THE COLLEGE SAVINGS PLANS OF MISSISSIPPI

MPACT and MACS Programs

Annual Actuarial And Financial Report

Fiscal Year 2001
July 1, 2000 - June 30, 2001

COLLEGE SAVINGS MISSISSIPPI

MPACT
Mississippi Prepaid Affordable College Tuition Program

MACS
Mississippi Affordable College Savings Program

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January 31, 2002

The Honorable Ronnie Musgrove
Governor of the State of Mississippi
Members of the Mississippi Legislature
Members of the Board of Trustees of State Institutions of Higher Learning
Members of the State Board for Community and Junior Colleges
Members of the State Board of Education
Citizens of Mississippi

In compliance with Sections 37-155-9(cc) and 37-155-117(3), Mississippi Code Annotated, I am honored on behalf of the Board of Directors of the College Savings Plans of Mississippi to submit to you this annual report of the College Savings Plans of Mississippi.

Some significant achievements of the program during this year include the following:

- Over 1,000 additional applications to the MPACT Program were received on behalf Mississippi's children during fiscal year 2001. Almost 2,000 applications have been received to date during fiscal year 2002, which brings the total enrollment to over 14,500.

- The new Mississippi Affordable College Savings (MACS) Plan was launched during fiscal year 2001 as a companion to MPACT. Under MACS, Mississippi families can save for books, dorms, meal plans and other college costs with market rates of return. As of December 31, 2001 850 MACS accounts had been opened with an invested balance of $2.9 million.

- Parents and grandparents were given the opportunity to provide for the future college educations of their children through the distribution throughout the state of MPACT and MACS enrollment booklets and fliers.

- The MPACT and MACS Programs received unqualified financial audit opinions.

- As of December 31, 2001, the invested balance of the MPACT Trust Fund totaled over $73 million in funds, representing over $538 million in future tuition payments

The College Savings Plans Board is very pleased with the results of our operations in fiscal year 2001 and remains committed to the long term success of this outstanding opportunity for the people of Mississippi.

Sincerely,

Marshall Bennett

Marshall Bennett
State Treasurer and
Ex-Officio Member of the
MPACT Board of Directors

COLLEGE SAVINGS PLANS OF MISSISSIPPI
ANNUAL FINANCIAL AND ACTUARIAL REPORT
AS OF JUNE 30, 2001

EXECUTIVE SUMMARY

Program Description and Activities

The College Savings Plans of Mississippi includes two college savings plans. Both plans are administered within the State Treasury Department under policies established by the College Savings Plans of Mississippi Board of Directors.

The Mississippi Prepaid Affordable College Tuition (MPACT) Program is a state program, begun in 1997, under which Mississippians may pay college tuition in advance for their children and grandchildren and receive a guarantee from the State as to the payment of tuition and fees at State-

Governor Ronnie Musgrove (left) and State Treasurer Bennett (right) launch the 2001 MPACT Enrollment Campaign

supported institutions at the time of college enrollment. It was authorized under S.B. 2237, Laws of 1996, Mississippi Code Annotated §37-155-1 et seq. During FY 2001 the program conducted its fifth enrollment period, invested the funds received from MPACT participants, managed the accounts for MPACT purchasers and paid tuition totaling $995,185 on behalf of approximately

State leaders hold news conference announcing the MACS Program. From left: College Savings Board Member Paul Newton, Governor Ronnie Musgrove, State Auditor Phil Bryant, State Treasurer Marshall Bennett, Secretary of State Eric Clark, and College Savings Board Chairman Ron Allen.

490 students at Mississippi and out-of-state colleges and universities.

The new Mississippi Affordable College Savings (MACS) Program was launched during FY 2001. The MACS Program was created by the Mississippi Legislature to assist families in financing costs 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 a savings trust agreement under the MACS Program or a prepaid tuition contract under the previously existing MPACT Program.

College Savings Divsion Staff:

Under its statutory authority to appoint investment managers, adopt resolutions for the administration of the program and establish investment policies for the program., the Board contracted with TIAA-CREF Tuition Financing, Inc., an indirect subsidiary of Teachers Insurance and Annuity Association of America, to serve as MACS Program Manager. TIAA-CREF also manages 529 Plans for 13 other states.

Independent Auditor's Reports

The financial statements of the MPACT Program and the MACS Program as of the fiscal year ended June 30, 2001 were audited by the Jackson office of Deloitte & Touche, LLP. Our auditors issued each program an unqualified audit opinion that "such financial statements present fairly, in all material respects, the financial position of the ... Program as of June 30,2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United Staes of America." Complete copies of the auditors' report, the financial statements and accompanying notes are enclosed.

Independent Actuaries Report

An actuarial evaluation of the MPACT Program as of June 30, 2001 was performed by Ernst & Young, LLP. This evaluation concluded that the MPACT Trust Fund had an unfunded liability of $16.3 million. However, the Program has sufficient cash flows and investments to cover contract liabilities until the investment markets recover. It is the intention of the MPACT Board of Directors to continue a sound long-term investment program to ensure future actuarial soundness. A copy of the actuary's report is enclosed.

Enrollment Results

MPACT held its fifth enrollment period from September 1, 2000 until November 30, 2000. During this period over 1,000 prepaid tuition contracts were sold. A sixth enrollment period was held from September 1 until November 30, 2001. During this period almost 2,000 additional contract applications were received, bringing total enrollment to over 14,500. Results from the fall 2001 enrollment period are not reflected in the MPACT financial statements as of June 30, 2001. The Board has established a policy to hold future MPACT enrollment periods annually in the fall of each year.

MACS was launched in March, 2001. The MACS Program does not have a limited enrollment period. As of June 30, 2001 249 MACS accounts had been opened. By December 31, 2001 that number had grown to 850.

