

**MISSISSIPPI PREPAID AFFORDABLE
COLLEGE TUITION PROGRAM**

**Financial Statements
June 30, 2012 and 2011**

**Mississippi Prepaid Affordable
College Tuition Program**
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June 30, 2012 and 2011

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Carr Riggs & Ingram, LLC
282 Commerce Park Drive
Ridgeland, Mississippi 39157

Mailing Address:
P.O. Box 2418
Ridgeland, Mississippi 39158-2418

(601) 853-7050
(601) 853-9331 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' REPORT

To the College Savings Plans of Mississippi Board of Directors
Mississippi Prepaid Affordable College Tuition Program
Jackson, Mississippi

We have audited the accompanying balance sheets of the Mississippi Prepaid Affordable College Tuition Program (the "Program"), (a component unit of the State of Mississippi, Treasury Department) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in trust equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Program are intended to present the financial position, the results of operations and cash flows of only that portion of the business-type activities of the State of Mississippi that is attributable to the transactions of the Program. They do not purport to, and do not present fairly, the financial position of the State of Mississippi as of June 30, 2012 and 2011, and the results of its operations and its cash flows, for the years then ended, in conformity with the accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Mississippi Prepaid Affordable College Tuition Program (a component unit of the State of Mississippi, Treasury Department) as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 26, 2012, on our consideration of the Program'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.

Management of the Program has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements of state and local governments.

Car, Riggs & Ingram, LLC

Ridgeland, Mississippi
November 26, 2012

Mississippi Prepaid Affordable College Tuition Program

Balance Sheets

<i>At June 30,</i>	2012			2011
	Trust Fund	Administrative Fund	Total	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 27,559,623	\$ 61,397	\$ 27,621,020	\$ 24,723,055
Accounts receivable	3,942,149	-	3,942,149	3,529,014
Interest receivable	866,803	-	866,803	490,792
Total current assets	32,368,575	61,397	32,429,972	28,742,861
Non-current Assets				
Investment securities	236,981,727	-	236,981,727	236,430,198
Total noncurrent assets	236,981,727	-	236,981,727	236,430,198
Total assets	\$ 269,350,302	\$ 61,397	\$ 269,411,699	\$ 265,173,059
LIABILITIES AND TRUST EQUITY (DEFICIT)				
Current Liabilities				
Warrants payable	\$ 90,146	\$ 1,179	\$ 91,325	\$ 108,857
Accounts payable	4,137,411	57,085	4,194,496	3,578,844
Total current liabilities	4,227,557	58,264	4,285,821	3,687,701
Long-term Liabilities				
Tuition benefits and expense payable	359,574,467	-	359,574,467	323,507,999
Compensated absences	-	14,223	14,223	16,997
Total long-term liabilities	359,574,467	14,223	359,588,690	323,524,996
Total liabilities	363,802,024	72,487	363,874,511	327,212,697
Unrestricted	(94,451,722)	(11,090)	(94,462,812)	(62,039,638)
Trust Equity (Deficit)	(94,451,722)	(11,090)	(94,462,812)	(62,039,638)
Total liabilities and trust equity (deficit)	\$ 269,350,302	\$ 61,397	\$ 269,411,699	\$ 265,173,059

The accompanying notes are an integral part of these financial statements.

Mississippi Prepaid Affordable College Tuition Program

Statements of Revenues, Expenses and Changes in Trust Equity (Deficit)

<u>For the years ended June 30,</u>	<u>2012</u>			<u>2011</u>
	<u>Trust Fund</u>	<u>Administrative Fund</u>	<u>Total</u>	<u>Total</u>
Operating Revenues				
Contract income	\$ 21,615,685	\$ -	\$ 21,615,685	\$ 20,962,706
Administrative fees	842,389	-	842,389	801,058
Total operating revenues	22,458,074	-	22,458,074	21,763,764
Operating Expenses				
Salaries and travel	-	238,297	238,297	240,754
Contractual services	-	1,010,458	1,010,458	1,039,043
Commodities and supplies	-	23,958	23,958	23,598
Capital outlay	-	-	-	3,200
Tuition benefits and expense	55,295,680	-	55,295,680	44,447,849
Total operating expenses	55,295,680	1,272,713	56,568,393	45,754,444
Operating loss	(32,837,606)	(1,272,713)	(34,110,319)	(23,990,680)
Non-Operating Revenues				
Net investment income	1,687,145	-	1,687,145	46,706,251
Operating transfers	(1,200,000)	1,200,000	-	-
Net income (loss)	(32,350,461)	(72,713)	(32,423,174)	22,715,571
Trust equity (deficit) at beginning of year	(62,101,261)	61,623	(62,039,638)	(84,755,209)
Trust equity (deficit) at end of year	\$ (94,451,722)	\$ (11,090)	\$ (94,462,812)	\$ (62,039,638)

