-	3,341,109
Total net capital assets	<u>\$ 3,666,129</u>	<u>\$ (79,474)</u>	<u>\$ -</u>	<u>\$ 3,586,655</u>

## 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, 2011:

**Investment Rate of Return:** 7.0% 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.

	<u>Universities</u>		<u>Community Colleges</u>	
	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>
	<u>assumption</u>	<u>assumption</u>	<u>assumption</u>	<u>assumption</u>
Fall 2012	10.0%	10.0%	8.5%	8.5%
Fall 2013	10.0%	7.5%	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 \$53.76 and Annual Distribution Cost per Contract in Payment Status of \$13.44. 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, 2011, the accrual of the actuarially determined tuition contributions receivable decreased over the prior year, which resulted in negative actuarial tuition contributions reported as operating revenue.

#### Actuary Valuation Results

	<b>2011</b>	<b>2010</b>
Tuition Contributions Receivable	\$ 257,360,763	\$ 266,457,478
Present Value of Tuition Benefits Payable	\$2,215,260,763	\$2,095,957,478

## 9. Retirement and Pension Plan

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

## 10. Risk Management

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

The Plan's information technology disaster recovery site is provided through a co-location agreement with Broadband Network Services Incorporated (BNSI). BNSI, located in Charlottesville, Virginia, 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<sup>SM</sup> as a pilot program in fiscal 2010. SOAR Virginia<sup>SM</sup> 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 an initial funding amount of \$2 million in both fiscal 2011 and 2012 into a VEST account in the name of the Plan for the development of the pilot program. The initial \$2 million was deposited in fiscal 2011 and will remain in the account until distributed. Amounts will be allocated to students once awarded pursuant to the program rules. The Plan will not commit support in excess of amounts on-hand in the SOAR Virginia<sup>SM</sup> account. As of June 30, 2011, the details of the pilot program had yet to be finalized and no amounts had been allocated to students.

## 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, 2011:

Program	Scholarship		Promotional	
	Accounts	Dollars	Accounts	Dollars
<b>VEST</b>	342	\$970,348	155	\$1,017,896
<b>VPEP</b>	29	\$529,161	28	\$445,786
VPEP dollars represent the cancellation value of accounts at June 30, 2011				
VEST dollars represent the aggregate market value of the investments in the portfolios at June 30, 2011				

### 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 2011, the Plan earned unrelated business income. The taxes in the amount of \$4,599 were due in fiscal year 2012.

### 14. Subsequent Events – Equity And Fixed Income Markets

Global and domestic equity and fixed income markets experienced significant volatility from June 30, 2011 into fiscal 2012 with domestic equity markets declining and fixed income markets improving. Portfolio performance through the balance of fiscal 2012 will depend on many factors. From June 30, 2011 through November 10, 2011, management estimates the market value of investments held in trust for participants in the VPEP and VEST programs declined as reflected in the following table.

<u>Program</u>	<u>Market Value June 30, 2011</u>	<u>Market Value November 10, 2011</u>	<u>Dollar Decrease</u>	<u>Percent Decrease</u>
VPEP	\$1,955,909,399	\$1,856,903,803	\$(99,005,596)	-5.06%
VEST	\$1,784,239,428	\$1,740,262,614	\$(43,976,814)	-2.46%

The decline in each of the programs is due mainly to market conditions, but the market values also reflect distributions to educational institutions and individuals for education expenses as well as fees and other expenses. For example, the VPEP program distributed \$51,511,427 for qualified educational expenses and cancellations from July 1, 2011 through November 10, 2011. In addition, VPEP received \$15,477,061 representing payments on outstanding contracts during that same period. The VEST program distributed \$49,561,480 and received \$91,133,329 of contributions from July 1, 2011 through November 10, 2011. These amounts reduced and increased VPEP's and VEST's investment values, respectively, during this period.