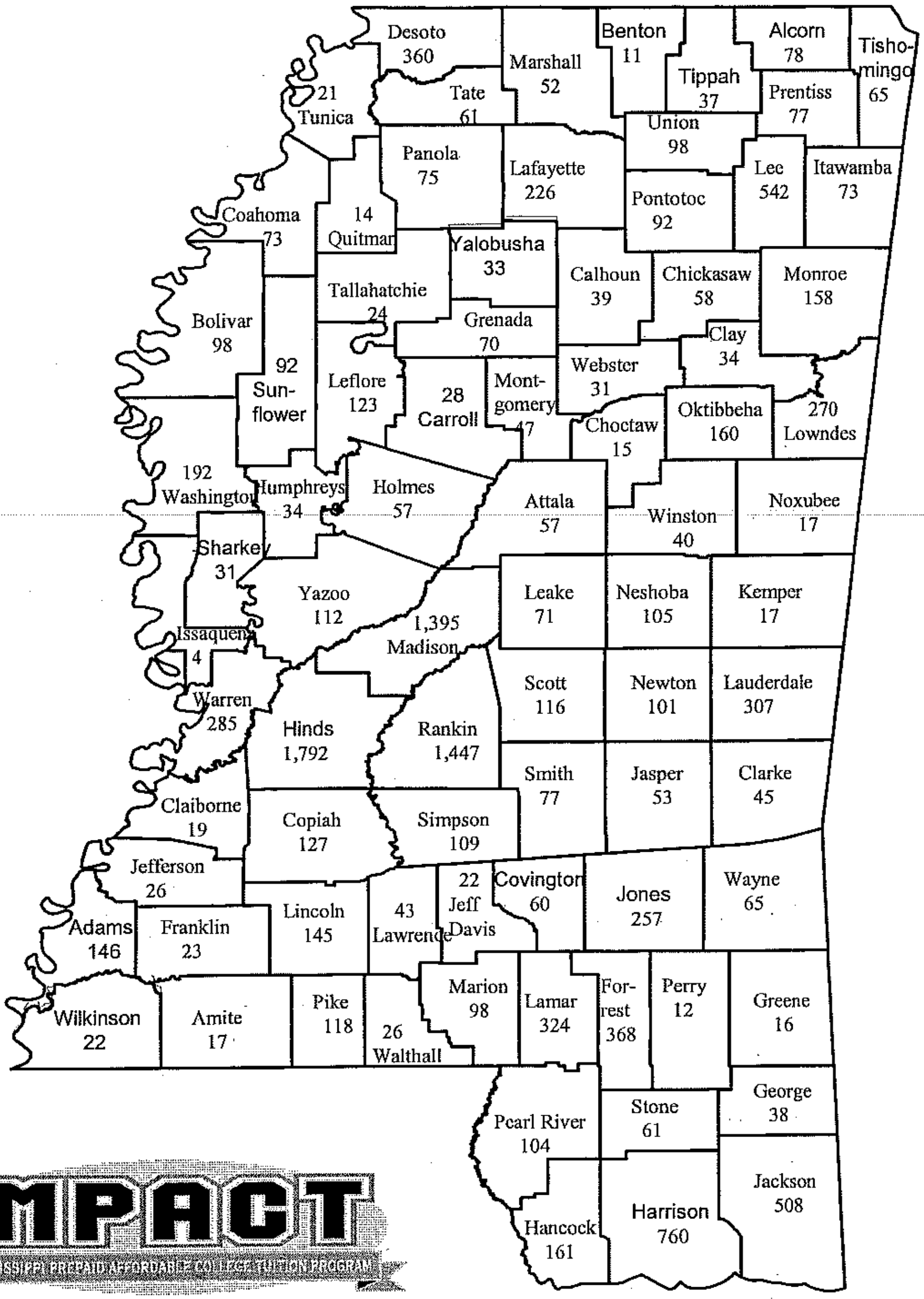
Financial Results

As of June 30, 2001 the MPACT Trust Fund had received tuition contract payments totaling over $69.6 million. This amount, plus future payments due from participants under current contracts and investment earnings from the MPACT Trust Fund, will fund future tuition payments of approximately $538 million.

Long-term investments of the MPACT Trust Fund totaled $67 million as of June 30, 2001, with an additional 2.6 million in cash and short term instruments for a total invested balance of $69.6 million. During fiscal year 2001 the fund earned a -0.3% rate of return as calculated by Merrill Lynch, The Board's Investment Evaluation Consultant. National investment markets with similar investments were down 9.3% during the same period. Since inception the fund has an average annual return of 5.1%. As of December 31, 2001, the invested balance of the MPACT Trust Fund exceeded $73 million.

As of June 30, 2001, after less than four months of operations, MACS had and invested balance of $917,266. At December 31, 2001 MACS had assets of over $2.9 million.

Mississippi Prepaid Affordable College Tuition Program
Thru 2001 enrollment period



MPACT
MISSISSIPPI PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

BOARD OF DIRECTORS
COLLEGE SAVINGS PLANS OF MISSISSIPPI
(MPACT & MACS PROGRAMS)
AS OF JUNE 30, 2001

Mr. Ron Allen
Chairman
3rd Congressional District

Mr. Gary Anderson
Executive Director,
Department of Finance &
Administration

The Honorable Marshall Bennett
State Treasurer

Mr. Roosevelt Daniels, II
2nd Congressional District

Dr. Thomas Layzell
Commissioner of Higher Education

Mr. Paul Newton, Jr.
5th Congressional District

Mr. William T. "Dale" Patterson
4th Congressional District

Dr. Olon Ray
Executive Director,
Community and Junior College
Board

Ms. Rebecca Browne Taylor
1st Congressional District

Legislative Advisors:

Senator Nickey Browning
Senator Terry Burton
Rep. Jack Gadd
Rep. Rufus Straughter

THE MISSISSIPPI AFFORDABLE COLLEGE SAVINGS PROGRAM

Financial Statements and
Independent Auditors' Report and
Independent Auditors' Report on Compliance and
Internal Control

Year Ended June 30, 2001

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Deloitte & Touche

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 balance sheet of Mississippi Affordable College Savings Program (the "Program") as of and for the year ended June 30, 2001. 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 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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Mississippi Affordable College Savings Program as of June 30, 2001, and the results of its operations and its cash flows for the year 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 September 27, 2001, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 27, 2001

Deloitte
Touche
Tohmatsu

MISSISSIPPI AFFORDABLE COLLEGE SAVINGS PROGRAM
BALANCE SHEET
AT JUNE 30, 2001

	Trust Fund	Administrative Fund	Endowment Fund	**Total**
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$3,094	$107,584	$1,000	**$111,678**
Dividend receivable	2,779			**2,779**
Due from transfer agent	25			**25**
Receivable from securities transaction	14,509			**14,509**
Total current assets	20,407	107,584	1,000	**128,991**
NONCURRENT ASSETS				
Investment securities	917,634			**917,634**
Total noncurrent assets	917,634	-0-	-0-	**917,634**
Total assets	$938,041	$107,584	$1,000	**$1,046,625**
LIABILITIES AND TRUST EQUITY				
CURRENT LIABILITIES				
Accounts payable		$488		**$488**
Warrants payable		8,214		**8,214**
Due to custodian	$14,347			**14,347**
Accrued investment management fee	1,017			**1,017**
Payable for investments purchased	3,497			**3,497**
Total current liabilities	18,861	8,702	-0-	**27,563**
LONG-TERM LIABILITIES				
Due to other funds		154,000		**154,000**
Total long-term liabilities	-0-	154,000	-0-	**154,000**
Total liabilities	18,861	162,702	-0-	**181,563**
TRUST EQUITY				
Fund balance	919,180	(55,118)	$1,000	**865,062**
Total liabilities and trust equity	$938,041	$107,584	$1,000	**$1,046,625**

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

MISSISSIPPI AFFORDABLE COLLEGE SAVINGS PROGRAM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE PERIOD FEBRUARY 9, 2001 (COMMENCEMENT OF OPERATIONS) TO JUNE 30, 2001

	Trust Fund	Administrative Fund	Endowment Fund	Total
INVESTMENT INCOME				
Income				
Interest	$127			$127
Dividends	5,404			5,404
Total Income	5,531			5,531
Expenses				
Management fee	1,017			1,017
NET INVESTMENT INCOME	4,514	-0-	-0-	4,514
REALIZED AND UNREALIZED LOSS ON INVESTMENTS				
Net realized loss on investments	(13)			(13)
Net change in unrealized loss on investments	(7,183)			(7,183)
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	(7,196)	-0-	-0-	(7,196)
OTHER RECEIPTS				
Donations			$1,000	1,000
TOTAL OTHER RECEIPTS	-0-	-0-	1,000	1,000
ADMINISTRATIVE EXPENSES				
Salaries and travel		$33,817		33,817
Contractual services		17,109		17,109
Commodities and supplies		1,692		1,692
Capital outlay		2,500		2,500
				-0-
TOTAL ADMINISTRATIVE EXPENSES	-0-	55,118	-0-	55,118
EXCESS OF REVENUES OVER EXPENDITURES	(2,682)	(55,118)	1,000	(56,800)
FUND BALANCE AT COMMENCEMENT OF OPERATIONS	-0-	-0-	-0-	-0-
CHANGES IN EQUITY FROM ACCOUNT OWNER TRANSACTIONS				
Customer subscriptions	936,933			936,933
Redemptions	(15,071)			(15,071)
NET ACCOUNT OWNER TRANSACTIONS	921,862	-0-	-0-	921,862
FUND BALANCE AT END OF YEAR	$919,180	($55,118)	$1,000	$865,062

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

MISSISSIPPI AFFORDABLE COLLEGE SAVINGS PROGRAM
STATEMENT OF CASH FLOWS
FOR THE PERIOD FEBRUARY 9, 2001 (COMMENCEMENT OF OPERATIONS) TO JUNE 30, 2001

	Trust Fund	Administrative Fund	Endowment Fund	**Total**
OPERATING ACTIVITIES				
Donations			1,000	**1,000**
Cash payments to suppliers for goods and services		(16,275)		**(16,275)**
Income received on contract payments	6,049			**6,049**
Cash payments to employees for services		(27,641)		**(27,641)**
Net cash from (used for) operating activities	6,049	(43,916)	1,000	**(36,867)**
NONCAPITAL FINANCING ACTIVITIES				
Subscriptions	$936,933			**$936,933**
Redemptions	(15,071)			**(15,071)**
Loans from other funds		154,000		**154,000**
Net cash from (used for) noncapital financing activities	921,862	154,000	0	**1,075,862**
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets		(2,500)		**(2,500)**
Net cash from (used for) capital and related financing activities	0	(2,500)	0	**(2,500)**
INVESTING ACTIVITIES				
Purchase of investments	(924,817)			**(924,817)**
Net cash from (used for) investing activities	(924,817)	0	0	**(924,817)**
INCREASE IN CASH AND CASH EQUIVALENTS	3,094	107,584	1,000	**111,678**
CASH AND CASH EQUIVALENTS AT COMMENCEMENT OF OPERATIONS	0	0	0	**0**
CASH AND CASH EQUIVALENTS AT END OF YEAR	$3,094	$107,584	$1,000	**$111,678**

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

MISSISSIPPI AFFORDABLE COLLEGE SAVINGS PROGRAM
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 9, 2001 (COMMENCEMENT OF OPERATIONS) TO JUNE 30, 2001

NOTE 1 - ORGANIZATION

The Mississippi Affordable College Savings (MACS) 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 a savings trust agreement under the MACS Program or a prepaid tuition contract under the previously existing Mississippi Prepaid Affordable College Tuition (MPACT) Program. MACS is governed by the Board of Directors of the College Savings Plans of Mississippi, with administration functions delegated to the Mississippi Treasury Department. 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. The MACS Program commenced operations on February 9, 2001 and began accepting subscriptions on March 20, 2001.