The accompanying notes are an integral part of these financial statements.

Mississippi Prepaid Affordable College Tuition Program

Statements of Cash Flows

<u>For the years ended June 30,</u>	<u>2012</u>			<u>2011</u>
	Trust Fund	Administrative Fund	Total	Total
Operating activities				
Contract payments received	\$ 21,613,520	\$ -	\$ 21,613,520	\$ 20,911,120
Administrative fees received	842,389	-	842,389	801,058
Cash payments for tuition	(19,229,212)	-	(19,229,212)	(17,320,741)
Cash payments to suppliers for goods and services	-	(1,061,064)	(1,061,064)	(1,101,608)
Cash payments to employees for services	-	(227,705)	(227,705)	(234,282)
Net cash provided by (used in) operating activities	3,226,697	(1,288,769)	1,937,928	3,055,547
Non-capital financing activities				
Operating transfers	(1,200,000)	1,200,000	-	-
Net cash provided by (used in) noncapital financing activities	(1,200,000)	1,200,000	-	-
Investing activities				
Purchases of investments	(82,336,651)	-	(82,336,651)	(89,327,539)
Sales or maturities of investments	78,215,604	-	78,215,604	88,607,133
Net investment income	5,081,084	-	5,081,084	4,926,120
Net cash provided by investing activities	960,037	-	960,037	4,205,714
Net increase (decrease) in cash and cash equivalents	2,986,734	(88,769)	2,897,965	7,261,261
Cash and cash equivalents at beginning of year	24,572,889	150,166	24,723,055	17,461,794
Cash and cash equivalents at end of year	\$ 27,559,623	\$ 61,397	\$ 27,621,020	\$ 24,723,055

The accompanying notes are an integral part of these financial statements.

Mississippi Prepaid Affordable College Tuition Program

Reconciliations of Operating Loss to Net Cash Provided by (Used in) Operating Activities

<i>For the years ended June 30,</i>	2012			2011
	Trust Fund	Administrative Fund	Total	Total
Operating loss	\$ (32,837,606)	\$ (1,272,713)	\$ (34,110,319)	\$ (23,990,680)
Adjustments to reconcile operating loss to cash provided by (used in) operating activities:				
Increase in benefits payable	36,066,468	-	36,066,468	27,127,108
Decrease in other liabilities	(2,165)	(16,056)	(18,221)	(80,881)
Net cash provided by (used in) operating activities	\$ 3,226,697	\$ (1,288,769)	\$ 1,937,928	\$ 3,055,547

The accompanying notes are an integral part of these financial statements.

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Description of the Mississippi Prepaid Affordable College Tuition Program (MPACT)

MPACT operates a prepaid college tuition program. The Program enters into a contract with a purchaser which provides that, in return for a specified actuarially determined payment, MPACT will provide the contract beneficiary's undergraduate tuition and mandatory fees (up to 160 semester hours) at any Mississippi public university or community college. If the contract beneficiary attends an out-of-state or private accredited institution, MPACT will pay to that institution an amount up to, but not in excess of, the average tuition and mandatory fees at Mississippi's public universities or community colleges. The purchase amount is based on several factors, including tuition costs, the beneficiary's age and grade in school, anticipated investment earnings, and anticipated tuition rate increases. The MPACT Program's obligations to contract holders, beneficiaries or others are backed by the full faith and credit of the State of Mississippi. In the event the Board of Directors determines the Program to be financially infeasible, the Board of Directors may discontinue the Program. Any qualified beneficiary who has been accepted by and is enrolled or is within five years of enrollment in an institution of higher learning or any in-state or out-of-state regionally accredited private four or two year college or university shall be entitled to exercise the complete benefits of the Program. All other contract holders would receive a refund of principal paid into the Program, plus an amount of interest not less than the prevailing rates of interest paid by bank savings accounts.