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





Supplemental  
Information

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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 plan 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, 2011, 25 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. 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, 2011, approximately 1.9 million unique accounts were open with net assets in excess of \$32.1 billion. A unique account represents all accounts with the same contributor and beneficiary combination. Fees and expenses of the program are also paid on a pro-rata basis by each account owner and vary according to the fund and share class selected.

A separate audited report for each of the 25 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, 2011 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
<b>Growth funds</b>			
AMCAP Fund®	47,602	\$ 926,949	02/28/11
EuroPacific Growth Fund®	36,571	1,543,318	03/31/11
The Growth Fund of America®	166,612	4,195,269	08/31/10
The New Economy Fund®	8,646	206,197	11/30/10
New Perspective Fund®	49,641	1,301,035	09/30/10
New World Fund®	14,456	779,854	10/31/10
SMALLCAP World Fund®	24,800	872,891	09/30/10
<b>Growth-and-income funds</b>			
American Mutual Fund	18,478	449,321	10/31/10
Capital World Growth and Income Fund	83,609	2,811,628	11/30/10
Fundamental Investors <sup>SM</sup>	36,070	1,322,404	12/31/10
International Growth and Income Fund <sup>SM</sup>	2,785	90,337	06/30/11
The Investment Company of America®	69,857	1,963,237	12/31/10
Washington Mutual Investors Fund <sup>SM</sup>	57,819	1,709,798	04/30/11
<b>Equity-income funds</b>			
Capital Income Builder	45,166	2,259,794	10/31/10
The Income Fund of America	76,554	1,182,365	07/31/10
<b>Balanced funds</b>			
American Balanced Fund	143,278	2,565,514	12/31/10
American Funds Global Balanced Fund	N/A*	N/A*	10/31/11
<b>Bond funds</b>			
American High-Income Trust	32,921	366,525	09/30/10
The Bond Fund of America	123,086	1,500,802	12/31/10
Capital World Bond Fund®	23,909	502,462	09/30/10
Intermediate Bond Fund of America®	34,681	473,324	08/31/10
Short-Term Bond Fund of America <sup>SM</sup>	24,232	246,027	08/31/10
U.S. Government Securities Fund <sup>SM</sup>	21,492	317,271	08/31/10
American Funds Mortgage Fund	N/A*	N/A*	08/31/11
<b>Money market fund</b>			
American Funds Money Market Fund <sup>SM</sup>	913,616	913,663	09/30/10

*\*Most recent fiscal year ending data for the fund is unavailable as the fund is a new offering and has not yet published audited financial statements*

*Data compiled from American Funds audited fund statements*

**CollegeAmerica**  
**529 Share Class Net Assets as of June 30, 2011** (dollars and shares in thousands)

<b>Fund</b>	<b>Shares</b>	<b>Net Assets</b>
<b>Growth funds</b>		
AMCAP Fund®	48,980	\$ 961,445
EuroPacific Growth Fund®	36,834	1,568,644
The Growth Fund of America®	170,855	5,366,144
The New Economy Fund®	9,633	255,624
New Perspective Fund®	51,873	1,529,807
New World Fund®	16,895	928,979
SMALLCAP World Fund®	27,241	1,065,582
<b>Growth-and-income funds</b>		
American Mutual Fund	21,023	559,096
Capital World Growth and Income Fund	87,484	3,231,906
Fundamental Investors <sup>SM</sup>	38,184	1,476,661
International Growth and Income Fund <sup>SM</sup>	2,787	90,398
The Investment Company of America®	70,763	2,047,419
Washington Mutual Investors Fund <sup>SM</sup>	58,130	1,686,320
<b>Equity-income funds</b>		
Capital Income Builder	48,148	2,490,432
The Income Fund of America	84,493	1,452,840
<b>Balanced funds</b>		
American Balanced Fund	147,764	2,753,783
American Funds Global Balanced Fund	2,765	71,358
<b>Bond funds</b>		
American High-Income Trust	38,612	440,177
The Bond Fund of America	123,128	1,516,933
Capital World Bond Fund®	27,343	572,947
Intermediate Bond Fund of America®	37,743	510,289
Short-Term Bond Fund of America <sup>SM</sup>	31,454	317,371
U.S. Government Securities Fund <sup>SM</sup>	21,063	295,937
American Funds Mortgage Fund	180	1,786
<b>Money market fund</b>		
American Funds Money Market Fund <sup>SM</sup>	942,542	942,542
<b>Total Assets</b>		<b>\$ 32,134,420</b>