An individual participating in the Program establishes an Account in the name of a Beneficiary. Contributions can be made among three investment options: the Managed Allocation Option, the 100% Equity Option and the Money Market Option. Contributions in the Managed Allocation Option are allocated among ten age bands, based on the age of the beneficiary. Each age band invests in varying percentages in the International Equity, Growth and Income, Bond and Money Market Funds of the TIAA-CREF Institutional Mutual Funds. The 100% Equity Option invests in varying percentages in the Growth and Income and International Equity Funds of the TIAA-CREF Institutional Mutual Funds. All allocation percentages are determined by the Board and are subject to change. The Money Market Option invests in the Money Market Fund of the TIAA-CREF Institutional Mutual Funds.

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 - SIGNIFICANT ACCOUNTING POLICIES

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 following is a summary of the significant accounting policies followed by the MACS Program, which are in conformity with accounting principles generally accepted in the United States of America.

A. **Valuation of 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.

B. **Accounting for Investments:** 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. Realized gains and losses are based upon the specific identification method.

C. **Penalty Fees:** Penalty fees on non-qualified withdrawals are retained by the Program and may be applied to the payment, or reimbursement, of the direct or indirect expenses of the Program.

D. **Federal Income Tax:** No provision for federal income tax has been made. In 1996, Congress passed the Small Business Job Protection Act of 1996. Section 1806 of the 1996 Act added Section 529 to the Internal Revenue Code of 1986. Code Section 529 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 MACS Program documents include the qualification criteria required by Section 529. The Program expects to be a qualified state tuition program under Section 529 of the Internal Revenue Code, which is exempt from federal income tax, and does not expect to have any unrelated business income subject to tax.

E. **Reporting Entity:** The MACS Program is part of the State of Mississippi's reporting entity and is reported as an expendable trust fund in the State of Mississippi Comprehensive Annual Financial Report (CAFR). These financial statements and the accompanying notes relate directly to the Mississippi Affordable College Savings (MACS) Program. The Mississippi Prepaid Affordable College Tuition (MPACT) Program issues separate financial statements.

F. **Basis of Accounting:** The financial statements contained in this report are prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, that is, when they are "measurable and available". "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

G. **Due to Other Funds**: Due to other funds represents an interest-free loan appropriated from another fund within the State Treasury and is classified as long term based on the repayment date stipulated in the appropriation.

H. **Recent Pronouncements**: The Governmental Accounting Standards Board (GASB) recently issued Statement No. 34, "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments". This Statement establishes accounting and financial reporting standards for external financial reporting, and also establishes specific standards for the basic financial statements, management discussion and analysis and certain other required supplementary information. The State of Mississippi and MACS will adopt GASB Statement 34 for the fiscal year ending June 30, 2002. After adoption of GASB 34, the MACS Program funds will be reported as Private Purpose Trust Funds. MACS has not determined any other effect, if any, the adoption of Statement 34 will have on its financial position or results of operations.

NOTE 3 - MANAGEMENT AGREEMENT

For its services as Program Manager, TFI is paid an annual fee of 0.70% of the average daily net assets of the Program. Total fees accrued for the period from commencement of operations to June 30, 2001 were $1,017.

NOTE 4 - ADMINISTRATIVE FUNDING

Expenditures from the Administrative Fund for fiscal year 2001 were funded by the loan described in Note 2 above. Expenditures in future years will be funded through payments to the State Treasury by TFI from the fees charged to MACS account owners as specified by the Management Agreement.

NOTE 5 - INVESTMENTS

At June 30, 2001, gross unrealized loss on portfolio investments was $7,183.

Purchases and sales of portfolio securities for the period from commencement of operations to June 30, 2001 were $939,752 and $14,924 , respectively.

As of June 30, 2001, the Program's investments consist of the following:

	COST	FAIR VALUE
TIAA-CREF Institutional Mutual Funds		
International Equity Fund	$ 94,474	$ 89,338
Growth and Income Fund	384,171	383,844
Bond Fund	255,367	253,647
Money Market Fund	190,805	190,805
	$ 924,817	$ 917,634

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT 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 ("MACS" or the "Program") as of and for the year ended June 30, 2001, and have issued our report thereon dated September 27, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether MACS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MACS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Deloitte & Touche LLP

September 27, 2001

Deloitte
Touche
Tohmatsu

THE MISSISSIPPI PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

Financial Statements and
Independent Auditors' Report and
Independent Auditors' Report on Compliance and
Internal Control

Year Ended June 30, 2001

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Deloitte & Touche

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 sheet of Mississippi Prepaid Affordable College Tuition Program (the "Program") as of and for the year ended June 30, 2001. 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 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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Mississippi Prepaid Affordable College Tuition Program as of June 30, 2001, and the results of its operations and its cash flows for the year 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 September 27, 2001, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 27, 2001

MISSISSIPPI PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
BALANCE SHEET
AT JUNE 30, 2001

	Trust Fund	Administrative Fund	**Total**
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$2,696,807	$361,984	**$3,058,791**
Short-term investments	3,242,025		**3,242,025**
Interest receivable	425,503		**425,503**
			-0-
Total current assets	6,364,335	361,984	**6,726,319**
NONCURRENT ASSETS			
Investment securities	67,079,950		**67,079,950**
Total noncurrent assets	67,079,950	-0-	**67,079,950**
Total assets	$73,444,285	$361,984	**$73,806,269**
LIABILITIES AND TRUST EQUITY (DEFICIT)			
CURRENT LIABILITIES			
Warrants payable	$93,210	$34,264	**$127,474**
Accounts payable		137,047	**137,047**
Tuition benefits and expense payable	$4,475,694		**4,475,694**
Total current liabilities	4,568,904	171,311	**4,740,215**
LONG-TERM LIABILITIES			
Tuition benefits and expense payable	85,304,512		**85,304,512**
Compensated absences		23,493	**23,493**
Total long-term liabilities	85,304,512	23,493	**85,328,005**
Total liabilities	89,873,416	194,804	**90,068,220**
TRUST EQUITY (DEFICIT)			
Retained earnings (deficit)	(16,429,131)	167,180	**(16,261,951)**
Total liabilities and trust equity (deficit)	$73,444,285	$361,984	**$73,806,269**

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

MISSISSIPPI PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001

	Trust Fund	Administrative Fund	**Total**
Operating Revenues			
Investment income	$2,300,464		**$2,300,464**
Administrative fees	293,615		**293,615**
Net decrease in fair value of investments	(2,349,730)		**(2,349,730)**
Total operating revenues	244,349	-0-	**244,349**
OPERATING EXPENSES			
Salaries and travel		247,369	**247,369**
Contractual services		1,032,065	**1,032,065**
Commodities and supplies		54,459	**54,459**
Capital outlay		8,062	**8,062**
Tuition payments	995,185		**995,185**
Excess of present value of benefits payable over related tuition receipts	14,406,689		**14,406,689**
Total operating expenses	15,401,874	1,341,955	**16,743,829**
Operating income	(15,157,525)	(1,341,955)	**(16,499,480)**
OPERATING TRANSFERS	(1,452,327)	1,452,327	**-0-**
NET INCOME	(16,609,852)	110,372	**(16,499,480)**
RETAINED EARNINGS AT BEGINNING OF YEAR (Note 8)	180,721	56,808	**237,529**
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	($16,429,131)	$167,180	**($16,261,951)**