Due to actual investment earnings being less than Program assumptions, the Program has operated at a net deficit for the last ten years (see analysis of sensitivity of changes in assumed earnings in Note 3). In August, 2012, the Board of Directors voted to suspend accepting new contracts while an independent actuarial analysis is being performed. This actuarial analysis has not been completed as of November 26, 2012. Management has not made any decisions regarding when, or if, new contracts may be executed, and whether any changes in actuarial assumptions and contract pricing may occur as a result of the ongoing actuarial analysis.

The MPACT Program operates under the provisions of Mississippi Code Ann., §37-155-1 through §37-155-27. The effective date of the enabling legislation was July 1, 1996. MPACT is administratively located within the State of Mississippi Treasury Department. The Program is governed by the nine-member College Savings Plans of Mississippi Board of Directors consisting of the following members: the State Treasurer, the Commissioner of Higher Education, the Executive Director of the Community and Junior College Board, the Department of Finance and Administration Executive Director and one (1) member from each congressional district as appointed by the Governor with the advice and consent of the Senate.

Reporting Entity

The MPACT Program is a part of the State of Mississippi's reporting entity and is reported as a proprietary fund in the State of Mississippi Comprehensive Annual Financial Report (CAFR). These financial statements and the accompanying notes relate directly to the Mississippi Prepaid Affordable College Tuition Program. The Mississippi Affordable College Savings Program issues separate financial statements.

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The financial statements contained in this report are prepared using the economic resources measurement focus on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when services or benefits are received. The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and standards of the Government Accounting Standards Board. The preparation of financial statements may require 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 these estimates.

MPACT distinguishes between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. Operating revenues and expenses for MPACT include the contract revenue and expenses associated with covered tuition and fees, and other related costs. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

In connection with the preparation of the financial statements, management of the Program evaluated subsequent events through November 26, 2012, which was the date the financial statements were available to be issued.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the MPACT Program has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, MPACT defines cash equivalents as demand deposit accounts and cash in the State Treasury.

Contract Income

Contract income represents the payments received from contract holders and the change in the actuarially determined present value of future installment payments.

Investment Securities

MPACT follows Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, which requires that investments in equity securities with readily determinable fair values, all investments in debt securities and open-end mutual funds, and certain investments in interest-earning investment contracts be reported at fair value with gains and losses included as a component of revenues and expenses. The net investment income reported in the Statements of Revenues, Expenses and Changes in Trust Equity (Deficit) includes both realized and unrealized gains and losses.

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Program provides for investments in various investments, and investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

Determination Of Fair Values Of Financial Instruments

Fair value for cash and cash equivalents, short-term investments, receivables and payables approximates carrying value. Fair values for investment securities are based on quoted market prices, where available. Otherwise, fair values are based on quoted market prices of comparable instruments.

Tuition Benefits and Expense Payable

Tuition benefits and expense payable represents the actuarially determined present value of future tuition obligations and Program expenses, net of the present value of future payments expected to be made to the Trust Fund by installment contract holders.

Interfund Transactions

All administrative expenses are recorded in the Administrative Fund. These expenses are funded by operating transfers from the Trust Fund, since the Administrative Fund has no source of revenue.

Future Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends existing net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for periods beginning after December 15, 2011. Management has not completed its evaluation to determine the effect, if any, the adoption of this statement will have on the Program's financial condition or results of operations.

NOTE 2 - INVESTMENT SECURITIES AND DEPOSITS

MPACT funds are invested according to the relevant statutes and the investment policies adopted by the Board of Directors. Mississippi law authorizes the MPACT Trust Fund to invest in bonds or other general obligations of the State of Mississippi and its political subdivisions, obligations of the U.S. Treasury, Federal Land Bank bonds, Federal Home Loan Bank notes and bonds, Federal National Mortgage Association notes, debentures or obligations guaranteed by the U.S. Government, bonds of the Tennessee Valley Authority, bonds of other states, corporate bonds of investment grade, and other fixed income investments. Additionally, MPACT is permitted to invest in equity securities, including covered call or put options on securities traded on a regulated exchange, that are determined by the Board of Directors to be

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

NOTE 2 - INVESTMENT SECURITIES AND DEPOSITS (Continued)

consistent with the investment statutes and policies. The statute sets limits in terms of the percentage of the total investments of the Trust Fund that may be placed in any one category or type of investment. For a complete description of allowable investments, see Mississippi Code Ann., §37-155-9(v).