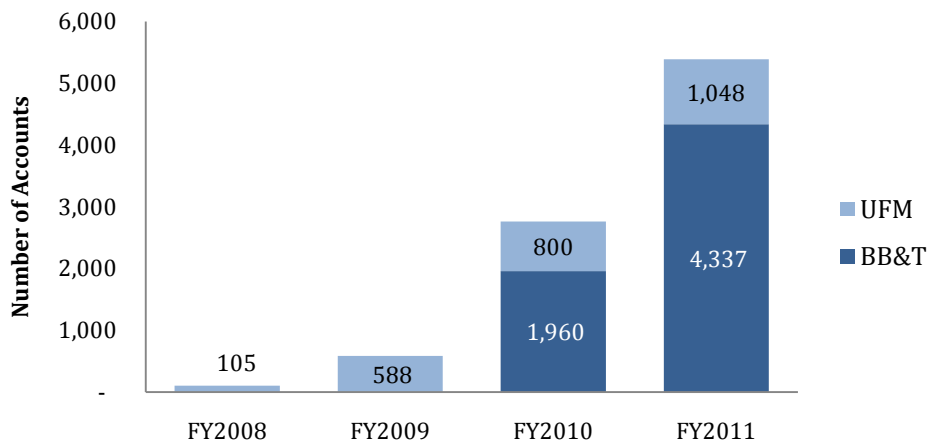
Data compiled from American Funds reports

## CollegeWealth

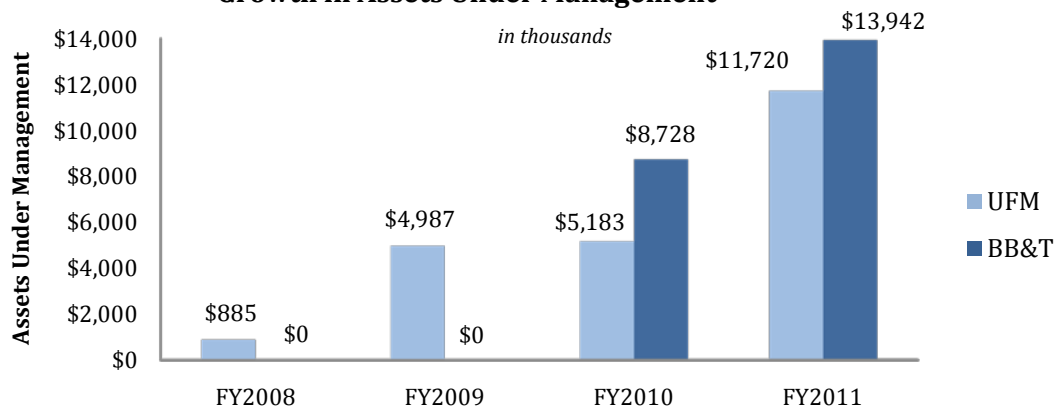
CollegeWealth is the Plan's FDIC-insured defined contribution 529 college savings program, provided in partnership with two participating financial institutions; BB&T and Union First Market Bank. Each CollegeWealth college savings account with a value up to \$250,000 (when combined with any other holdings 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, 2011 there were 5,385 unique accounts with net assets in excess of \$25.6 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.