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

MISSISSIPPI PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001

	Trust Fund	Administrative Fund	Total
OPERATING ACTIVITIES			
Contract payments received	$12,607,205		**$12,607,205**
Administrative fees received	293,615		**293,615**
Cash payments for tuition	(995,185)		**(995,185)**
Cash payments to suppliers for goods and services		(1,091,154)	**(1,091,154)**
Income received on contract payments	3,256,522		**3,256,522**
Cash payments to employees for services		(230,838)	**(230,838)**
Net cash from (used for) operating activities	15,162,157	(1,321,992)	**13,840,165**
NONCAPITAL FINANCING ACTIVITIES			
Operating transfers	(1,452,327)	1,452,327	**-0-**
Net cash from (used for) noncapital financing activities	(1,452,327)	1,452,327	**-0-**
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets		(4,334)	**(4,334)**
Net cash from (used for) capital and related financing activities	-0-	(4,334)	**(4,334)**
INVESTING ACTIVITIES			
Purchase of investments	(12,705,025)		**(12,705,025)**
Net cash from (used for) investing activities	(12,705,025)	-0-	**(12,705,025)**
INCREASE IN CASH AND CASH EQUIVALENTS	1,004,805	126,001	**1,130,806**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,692,002	235,983	**1,927,985**
CASH AND CASH EQUIVALENTS AT END OF YEAR	$2,696,807	$361,984	**$3,058,791**

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

MISSISSIPPI PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. 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 128 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 school 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 Purchasers, beneficiaries or others are backed by the full faith and credit of the State of Mississippi. In the event of cancellation, purchasers will 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.

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 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.

B. Reporting Entity - The MPACT Program is a part of the State of Mississippi's reporting entity and is reported as an enterprise 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.

C. Basis of Accounting - The financial statements contained in this report are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when services or benefits are received.

D. Cash and Cash Equivalents - For purposes of the statement of cash flows, MPACT defines cash equivalents as demand deposit accounts and cash in the State Treasury.

E. Investment Securities - MPACT follows GASB Standard 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.

F. Determination Of Fair Values Of Financial Investments - 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.

G. Furniture and Fixtures - Furniture and fixtures with original cost in excess of $5,000 are reported at cost less allowances for depreciation. Depreciation is recorded by the straight-line method over the estimated useful lives of the assets.

H. Tuition Benefits and Expenses Payable - Tuition benefits and expenses payable represents the current and long-term portions of the actuarially determined present value of future tuition obligations and Program expenses.

I. Interfund Transactions - During the course of normal operations, the MPACT funds show numerous transactions between funds. These transactions are reflected as operating transfers or as interfund receivables and payables. Management's intent to reimburse determines whether or not the interfund transaction is recorded as a transfer or a receivable. 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.

J. Accounting and Reporting - Under Governmental Accounting Standards Board (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.

K. Use of Estimates - The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America which 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.

L. Recent Pronouncements - The Governmental Accounting Standards Board (GASB) recently issued Statement No. 34, "Basic Financial Statements - Management's Discussion and Analysis

- for State and Local Governments". This Statement establishes accounting and financial reporting standards for external financial reporting, and also establishes specific standards for the basic financial statements, management discussion and analysis and certain other required supplementary information. The State of Mississippi and MPACT will adopt GASB Statement 34 for the fiscal year ending June 30, 2002. MPACT does not believe the adoption of Statement 34 will have a material effect on its financial position or results of operations.

NOTE 2 - CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Governmental Accounting Standards Board (GASB) Statement No. 3 requires certain disclosures regarding policies and practices with respect to deposits and investments and the credit risk associated with them.

At fiscal year end the carrying amount of the Program's deposits was $6,300,816 and the bank balance was $6,300,816, including all bank accounts, funds in the State Treasury, and short-term investments. Deposits of the Program are entirely insured or collateralized with securities.

NOTE 3 - INVESTMENT SECURITIES

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, the Trust Fund 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 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 at June 30, 2001:

	Cost	Fair Value
U.S. Treasuries and Agencies	$ 10,081,707	$ 10,211,661
Municipal Bonds	3,657,793	3,712,620
Mortgage and Other Asset Backed Securities	5,180,370	5,279,949
Corporate Debt Securities	2,446,290	2,467,798
Mutual Funds	12,622,535	13,337,125

Corporate Equity Securities		
Domestic	22,087,485	20,529,039
Foreign	12,312,808	11,541,758
Total	$ 68,388,988	$ 67,079,950

Investments of the Program are entirely uninsured and unregistered and are held by third parties in MPACT's name.

NOTE 4 - TUITION BENEFITS AND EXPENSE PAYABLE - NET

Tuition benefits and expense payable, net, represents the current and long-term portions of 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 purchasers. Recording future tuition obligations at the actuarially determined present value 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 (A.P.V.) 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. Significant actuarial assumptions used and results from the most recent valuation are as follows:

Date of latest actuarial valuation:	June 30, 2001
Assumptions:	
Rate of return on investments	7.8%
Future tuition increases	6.5%
Payment of tuition and mandatory fees	128 credit hours utilization; payments will occur twice annually

Results:		
A.P.V. of future benefits and expense payable		
Current	$	4,475,694
Long-term		85,304,512
Total	$	89,780,206

Net assets available for benefits at market value	$	73,518,256
Net tuition benefits and expenses payable in excess of assets	$	(16,261,950)
Total assets as percentage of total tuition benefits and expenses payable		86.37 %
Tuition benefits and expenses payable, net includes the following as of June 30, 2001:		
Actuarial present value of future payments to be made for tuition, fees, expenses and contract cancellations for all contracts sold	$	119,301,835
Actuarial present value of future payments to be received from installment contract purchasers		(29,521,629)
Tuition benefits and expenses payable, net at end of year	$	89,780,206

NOTE 5 - FAIR VALUE DISCLOSURES

The carrying values and estimated fair values of MPACT's financial instruments as of June 30, 2001 were as follows:

	Carrying Value	Estimated Fair Value
Cash and cash equivalents	$ 3,058,791	$ 3,058,791
Short-term investments	3,242,025	3,242,025
Receivables	425,503	425,503
Investment securities	67,079,950	67,079,950
Current liabilities	4,752,245	4,752,245
Long-term liabilities	85,512,813	85,512,813

The carrying amounts for cash and cash equivalents, receivables, short-term investments and current liabilities are considered a reasonable estimate of fair value. The fair value of investment securities (including foreign currency exchange contracts) is determined by quoted market prices. Both the carrying value and market value of long-term liabilities are determined based on the discounted value of contractual cash flows.

The estimated fair values are significantly affected by assumptions used, principally the timing of future cash flows, the discount rate, judgements regarding current economic conditions, risk characteristics of various financial instruments and other factors. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the investment.

NOTE 6 - 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 exchange contracts. 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. Foreign currency exchange contracts outstanding at June 30, 2001 aggregated approximately $401,000 at cost and market value, with market value determined based on quoted market prices.

NOTE 7 - 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.

In 1996, Congress passed the Small Business Job Protection Act of 1996. Section 1806 of the 1996 Act added Section 529 to the Internal Revenue Code of 1986. Code Section 529 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 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 year ended June 30, 2001.

NOTE 8 - ACCOUNTING CHANGE

MPACT changed its capitalization policy for furniture and fixtures purchased after July 1, 2000 to mirror a similar change made by the State of Mississippi. MPACT implemented a policy whereby all furniture and fixtures less than $5,000 are expensed when purchased. Previously all such purchases less than $500 were expensed. To effect the change, MPACT restated the June 30, 2000 retained earnings balances. The reclassification of retained earnings is summarized as follows.

