

**MISSISSIPPI AFFORDABLE  
COLLEGE SAVINGS PROGRAM**

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

**Mississippi Affordable College  
Savings 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](http://www.cricpa.com)

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of fiduciary net assets of Mississippi Affordable College Savings 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 changes in fiduciary net assets 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 2, the financial statements of the Program are intended to present the fiduciary net assets and changes in fiduciary net assets for only that portion of the fiduciary 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 fiduciary net assets of the State of Mississippi as of June 30, 2012 and 2011, and the changes in its fiduciary net assets, 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 fiduciary net assets of Mississippi Affordable College Savings Program (a component unit of the State of Mississippi, Treasury Department) as of June 30, 2012 and 2011, and the changes in fiduciary net assets 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 our 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 Affordable College Savings Program

## Statements of Fiduciary Net Assets

<i>June 30,</i>	2012				2011
	Trust Fund	Administrative Fund	Endowment Fund	Total	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 23,229	\$ 1,000	\$ 24,229	\$ 515,569
Due from transfer agent	324,030	-	-	324,030	69,389
Investment securities	142,823,157	-	-	142,823,157	131,101,275
<b>Total assets</b>	<b>\$ 143,147,187</b>	<b>\$ 23,229</b>	<b>\$ 1,000</b>	<b>\$ 143,171,416</b>	<b>\$ 131,686,233</b>
<b>LIABILITIES AND NET ASSETS</b>					
Accounts and warrants payable	\$ -	\$ 5,196	\$ -	\$ 5,196	\$ 3,037
Payable for securities transactions	498,564	-	-	498,564	129,205
Compensated absences	-	5,724	-	5,724	9,857
<b>Total liabilities</b>	<b>498,564</b>	<b>10,920</b>	<b>-</b>	<b>509,484</b>	<b>142,099</b>
<b>Net assets held in trust</b>	<b>142,648,623</b>	<b>12,309</b>	<b>1,000</b>	<b>142,661,932</b>	<b>131,544,134</b>
<b>Total liabilities and net assets</b>	<b>\$ 143,147,187</b>	<b>\$ 23,229</b>	<b>\$ 1,000</b>	<b>\$ 143,171,416</b>	<b>\$ 131,686,233</b>

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

# Mississippi Affordable College Savings Program

## Statements of Changes in Fiduciary Net Assets

<i>For the years ended June 30,</i>	2012			2011	
	Trust Fund	Administrative Fund	Endowment Fund	Total	Total
<b>ADDITIONS</b>					
Investment earnings					
Interest	\$ 681,311	\$ 571	\$ -	\$ 681,882	\$ 602,694
Dividends	2,212,611	-	-	2,212,611	1,866,733
Net gain (loss) on investments	(887)	-	-	(887)	15,689,408
Total investment earnings	2,893,035	571	-	2,893,606	18,158,835
Less investment expenses -					
Management fees	570,730	-	-	570,730	674,803
Net investment income	2,322,305	571	-	2,322,876	17,484,032
Other receipts					
Customer subscriptions	45,093,063	-	-	45,093,063	39,758,920
Customer age band restructuring	72,117,536	-	-	72,117,536	-
Program manager transfers	-	135,000	-	135,000	120,000
Total other receipts	117,210,599	135,000	-	117,345,599	39,878,920
Total additions	119,532,904	135,571	-	119,668,475	57,362,952
<b>DEDUCTIONS</b>					
Customer redemptions	36,288,557	-	-	36,288,557	25,634,542
Customer age band restructuring	72,117,536	-	-	72,117,536	-
Salaries and travel	-	95,204	-	95,204	104,716
Contractual services	-	48,594	-	48,594	55,596
Commodities and supplies	-	786	-	786	2,519
Total deductions	108,406,093	144,584	-	108,550,677	25,797,373
Change in net assets	11,126,811	(9,013)	-	11,117,798	31,565,579
Net assets at beginning of year	131,521,812	21,322	1,000	131,544,134	99,978,555
<b>Net assets at end of year</b>	<b>\$ 142,648,623</b>	<b>\$ 12,309</b>	<b>\$ 1,000</b>	<b>\$ 142,661,932</b>	<b>\$ 131,544,134</b>