**Growth in CollegeWealth Accounts Under Management**



**Growth in Assets Under Management**



BB&T was introduced as a partner in fiscal year 2010. As the number of new accounts greatly increased, so did the number of dollars invested. Although BB&T holds 81 percent of all total accounts, dollars under management by banking partner are about equal, with BB&T holding about 54 percent of dollars invested in the program.

## APPENDIX A

## Mutual Funds by Program

## Virginia Prepaid Education Program

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

## Virginia Education Savings Trust

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



## APPENDIX B

## Separate Account, Commingled Fund &amp; Alternative Managers by Program

## Virginia Prepaid Education Program

**Investment Manager****Investment Strategy**

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

## Virginia Education Savings Trust

**Investment Manager****Investment Strategy**

Rothschild Asset Management	Small/Mid Cap Value Domestic Equity
Invesco Institutional	Stable Value Fixed Income
Prudential Investment Management	High Yield Fixed Income

**Appendix C**  
**Investment Details by Program as of June 30, 2011**  
**Virginia Prepaid Education Program**

Investment Manager	Asset Class	Mutual Fund(s) (if applicable)	Aggregate Fair Value	% of Total Fund
<b>Equities</b>				
Aberdeen Asset Management	Emerging Market	Emerging Market Equity	\$147,259,149	7.7%
Capital Research & Management Co.	International Core	American Funds EuroPacific Growth	102,130,209	5.3%
Donald Smith & Co.	Small Cap Value	N/A	54,820,275	2.9%
Templeton Institutional Funds, Inc.	International Value	Templeton Foreign Equity Series	103,388,000	5.4%
Thompson, Siegel & Walmsley	Small/Mid Cap Value	N/A	55,711,231	2.9%
Vanguard Group	Large Cap Domestic Blend	Institutional Index	108,834,156	5.7%
Westfield Capital Management	Mid Cap Growth	N/A	116,592,638	6.1%
<i>Total Equities</i>			<u>688,735,658</u>	<u>35.9%</u>
<b>Core Fixed Income</b>				
BlackRock, Inc.	Cash Equivalents	TempFund	1,552,633	0.1%
Invesco Institutional	Stable Value	N/A	93,976,389	4.6%
Prudential Investment Management	Fixed Income	N/A	10,741,322	0.6%
State Street Global Advisors	Inflation Protected Securities	N/A	193,095,658	10.1%
Treasurer of Virginia	Cash Equivalents	N/A	485,946	0.0%
Vanguard Group	Intermediate Core Fixed Income	Total Bond Market Index	180,836,735	9.4%
VCSP Transition Account	N/A	N/A	1,022,292	0.1%
<i>Total Core Fixed Income</i>			<u>481,710,976</u>	<u>24.8%</u>
<b>Non-Core Fixed Income</b>				
Lord Abbett	Convertible Bonds	N/A	145,723,208	7.6%
Prudential Investment Management	High Yield Bonds	N/A	151,817,221	8.0%
Stone Harbor Investment Partners LP	Emerging Markets Debt Blend	Emerging Markets Debt & Local Markets	61,878,561	3.2%
Wellington Management Co., LLP	Emerging Markets Debt	N/A	137,107,592	7.1%
<i>Total Non-Core Fixed Income</i>			<u>496,526,582</u>	<u>26.0%</u>
<b>Alternative Investments</b>				
Adams Street Partners, LLC	Private Equity	N/A	1,203,594	0.1%
Aurora Investment Management, LLC	Hedge Fund of Fund	N/A	164,220,542	8.6%
Aventura Holdings, LLC	Private Real Estate	N/A	7,126,539	0.3%
Private Advisors, LLC	Private Equity	N/A	5,752,730	0.3%
UBS Realty Investors, LLC	Private Real Estate	N/A	53,524,178	2.7%
Vanguard Group	Real Estate Investment Trust	REIT Index Fund	25,639,449	1.3%
<i>Total Alternative Investments</i>			<u>257,467,031</u>	<u>13.3%</u>
<b>Grand Total</b>			<u><u>1,924,440,248</u></u>	<u><u>100.0%</u></u>

BlackRock, Inc. operating cash in the amount of \$31,469,150 is not included in the total above.