	Trust Fund	Administrative Fund	Total
Retained earnings at June 30, 2000 as previously reported	$180,721	$78,336	$259,057
Change in accounting policy	-0-	(21,528)	(21,528)
Retained earnings at June 30, 2000 as restated	$180,721	56,808	$237,529

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT 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 Mississippi Prepaid Affordable College Tuition Program ("MPACT" or the "Program") as of and for the year ended June 30, 2001, and have issued our report thereon dated September 27, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether MPACT's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MPACT's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Deloitte & Touche LLP

September 27, 2001

Deloitte
Touche
Tohmatsu

THE MISSISSIPPI PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

Actuarial Valuation and
Independent Actuaries' Report

Year Ended June 30, 2001

ERNST & YOUNG

■ Ernst & Young LLP
Suite 2800
600 Peachtree Street
Atlanta, Georgia 30308-2215

■ Phone: (404) 874-8300
www.ey.com

October 15, 2001

Board of Directors
Mississippi Prepaid Affordable College Tuition Program
State Treasury Department
550 High Street
Suite 503
Jackson, MS 39205

To the Board:

We have completed our actuarial analysis of the Fund ("the Fund") for the Mississippi Prepaid Affordable College Tuition Program ("the Program") as of June 30, 2001. This report presents our findings with respect to the Fund's expected cash flows and adequacy of the Fund.

Based on assumptions approved by the Board in 2001, the expected value of liabilities exceeded the expected value of assets by $16.3 million. At the request of the Program, this year's report contains additional analysis to quantify the window of time current and future business cash flows have to experience a recovery.

In preparing this report we have relied on the asset and contract information provided by the Program staff and by the Program's records administrator for enrollments through June 30, 2001. We performed no independent audit or verification of these data.

We appreciate the opportunity to serve the Program. Any questions about the report should be directed to Mark Walker at 404/817-4084.

Very truly yours,

Ernst + Young LLP

Valuation Results

As of June 30, 2001 the Program has an unfunded liability of $16.3 million (the value of expected liabilities of the trust exceed the value of assets, including the value of future payments by contract purchasers, by that amount). The liability amounts are based on actuarial assumptions chosen by the Board and reviewed by us. The Program's records administrator, InTuition Solutions, Inc., provided us with information relating to contracts in place as of June 30, 2001. Program staff provided us with information relating to assets and investment returns.

The $16.3 million unfunded liability compares to the $238,000 surplus as of June 30, 2000. Reasons for this change in surplus include:

1. The difference in actual versus projected tuition in 2001. The inflation assumptions in 2000 were 6.5% for university tuition and 6.0% for junior college tuition. In 2001 the weighted average tuition increased by 15.2% for universities and 18.1% for junior colleges. The greater than expected increase in tuition means that future contract payouts will be greater than priced for and expected. The differences in actual versus projected tuition represent a $6.4 million reduction in surplus.
2. The change in long term interest rate assumption. The interest rate assumption for 2001 is 7.8%, compared to 8.1% in 2000. This assumption difference represents a $2.3 million reduction is surplus.
3. The change in junior college inflation assumption. The inflation assumption in 2001 is 5.0%, compared to 6.0% in 2000. This assumption difference represents a $0.4 million reduction in surplus.
4. The under performance of assets. This represents a $7.2 million reduction in surplus.

At the request of the Program, we reviewed the cash flows from the existing contracts and additional cash flows from five years of sales at 750 contracts per year. This analysis is intended to quantify the window of time current and future business cash flows have to experience a recovery. We note the following from these projections:

1. The Program is projected to receive more in payments on existing contracts than it is projected to pay out in benefits and expenses for the next two years;
2. Adding projected investment income to existing contracts at a rate of 7.8% to the projected cash flows above, assets of the Program will begin to decrease in fiscal year beginning July 1, 2007;
3. Assuming contract sales on 750 each for the next five years, the Program is projected to receive more in payments on contracts than it is projected to pay out in benefits and expenses for the next five years;
4. Adding another (sixth) year of contract sales will not make the sixth year positive.

The impact of unanticipated events subsequent to the date of this analysis is beyond the scope of this report. My conclusions regarding the period of positive cash flows is based on various assumptions about future contract experience, economic conditions, and investment performance. The Program's future experience may not follow all the assumptions used in the analysis and deviations of experience from assumptions may be material.

Contract Sales

As of June 30, 2001 there were 10,823 participants enrolled in the Program. This compares to 9,814 participants in the Program in 2000.

The majority of the contracts are for four-year of university (6,397 contracts or 59%). There were 2,441 two-year junior college plus two-year university contracts (23% of the total) and 800 two-year junior college contracts (7% of the total).

Weighted Average Tuition

The Weighted Average Tuition ("WAT") is the average of tuition and fees for in-state residency at Mississippi colleges and universities weighted in proportion to the number of Mississippi resident students attending the schools.

WAT for four-year universities is $3,408 for the fall of 2001, an increase of 15.1% over the WAT of $2,962 in the fall of 2000.

WAT for junior colleges is $1,278 for the fall of 2001, an increase of 18.2% over the WAT of $1,081 in the fall of 2000.

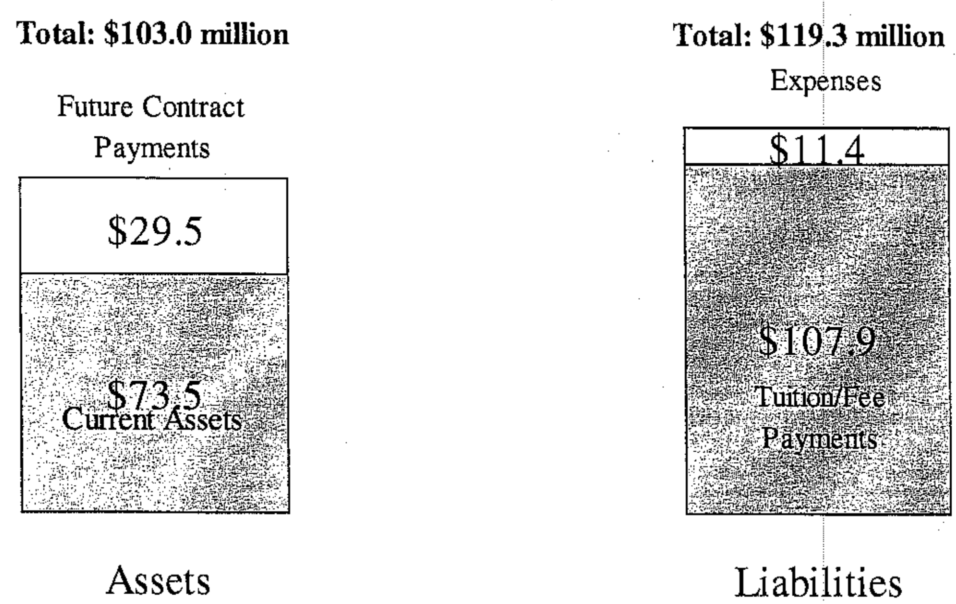
Actuarial Assumptions

Tuition increases are assumed to be 6.5% per year for all future years at universities, and 6.0% per year for all future years for junior colleges. Investments are assumed to return 7.8% per year for all future years. These assumptions and our methodology are described more fully in the body of this report.