Investments consisted of the following:

<i>June 30,</i>	2012		2011	
	Cost	Fair Value	Cost	Fair Value
U.S. Treasuries and Agencies	\$ 1,848,371	\$ 2,178,777	\$ 5,831,097	\$ 6,113,387
Municipal Bonds	10,643,448	10,776,480	6,926,099	7,031,807
Corporate Debt Securities	15,253,372	16,695,161	11,943,222	12,843,914
Corporate Equity Securities				
Domestic	104,603,338	120,705,276	101,877,287	120,077,135
Foreign	48,154,681	49,498,190	45,891,305	53,153,053
Real estate - Timberland Fund	4,154,489	5,441,319	4,205,785	5,430,725
Mortgage and Other Asset-backed Securities	29,631,966	31,686,524	30,437,906	31,780,177
Total	\$ 214,289,665	\$ 236,981,727	\$ 207,112,701	\$ 236,430,198

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MPACT will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the government and are held by either the counterparty or the counterparty's trust department or agent. The Mississippi Code of 1972, Section 37-155-9(v)(x) requires that all investments be clearly marked to indicate ownership by MPACT and to the extent possible be registered in the name of MPACT. Investments are entirely uninsured and are held by third parties in MPACT's name.

For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Mississippi Code of 1972 Section 37-155-9(v)(iii) requires MPACT funds to be deposited in federally insured institutions domiciled in the State of Mississippi or a custodial bank which appears on the State of Mississippi Treasury Department's approved depository list and/or safekeeper list. Deposits of the Program are entirely insured or collateralized with securities.

Interest Rate Risk

Interest rate risk is defined as the risk a government may face should changes in interest rates adversely affect the fair value of investments. The price of a fixed income security typically moves in the opposite direction of the change in interest rates.

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

NOTE 2 - INVESTMENT SECURITIES AND DEPOSITS (Continued)

Maturities of debt securities by type at June 30, 2012 and 2011, are as follows:

June 30, 2012	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasuries and Agencies	\$ 2,178,777	\$ -	\$ -	\$ -	\$ 2,178,777
Municipal Bonds	10,776,480	943,336	4,185,708	1,240,872	4,406,564
Corporate Debt Securities	16,695,161	1,178,432	2,089,055	5,194,840	8,232,834
Mortgage and Other Asset-backed Securities	31,686,524	380,207	1,358,358	4,658,538	25,289,421
Totals	\$61,336,942	\$ 2,501,975	\$7,633,121	\$ 11,094,250	\$ 40,107,596
<hr/>					
June 30, 2011					
U.S. Treasuries and Agencies	\$ 6,113,387	\$ 573,182	\$ 489,566	\$ 604,776	\$ 4,445,863
Municipal Bonds	7,031,807	562,317	4,087,423	742,908	1,639,159
Corporate Debt Securities	12,843,914	331,848	2,796,202	4,764,283	4,951,581
Mortgage and Other Asset-backed Securities	31,780,177	16,798	1,767,195	4,614,824	25,381,360
Totals	\$57,769,285	\$ 1,484,145	\$9,140,386	\$ 10,726,791	\$ 36,417,963

MPACT does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

During fiscal years 2012 and 2011, the investments in derivatives by MPACT were exclusively in foreign currency exchange contracts (Note 4), and asset/liability based derivatives such as collateralized mortgage obligations, and asset backed securities. MPACT reviews fair values of all securities on a monthly basis and prices are obtained from recognized pricing sources. Derivative securities are held, in part, to maximize yields.

Mortgage and other asset backed securities, including collateralized mortgage obligations (CMO's), are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with that CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are more significantly sensitive to interest rate fluctuations.

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

NOTE 2 - INVESTMENT SECURITIES AND DEPOSITS (Continued)

In a declining interest rate environment, some CMO's may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. Reductions in interest payments cause a decline in cash flows and, thus a decline in fair value of the CMO security. Rising interest rates may cause an increase in interest payments, thus an increase in the fair value of the security.