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

# Mississippi Affordable College Savings Program

## Notes to Financial Statements

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### NOTE 1 - ORGANIZATION

The Mississippi Affordable College Savings Program ("MACS" or the "Program") was created by the 2000 Session of the Mississippi Legislature to assist qualified students in financing costs of attending institutions of higher education, to encourage timely financial planning for higher education, provide a savings program for those persons who wish to save to meet post-secondary educational needs beyond the traditional baccalaureate curriculum, and to provide a choice of programs to persons who determine that the overall educational needs of their families are best provided by either a savings trust agreement under MACS or a prepaid tuition contract under the Mississippi Prepaid Affordable College Tuition ("MPACT") Program. The Program is governed by the Board of Directors of the College Savings Plans of Mississippi, with administration functions delegated to the Department of Treasury of the State of Mississippi. The Board has authority to appoint investment managers, adopt resolutions for the administration of the Program and establish investment policies for the Program. TIAA-CREF Tuition Financing, Inc. ("TFI"), an indirect subsidiary of Teachers Insurance and Annuity Association of America ("TIAA"), and the Board entered into a Management Agreement under which TFI serves as Program Manager. MACS is operated in a manner such that it is exempt from registration as an investment company under the Investment Company Act of 1940.

An individual participating in the Program establishes an account in the name of a beneficiary. The Program consists of two investment programs: (1) the Mississippi Affordable College Savings Direct Program (the "Direct Program") and (2) the Mississippi Affordable College Savings Advisor Program (the "Advisor Program"). These financial statements include both programs.

Contributions to the Direct Program can be made among four investment options: the Managed Allocation Option, the Diversified Equity Option, the Fixed Income Option and the Guaranteed Option. Contributions to the Managed Allocation Option are allocated among nine age bands, based on the age of the beneficiary. Each age band invests in varying percentages in the Bond Index, Emerging Markets Equity Index, Inflation-Linked Bond, Small-Cap Blend Index, International Equity Index, Real Estate Securities, Large-Cap Value Index, Large-Cap Growth Index, Short-Term Bond, and Money Market Funds of the TIAA-CREF Institutional Mutual Funds. The Diversified Equity Option invests in varying percentages in the Real Estate Securities, International Equity Index, Large-Cap Value Index, Large-Cap Growth Index, Small-Cap Equity, Emerging Markets Equity Index and International Equity Funds of the TIAA-CREF Institutional Mutual Funds. The Fixed Income Option invests in varying percentages in the Inflation-Linked Bond, Bond Index and High Yield Funds of the TIAA-CEF Institutional Mutual Funds. The Guaranteed Option invests in a Guaranteed Funding Agreement issued by TIAA-CREF Life Insurance Company, a subsidiary of TIAA, which guarantees principal and a minimum return of 3% per annum. All allocation percentages are determined by the Board and are subject to change.

Contributions to the Advisor Program can be made among seven investment options, which are subject to a sales charge imposed at the time of purchase and paid prior to investment of contributions in the Trust. The Advisor program investment options are the Growth and Income Option, Equity Index Option, Large-Cap Value Index Option, Small-Cap Blend Index Option, Bond Option, International Equity Option, and the Guaranteed Option.

# Mississippi Affordable College Savings Program

## Notes to Financial Statements

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### NOTE 1 - ORGANIZATION (Continued)

Teachers Advisors, Inc., an affiliate of TFI, is registered with the Securities and Exchange Commission ("Commission") as an investment advisor, and provides investment advisory services to the TIAA-CREF Institutional Mutual Funds. Teachers Personal Investor Services, Inc., an affiliate of TFI, and TIAA-CREF Individual & Institutional Services, Inc., also an affiliate of TFI, both of which are registered with the Commission as broker-dealers and are members of the National Association of Securities Dealers, Inc., provide the telephone counseling, marketing and information services required of TFI.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 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 ("GASB"). The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and related disclosures. Actual results may differ from those estimates. The Program's assets are invested in various types of investment securities and in different companies and multiple markets. Investment securities are exposed to several risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least 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 Program's financial statements.