FUNDED STATUS

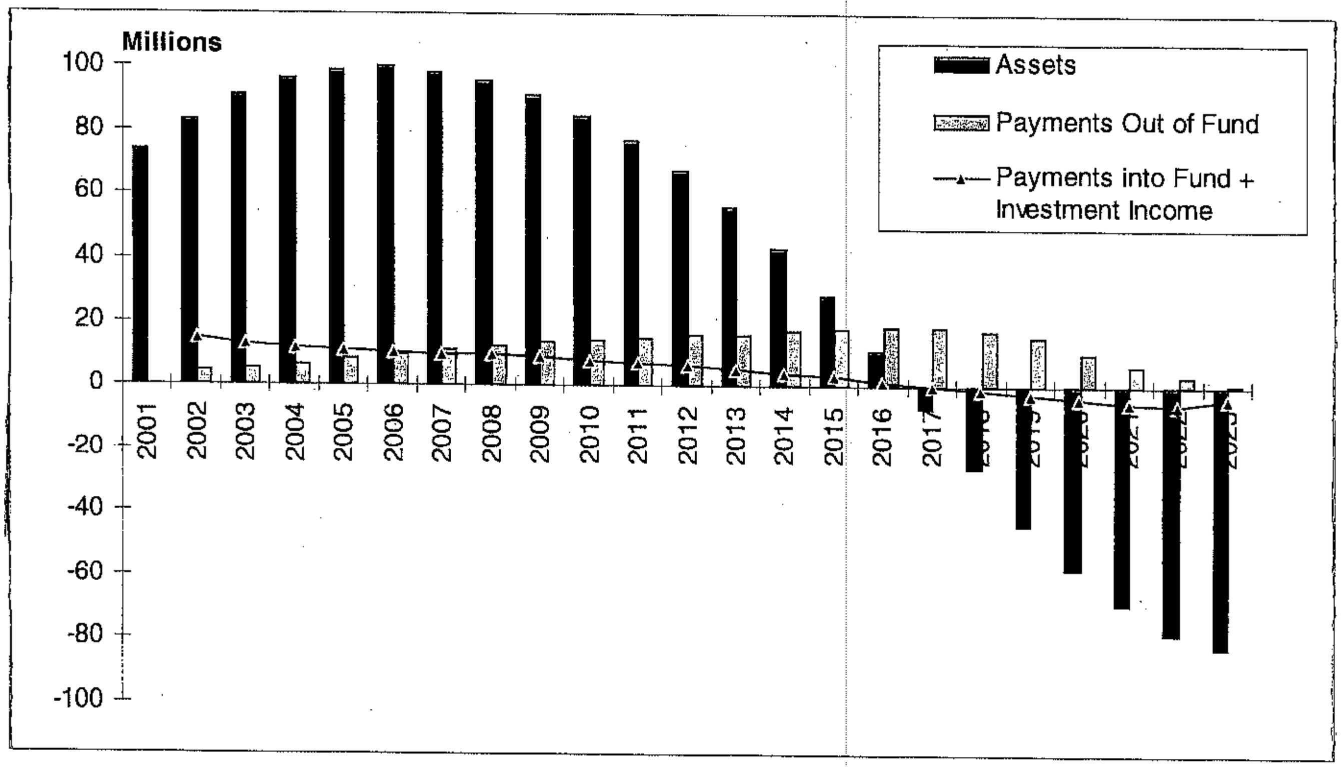
As of June 30, 2001 the expected liabilities of the Program exceeds the value of the Program (including the value of future payments by contract purchasers) by $16.3 million. The funded ratio, assets divided by liabilities, is 86.37%%. The assumptions used to perform the actuarial valuation of the fund are described in Section 2. The primary assumptions are:

Tuition increases	6.5% per year for four-year universities 6.0% per year for junior colleges
Investment return	7.8% per year



CASH FLOW PROJECTION

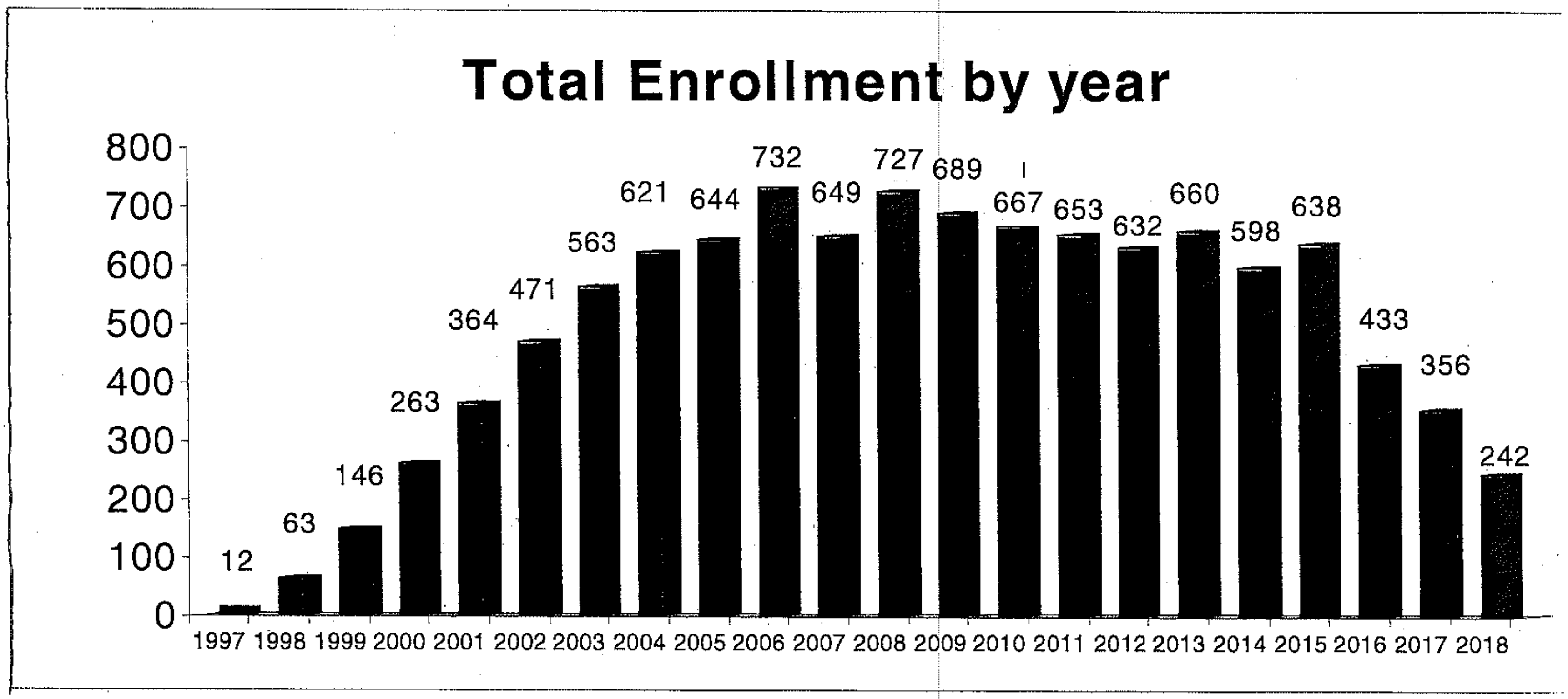
The expected income and disbursements of the trust fund, based on the assumptions used in the actuarial valuation, and the current group of contract beneficiaries, are shown below. These amounts are cash amounts, not present value amounts.



Fiscal Year End

CONTRACT SALES

Contracts can be purchased for a wide range of ages from infant up through high school senior. The chart below illustrates the total number of active contracts by expected year of college or university matriculation