Other asset-backed securities are bonds or notes backed by banks, credit card companies, or other credit providers. The originator of the loan or accounts receivables paper sells it to a specially created trust, which repackages it as securities. Similar to CMO's, asset-backed securities have been structured as pass-throughs and as structures with multiple bond classes.

Credit Risk

<i>June 30,</i>	2012	2011
<i>Government-sponsored enterprise obligations implicitly guaranteed by the U.S.</i>		
AAA	\$ 417,620	\$ 1,544,578
Not rated	10,432,224	11,310,269
Total government-sponsored enterprise obligations	\$ 10,849,844	\$ 12,854,847
<i>Other debt securities</i>		
AAA	\$ 2,931,012	\$ 2,543,810
AA	7,580,849	6,500,464
A	10,521,953	8,481,511
BBB+	6,880,815	4,025,246
BB	-	198,500
B	372,510	-
Not rated	580,447	226,850
Total other debt securities	\$ 28,867,586	\$ 21,976,381
<i>Money market securities</i>		
AAA	\$ 9,078,736	\$ 8,474,179
Not rated	169,797	10,059
Total money market securities	\$ 9,248,533	\$ 8,484,238

The above chart does not include equity securities, obligations of the U. S. Treasury, U.S. Agencies or securities explicitly guaranteed by the U.S. Government. State law requires a minimum quality rating of AAA by Standard and Poor's for corporate short-term obligations. This law also requires corporate and taxable municipal bonds to be of investment grade as rated by Standard and Poor's, with bonds rated BAA/BBB not to exceed 5% of total fixed income investments.

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

NOTE 2 - INVESTMENT SECURITIES AND DEPOSITS (Continued)

Credit risk for derivatives held by MPACT results from the same considerations as other counterparty risk assumed by MPACT, which is the risk that a borrower will be unable to meet its obligation.

Foreign Currency Risk

<i>June 30,</i>	2012		2011	
Currency	%	Fair Value	%	Fair Value
Australian Dollars	9.4	\$ 2,831,585	10.3	\$ 3,317,517
Euro	29.4	8,867,837	29.1	9,371,217
Hong Kong Dollars	8.0	2,430,218	8.1	2,605,007
Israeli Shekel	2.4	712,720	2.9	922,668
Japanese Yen	8.9	2,707,587	8.4	2,707,800
Malaysian Ringgit	4.4	1,311,205	3.9	1,245,691
New Taiwan Dollar	2.7	800,693	3.0	968,135
Norway/Norwegian Krone	0.9	281,172	1.1	350,571
Singapore Dollars	5.0	1,512,703	3.8	1,217,566
Sweden/Swedish Krona	1.3	386,410	1.0	321,677
Swiss Francs	13.0	3,924,763	13.6	4,373,498
Pound Sterling	14.6	4,403,915	15.0	4,834,447
Total International Investments				
Denominated in Foreign				
Currencies				
	100.0	\$ 30,170,808	100.0	\$ 32,235,794

Foreign equity securities held in mutual funds are not included in the table above. All foreign currency-denominated investments are in equities and foreign cash.

NOTE 3 - TUITION BENEFITS AND EXPENSE PAYABLE

Tuition benefits and expense payable is recorded as a long-term liability since short-term installment contract receipts are expected to exceed short-term tuition payments required of the Program. Installment contract holders are not contractually bound to continue making installment payments. The future tuition obligations are recorded at an actuarially determined present value which results in the recognition of tuition benefit expense and a corresponding increase in tuition benefits payable.

Actuarially Determined Funding Status

Presented below is the total tuition benefits obligation of the Program. The standardized measurement is the actuarial present value (APV) of the future tuition obligation. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases. The tuition benefits obligation was determined as part of the latest available actuarial valuation.