**Appendix C (cont.)**  
**Investment Details by Program as of June 30, 2011**

**Virginia Education Savings Trust**

Investment Manager	Asset Class	Mutual Fund (if applicable)	Aggregate Fair Value
<b>Age-Based Evolving Portfolios</b>			
Aberdeen Asset Management	Emerging Markets Equity	Emerging Market Equity Fund	\$100,517,435
Capital Research & Management Co.	International Core Equity	American Funds EuroPacific Growth	79,652,889
Invesco Institutional	Stable Value	N/A	242,033,392
Morgan Stanley Institutional Fund, Inc.	Global REITs	Institutional Global Real Estate Fund	96,421,309
Prudential Investment Management	High Yield Bonds	N/A	56,040,363
Rothschild Asset Management	Small/Mid Cap Domestic Equity	N/A	63,397,404
Stone Harbor Investment Partners LP	Emerging Markets Debt	Emerging Market Debt Fund	97,677,127
Templeton Institutional Funds, Inc.	International Value Equity	Templeton Foreign Equity Series	78,869,881
Vanguard Group	Intermediate Core Fixed Income	Total Bond Market Index Fund	229,604,498
Vanguard Group	Large-Cap Domestic Equity Blend	Institutional Index Fund	158,107,511
Vanguard Group	Small Cap Domestic Equity Blend	Small Cap Index Fund	37,559,329
<i>Total Age-Based Evolving Portfolios</i>			<u>1,239,881,136</u>
<b>Static Non-Index Portfolios</b>			
Parnassus Investments	Socially Responsible Large Cap Core Equity	Equity Income Fund	2,164,999
Vanguard Group	80% Equities 20% Fixed Income	LifeStrategy Growth Fund	218,846,812
Vanguard Group	60% Equities 40% Fixed Income	LifeStrategy Moderate Growth Fund	99,912,587
Vanguard Group	20% Equities 80% Fixed Income	LifeStrategy Income Fund	35,349,038
Vanguard Group	Cash Equivalents	Prime Money Market Fund	28,091,340
<i>Total Non-Evolving Non-Index</i>			<u>384,364,777</u>
<b>Static Index Portfolios</b>			
Vanguard Group	Inflation Protected Securities	Inflation-Protected Securities Fund	15,135,576
Vanguard Group	Real Estate Investment Trust	REIT Index Fund	12,426,905
Vanguard Group	Intermediate Core Fixed Income	Total Bond Market Index Fund	14,655,606
Vanguard Group	International Equity	Total International Stock Index Fund	42,464,047
Vanguard Group	Domestic Equity Blend	Total Stock Market Index Fund	73,033,307
<i>Total Non-Evolving Index Portfolios</i>			<u>157,715,442</u>
<b>Grand Total</b>			<u><u>\$ 1,781,961,355</u></u>

Cash held with the Treasuer of Virginia as well with the custodian in the amount of \$2,279,778 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

December 2, 2011

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit  
And Review Commission

Board Members  
Virginia College Savings Plan

### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Virginia College Savings Plan** as of and for the year ended June 30, 2011, 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, 2011, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia College Savings Plan as of June 30, 2011, and the changes in its financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 1 through 13 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 December 2, 2011 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, 2011

Mr. Shawn McLaughlin, Chairman

Mr. Vincent Carpenter, Vice-Chairman

Mr. Lee Andes

Mr. Peter A. Blake

Ms. Lee E. Brazzell

Ms. Manju Ganeriwala

Ms. Amy Nisenson

Ms. R. Fern Spencer

Mr. Mark Steppel

Ms. Donna M. VanCleave

Mr. David A. Von Moll

Mr. John D. Whitlock

**CHIEF EXECUTIVE OFFICER**

Ms. Mary G. Morris