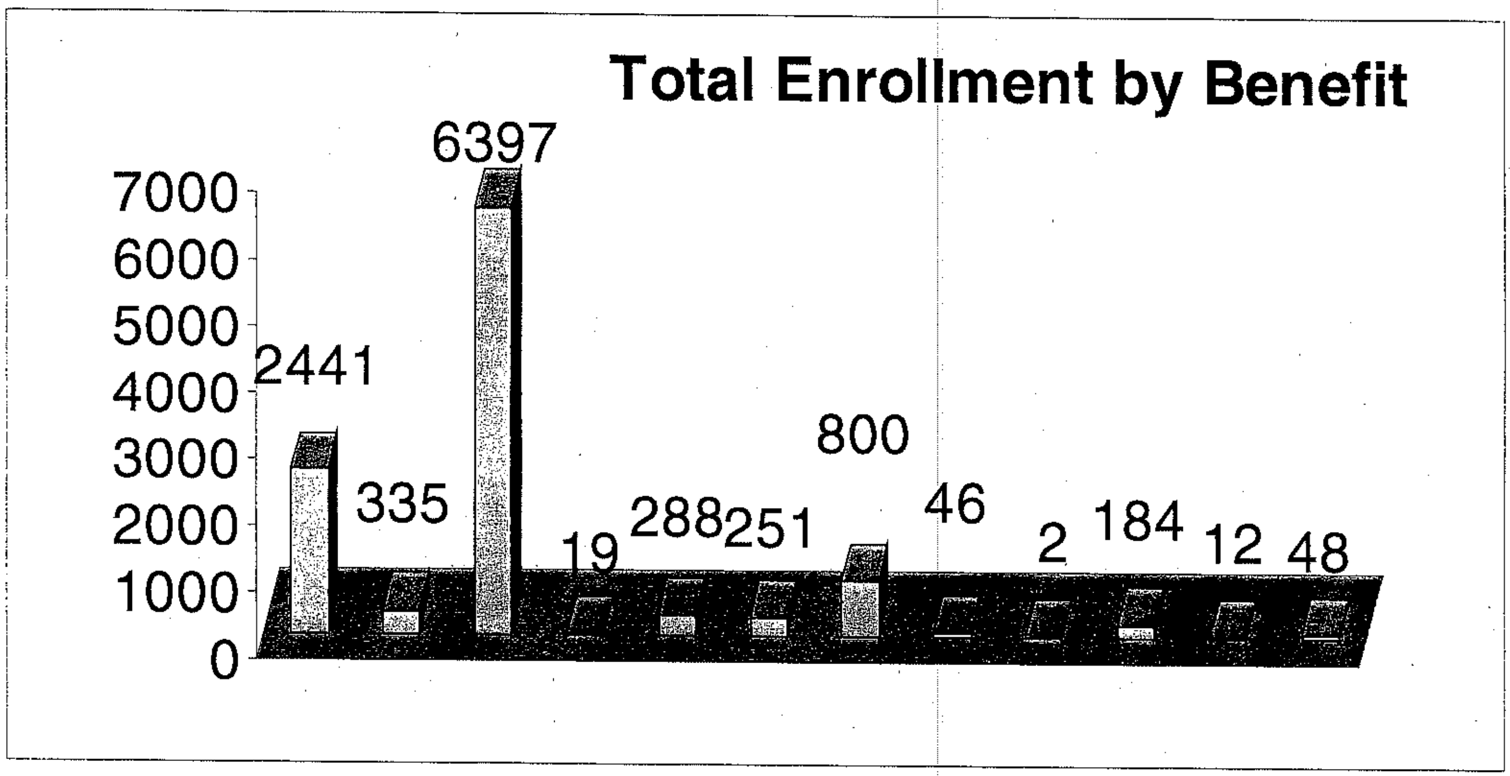


Projected year of Matriculation

Grand Total: 10,823 Contracts

CONTRACT SALES

Contracts can be purchased for a variety of plans, from one year to four years of tuition and for community college or four-year university. The chart below illustrates the total number of active contracts by type of benefit.

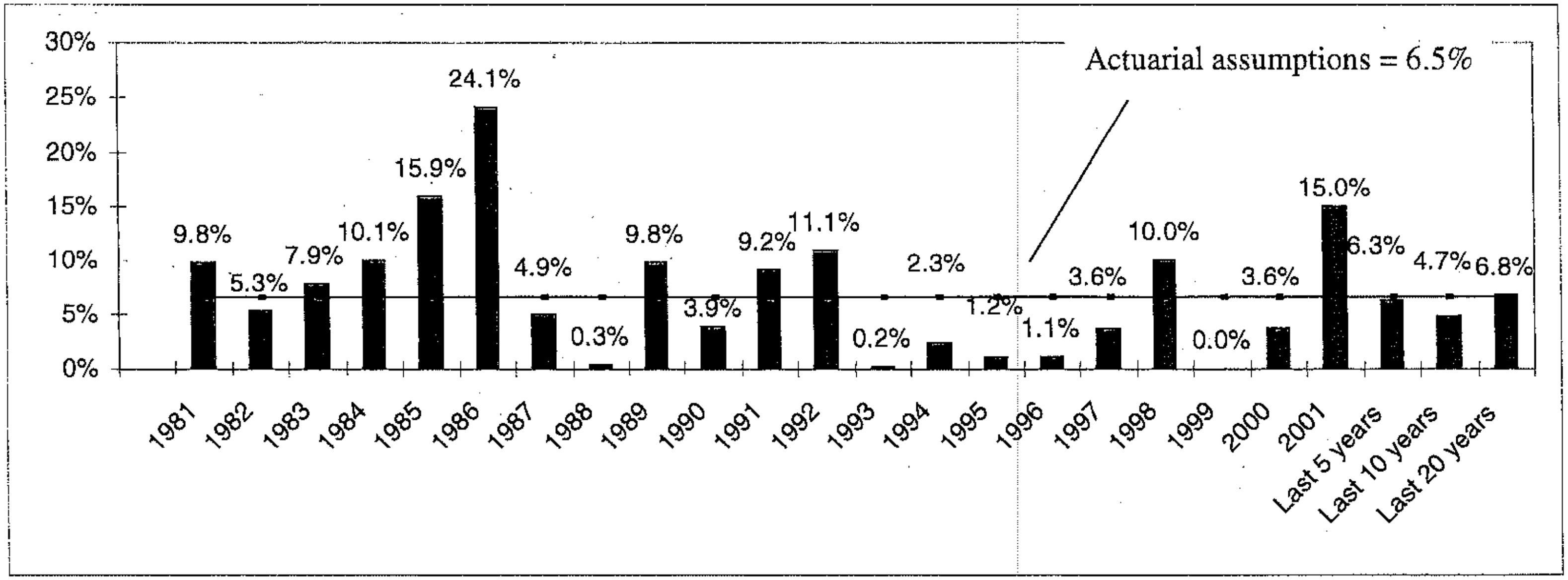


Years at community college	2	1	0	0	0	0	2	1	1	0	1	2
Years at four-year university	2	3	4	3	2	1	0	0	1	5	4	3

Grand Total: 10,823 Contracts

HISTORIC TUITION/FEE INCREASES

The average tuition for four-year universities is assumed to increase 6.5% per year. The chart below illustrates the actual increases since 1980.



Historical Comparison: Four-Year Universities

Fall 1981	882	Fall 1986	$1,588	Fall 1991	$2,083	Fall 1996	$2,426
Fall 1982	929	Fall 1987	1,667	Fall 1992	2,314	Fall 1997	2,513
Fall 1983	1,003	Fall 1988	1,672	Fall 1993	2,317	Fall 1998	2,764
Fall 1984	1,104	Fall 1989	1,837	Fall 1994	2,371	Fall 1999	2,764
Fall 1985	1,280	Fall 1990	1,908	Fall 1995	2,399	Fall 2000	2,864
						Fall 2001	3,294

The table below was prepared so that the Board can see how variations in future experience will affect the current surplus of the Program.

Variations in Tuition

University tuition higher in all years by 25 basis points	Surplus:	($18,455,606), a decrease of $2,193,656
University tuition lower in all years by 25 basis points	Surplus:	($14,126,515), an increase of $2,135,436
University tuition increases by 7% in 2001/02, then level 6.5%	Surplus:	($16,706,974), a decrease of $445,023
Bias Load is 4% rather than 3%	Surplus:	($17,208,672), a decrease of $946,721
Bias Load is 2% rather than 3%	Surplus:	($15,315,338), an increase of $946,563

Variations in Investment Income

Investment income lower in all years by 25 basis points	Surplus:	($18,565,420), a decrease of $2,303,470
Investment income higher in all years by 25 basis points	Surplus:	($14,032,743), an increase of $2,229,208
Investment income of 5% in 2000/01, then level 7.8%	Surplus:	($18,563,311), a decrease of $2,301,361

Break Even Interest Rate

An investment earnings rate of 9.85% is required for the fund to satisfy all future expenses in the projection period.

Break Even Inflation Rates

Maintaining the current relationship that the university inflation rate is 50 basis points greater than the junior college inflation rate, a 4.53% university inflation rate and a 4.03% junior college inflation rate is required for the fund to satisfy all future expenses in the projection period.

Actuarial Assumptions

The assumptions used in the actuarial valuation of the Program are described below. These assumptions were developed by the Board. We have reviewed these assumptions for reasonableness.

Tuition Increases The Weighted Average Tuition for four-year universities is assumed to increase at 6.5% per year. The Weighted Average Tuition for junior colleges is assumed to increase at 6% per year.

Investment Return Invested assets are assumed to earn 7.8% per year. The Program is exempt from Federal Income Tax.

Administrative Expenses Total Program expenses for fiscal 2002 are $1.3 million. These expenses include approximately $315,000 of budgeted investment expenses. We assumed that non-investment administrative expenses would increase at the rate of 1% per year and that investment expenses would remain at 50 basis points on invested assets.