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

NOTE 3 - TUITION BENEFITS AND EXPENSE PAYABLE (Continued)

Significant actuarial assumptions used and results from the most recent actuarial valuations are as follows:

June 30,	2012	2011
Assumptions		
Rate of return on investment	7.8%	7.8%
Future tuition increases:		
4-year universities	6.5%	6.5%
2-year junior colleges	6.0%	6.0%
Maximum number of credit hours utilizable for payment of tuition and mandatory fees	160	160
Results		
APV of tuition benefits and expenses payable - Long-term	\$ 359,574,467	\$ 323,507,999
Net assets available for benefits	265,125,878	261,468,361
Net tuition benefits and expenses payable in excess of net assets available for benefits	<u>\$ 94,448,589</u>	<u>\$ 62,039,638</u>
Net assets as percentage of total tuition benefits and expenses payable	<u>73.73%</u>	<u>80.82%</u>
Tuition benefits and expenses payable, net includes the following actuarial present value of future payments:		
Payments to be made for tuition, fees, expenses and contract cancellations for all contracts sold	\$ 407,454,351	\$ 371,117,670
Payments to be received from installment contract purchases	<u>(47,879,884)</u>	<u>(47,609,671)</u>
Tuition benefits and expenses payable, net	<u>\$ 359,574,467</u>	<u>\$ 323,507,999</u>

The margin between the assumed tuition inflation rates and rate of return on investments has a significant effect on the amounts reported as tuition benefits and expense payable in the accompanying financial statements. If the assumed rate of return on investments increased by 25 basis points in all years (to 8.05%), it would decrease the Program's deficit from approximately \$94.5 million to approximately \$87.9 million. If the assumed rate of return on investments decreased by 25 basis points in all years (to 7.55%), it would increase the Program's deficit to approximately \$101.2 million. As of June 30, 2012 and 2011, an investment earnings rate of 12.22% and 10.71%, respectively, was required for the Program to satisfy all future benefit and expense obligations if other experience (including future tuition increases) is consistent with actuarial assumptions.

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

NOTE 4 - CURRENCY RATE MANAGEMENT

Certain investments of MPACT are exposed to continuing fluctuations in currency rates, which are recorded as an adjustment of realized and unrealized gains and losses. MPACT addresses this risk through a controlled program of risk management that includes the use of foreign currency forward exchange contracts accounted for as an investment derivative instrument. A forward exchange contract (or forward contract) is a binding obligation to buy or sell a certain amount of foreign currency at a pre-agreed rate of exchange, on a certain future date. Such contracts are initiated within the guidelines of investment statutes and policies and do not create risk because resulting gains and losses offset gains and losses on the investment being hedged. MPACT does not hold or issue financial instruments for trading purposes. Australian dollar currency exchange contracts with fair values of approximately \$3,288,000 and \$3,205,000 were held by MPACT at June 30, 2012 and 2011, respectively. As of June 30, 2012 and 2011, these contracts could have been settled by a cash payment of approximately \$3,323,000 and \$3,236,000, respectively, resulting in associated unrealized losses on these contracts of approximately \$35,000 and \$31,000, respectively.

NOTE 5 - TAX STATUS

The Board of the Trust Fund has, based on the opinion of tax counsel, held the view that the Trust Fund is exempt from federal income taxation. The basis upon which the Board has taken the position that the Trust Fund is tax-exempt is its relationship and position as an agency and instrumentality of the State of Mississippi. The Mississippi statutes which establish the Trust Fund (§§37-155-1-27) specify that it is a state "agency and instrumentality" as confirmed by an official Attorney General's opinion. State agencies are not subject to income taxation under general principles of federal tax law.

When the Small Business Job Protection Act of 1996 became law, Section 529 was added to the Internal Revenue Code of 1986. This code section provides that a "qualified state tuition Program" is exempt from all federal income taxation except that relating to unrelated business income (which is unlikely to apply to the MPACT Program given its current investment policies and because the Program's sources of revenue do not include unrelated business income). In March of 1998, the Board received an official ruling from the Internal Revenue Service that the MPACT Program qualifies under Section 529 and is thus exempt from federal taxation. Accordingly, no provision has been made in these financial statements for accrual of income taxes for the years ended June 30, 2012 and 2011.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the College Savings Plans of Mississippi Board of Directors
Mississippi Prepaid Affordable College Tuition Program
Jackson, Mississippi

We have audited the financial statements of the Mississippi Prepaid Affordable College Tuition Program (the "Program") (a component unit of the State of Mississippi, Treasury Department) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 26, 2012. 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.

Internal Control Over Financial Reporting

Management of the Program is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Program's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and the Mississippi State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Car, Rigg & Ingram, LLC

Ridgeland, Mississippi
November 26, 2012