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

#### Cash and Cash Equivalents

The Program defines cash equivalents as demand deposit accounts and cash in the State Treasury.

#### Investments

The market value of the investments in mutual funds is based on the net asset values of the funds as of the close of business on the valuation date. The value of the TIAA-CREF Life Funding Agreement is based on the principal contributed and interest credited less any amounts withdrawn.

Securities transactions are accounted for as of the date the securities are purchased or sold (trade date). Interest income is recorded as earned. Dividend income is recorded on the ex-dividend date. Net gain on investments includes unrealized and realized gains and losses. Realized gains and losses are based upon the specific identification method.



# Mississippi Affordable College Savings Program

## Notes to Financial Statements

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Contributions and Withdrawals**

Contributions by a participant are evidenced through the issuance of units in the particular assigned investment option. Contributions received by the Program Manager before the close of trading on the New York Stock Exchange on any business day are credited to the account to which the contribution is made within one business day thereafter. Contributions are invested in units of the assigned investment option on the business day the contribution is credited to the participant's account. Withdrawals are based on the net asset value calculated for such investment option on the business day on which the Program Manager processes the withdrawal request. Contributions and withdrawals also include exchanges within the Program that result in the reinvestment of assets and also include approximately \$72.1 million in exchanges related to restructuring from six age bands to nine age bands during 2012.

#### **Penalty Fees**

The Program does not retain penalty fees on non-qualified withdrawals; however, the account owner may be subject to additional federal income taxes relating to any earnings on non-qualified withdrawals.

#### **Tax Status**

MACS is exempt from federal income tax as a qualified state tuition program under Section 529 of the Internal Revenue Code of 1986. Section 1806 of the Small Business Job Protection Act of 1996 added Section 529. This code section provides that a "qualified state tuition program" is exempt from all federal income taxation except that relating to unrelated business income. The term "qualified state tuition program" is defined generally in Code Section 529 as a program established and maintained by a state or agency and instrumentality thereof under which, among other things, a person may make cash contributions to an account established solely for meeting the qualified higher education expenses of the designated beneficiary of the account. To the extent necessary and applicable, the Program documents include the qualification criteria required by Section 529.

#### **Reporting Entity**

MACS is part of the State of Mississippi's reporting entity and is reported as a private purpose trust fund (fiduciary fund) in the State of Mississippi Comprehensive Annual Financial Report (CAFR). These financial statements and the accompanying notes relate solely to MACS. The Mississippi Prepaid Affordable College Tuition (MPACT) program issues separate financial statements.

#### **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 fiscal years 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.

# Mississippi Affordable College Savings Program

## Notes to Financial Statements

### NOTE 3 - MANAGEMENT AGREEMENTS

For its services as Program Manager, TFI, and related entities, are paid an annual management fee of 0.5% (2012) and 0.7% (2011) of the average daily net assets of the Program, plus specific investment management fees for the underlying investments in the TIAA-CREF Institutional Mutual Funds. Total management fees earned by TFI, and related entities, for the years ended June 30, 2012 and 2011, were \$779,485 and \$879,023, respectively, which included \$570,730 (2012) and \$674,803 (2011) of fees on average daily net assets of the Program and \$208,755 (2012) and \$204,220 (2011) of fees on underlying Program investments in the TIAA-CREF Institutional Mutual Funds. Fees earned by TFI, and related entities, on underlying Program investments were not charged to the Program but were paid by participants according to the Program management agreements.

### NOTE 4 - INVESTMENTS

As of June 30, 2012 and 2011, investments consisted of the following:

<i>June 30,</i>	Cost	Fair Value	Cost	Fair Value
	2012		2011	
<b>TIAA-CREF Institutional</b>				
<b>Mutual Funds</b>				
International Equity Fund	\$ 5,490,158	\$ 5,127,852	\$ 5,337,521	\$ 6,099,403
Growth and Income Fund	2,427,464	3,049,780	2,214,859	2,759,071
High Yield Fund	18,297	18,470	-	-
Inflation Linked Bond Fund	9,151,038	9,287,372	6,598,991	7,235,182
Bond Index Fund	27,207,779	27,667,827	20,387,830	20,439,188
Equity Index Fund	1,470,843	1,769,906	1,283,002	1,537,899
Large Cap Value Index Fund	14,749,960	17,413,852	13,269,621	17,508,320
Large Cap Growth Index Fund	12,304,628	15,263,571	11,237,854	16,308,251
Small Cap Blend Index Fund	2,948,994	3,081,395	2,711,383	3,341,899
Real Estate Securities Fund	5,253,731	6,000,846	4,907,807	5,994,652
Institutional Bond Fund	2,029,708	2,148,515	1,769,679	1,846,741
Money Market Fund	1,329,309	1,329,309	4,615,097	4,615,097
Small Cap Equity Fund	1,154,213	1,283,484	1,490,528	1,723,696
International Equity Index Fund	10,389,880	9,837,948	10,376,679	12,451,633
Emerging Markets Equity Index Fund	2,890,252	2,657,944	-	-
Short-Term Bond Fund	7,513,562	7,533,608	3,499,424	3,509,245
<b>TIAA-CREF Life Insurance Company</b>				
Funding Agreement	29,351,478	29,351,478	25,730,998	25,730,998
<b>Total</b>	<b>\$ 135,681,294</b>	<b>\$ 142,823,157</b>	<b>\$ 115,431,273</b>	<b>\$ 131,101,275</b>

At June 30, 2012, the net unrealized appreciation of portfolio assets was \$7,141,863, consisting of gross unrealized appreciation of \$8,288,409 and gross unrealized depreciation of

# Mississippi Affordable College Savings Program

## Notes to Financial Statements

### NOTE 4 - INVESTMENTS (Continued)

\$1,146,549. At June 30, 2011, the net unrealized appreciation of portfolio assets was \$15,670,002, consisting of gross unrealized appreciation of \$15,689,062 and gross unrealized depreciation of \$19,060.

#### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MACS 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. Investments of the Program are entirely uninsured and are held by third parties in the name of MACS for the benefit of account owners. 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. Deposits of the program are entirely insured or collateralized with securities.

#### Credit Ratings and Duration

Credit ratings and average effective maturity, in years, of the bond funds held by MACS at June 30, 2012 and 2011, consisted of the following:

<i>June 30, 2012</i>	Institutional Bond Fund	Inflation Linked Bond Fund	Short-Term Bond Fund	Bond Index Fund
<b>Credit Rating</b>				
AAA	54%	100%	60%	75%
AA	5%	-	10%	4%
A	16%	-	14%	12%
BBB	18%	-	11%	9%
BB	4%	-	3%	-
B or below	2%	-	1%	-
Not rated	1%	-	1%	-
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Average Effective Maturity</b>	<b>7.0</b>	<b>9.3</b>	<b>2.8</b>	<b>6.6</b>
<i>June 30, 2011</i>				
<b>Credit Rating</b>				
AAA	65%	100%	56%	77%
AA	8%	-	12%	5%
A	12%	-	13%	10%
BBB	13%	-	12%	8%
BB	1%	-	4%	-
B	1%	-	3%	-
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Average Effective Maturity</b>	<b>7.1</b>	<b>8.8</b>	<b>2.6</b>	<b>6.8</b>

# Mississippi Affordable College Savings Program

## Notes to Financial Statements

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### **NOTE 4 - INVESTMENTS (Continued)**

#### **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.

MACS 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.

#### **Foreign Currency Risk**

All foreign currency-denominated investments are in equities and foreign cash. The International Fund has a policy of maintaining investments of equity securities of foreign issuers in at least three different countries other than the United States.

### **NOTE 5 – PROGRAM MANAGER TRANSFERS**

Expenditures from the Administrative Fund for fiscal years 2012 and 2011 were funded through payments to the State Treasury on behalf of MACS by TFI from fees charged to MACS account owners as specified by the Management Agreement.

**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 Affordable College Savings Program  
Jackson, Mississippi

We have audited the financial statements of Mississippi Affordable College Savings 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, Riggs & Ingram, LLC*

Ridgeland, Mississippi  
November 26, 2012