Enrollment of MPACT Beneficiaries We assumed that beneficiaries would attend college or university full time commencing with the expected matriculation date (the Fall following high school graduation). We assumed that contract beneficiaries would attend colleges and universities in the same proportion as the headcount information that was used to determine the 2001/02 Weighted Average Tuition. A 3% load was added to four-year university Weighted Average Tuition to allow for antiselection toward matriculation at schools with higher tuition.

Contract Cancellations We assumed that there would be no contract cancellations.

Future Contract Sales For the purpose of allocating administrative expenses to current contracts, we assumed that there would be a minimum number of contacts in the future. We have assumed that 750 contracts will be sold each year for the next five years, and that 25% of the administrative expenses are variable. This assumption is used only for expense allocation. It has not been used to project any additional revenue for the Program.

Deaths and Disability Mortality and disability decrements were not used.

Actuarial Methods

The actuarial valuation of the Program is based on projections of tuition and required fees expected to be paid on behalf of Program beneficiaries, and on amounts paid into the Program from contract installment payments. This actuarial valuation is based on the data described below, along with the sources of data

Data	**Source**
Tuition & required fees at four-year universities	Mississippi Institutions of Higher Learning
Headcount at four-year universities	Mississippi Institutions of Higher Learning
MPACT active contract inventory	InTuition Solutions, Inc.
Tuition & required fees at junior colleges	State Board of Community & Junior Colleges
Headcount at junior colleges	State Board of Community & Junior Colleges

MPACT Beneficiaries (Appendix C) The future payments expected to be made to and from the trust fund have been determined based on the number of contracts shown in Appendix C. This information reflects cancellations, deaths and disabilities that have occurred up to the valuation date.

Weighted Average Tuition: Four-Year Universities (Appendix D) The Weighted Average Tuition for public four-year universities in Mississippi is the average of tuition and required fees at each of the four-year universities, weighted by resident enrollment headcount at each university.

Resident enrollment headcount is the number of undergraduate students eligible to pay in-state tuition at Mississippi four-year universities. The average of the full time headcounts as of fall 1997, 1998, 1999, and 2000 was used to determine the Weighted Average Tuition.

Weighted Average Tuition: Junior and Community Colleges (Appendix E) The Weighted Average Tuition for junior and community colleges was determined using the same methodology as for four-year universities, except the weighting was based on the average full-time headcounts at each college for the Fall semesters of 1999 and 2000.

Funded Status

a.	Market value of assets	$73,518,255
b.	Actuarial present value of future contract installment payments	29,521,629
c.	Subtotal (a + b)	103,039,884
d.	Actuarial present value of future payments of tuition, required fees and expenses	119,301,835
e.	Surplus as of June 30, 2001	($16,261,950)

(amounts in 1,000's)

Fiscal Year Ending June 30	Payments Into Trust Fund	Payments Out of Trust Fund	Investment Income	Assets at End of Year
2001				73,518
2002	8,683	4,724	5,886	83,363
2003	6,105	4,822	6,545	91,191
2004	4,725	6,600	7,011	96,328
2005	3,732	8,349	7,282	98,993
2006	3,091	9,775	7,395	99,704
2007	2,512	11,200	7,355	98,371
2008	2,171	12,108	7,192	95,626
2009	1,887	13,295	6,909	91,127
2010	1,519	14,389	6,490	84,747
2011	1,167	14,841	5,955	77,028
2012	878	16,006	5,283	67,183
2013	691	16,331	4,490	56,034
2014	511	16,998	3,580	43,126
2015	358	17,704	2,532	28,312
2016	222	18,654	1,323	11,203
2017	110	18,394	(5)	(7,086)
2018	52	17,145	(1,374)	(25,553)
2019	4	15,347	(2,730)	(43,625)
2020	0	10,389	(3,901)	(57,916)
2021	0	6,625	(4,835)	(69,376)
2022	0	3,350	(5,572)	(78,298)
2023	0	449	(4,030)	(82,778)

Tuition – Four Year Universities

Appendix D

Projected Enrollment Year	2+2	1+3	4Yr Univ	3Yr Univ	2Yr Univ	1Yr Univ	2Yr Jr Col	1Yr Jr Col	1+1	5Yr Univ	1+4	2+3	Total Enrollment By Year	Percent Of Total
1997	1		11										12	0.1%
1998	12	2	37	1	2	4	5						63	0.6%
1999	21	5	98		5	7	9	1					146	1.3%
2000	59	10	156	2	7	4	18	5		1	1		263	2.4%
2001	82	5	221	2	15	8	25	2		3		1	364	3.4%
2002	108	24	279		12	4	41	2			1		471	4.4%
2003	129	15	339	2	10	15	47	1	2	2		1	563	5.2%
2004	129	13	372	2	21	23	57	1		1		2	621	5.7%
2005	147	23	356	1	27	17	61	1		8		3	644	6.0%
2006	154	28	443		17	13	61	5		6		5	732	6.8%
2007	167	13	355	1	22	22	56	4		6	1	2	649	6.0%
2008	173	17	435	1	17	15	57	3		7	1	1	727	6.7%
2009	168	25	392	1	18	22	52	3		7		1	689	6.4%
2010	159	26	390		21	9	53			9			667	6.2%
2011	144	18	402		17	11	39	5		14		3	653	6.0%
2012	158	15	368	1	15	19	34	5		13	1	3	632	5.8%
2013	159	29	387		19	7	45	1		12		1	660	6.1%
2014	131	23	354		7	18	46	2		12		5	598	5.5%
2015	140	23	395		15	11	39			12		3	638	5.9%
2016	99	10	265	2	7	9	25	1		11	1	3	433	4.0%
2017	63	8	203	1	8	5	18	3		31	5	11	356	3.3%
2018	38	3	139	2	6	8	12	1		29	1	3	242	2.2%
Totals	2441	335	6397	19	288	251	800	46	2	184	12	48	10823	100.0%
Percentage	22.6%	3.1%	59.1%	0.2%	2.7%	2.3%	7.4%	0.4%	0.0%	1.7%	0.1%	0.4%	100.0%	

Tuition – Four Year Universities

Annual Tuition and Required Fees

Year	A.S.U	D.S.U.	J.S.U.	M.S.U.	M.U.W.	M.V.S.U.	U.M.	U.S.M.	Average	Weighted Average
1980-81	$768	$720	$750	$930	$729	$750	$954	$826	$803	
1981-82	825	770	832	1,030	800	800	1,085	916	882	
1982-83	825	770	900	1,132	800	800	1,167	1,040	929	
1983-84	875	800	972	1,238	825	850	1,321	1,140	1,003	
1984-85	975	900	1,072	1,358	925	975	1,401	1,226	1,104	
1985-86	1,250	1,130	1,172	1,492	1,075	1,200	1,517	1,401	1,280	
1986-87	1,650	1,480	1,472	1,700	1,475	1,600	1,727	1,600	1,588	
1987-88	1,650	1,600	1,500	1,778	1,580	1,760	1,780	1,684	1,667	
1988-89	1,670	1,600	1,500	1,794	1,580	1,760	1,790	1,684	1,672	
1989-90	1,820	1,734	1,726	1,987	1,780	1,825	1,987	1,834	1,837	
1990-91	1,870	1,846	1,786	2,061	1,840	1,850	2,059	1,948	1,908	
1991-92	2,068	2,000	2,029	2,223	2,053	1,952	2,221	2,120	2,083	
1992-93	2,376	2,194	2,223	2,473	2,239	2,164	2,435	2,404	2,314	
1993-94	2,376	2,194	2,230	2,473	2,239	2,164	2,456	2,404	2,317	
1994-95	2,389	2,294	2,380	2,498	2,244	2,189	2,546	2,429	2,371	
1995-96	2,389	2,294	2,380	2,591	2,244	2,278	2,546	2,468	2,399	
1996-97	2,389	2,294	2,380	2,631	2,284	2,278	2,631	2,518	2,426	
1997-98	2,441	2,360	2,444	2,743	2,324	2,405	2,775	2,609	2,513	2,501
1998-99	2,685	2,596	2,688	3,017	2,556	2,646	3,053	2,870	2,764	2,570
1999-00	2,685	2,596	2,688	3,017	2,556	2,646	3,053	2,870	2,764	2,862
2000-01	2,785	2,696	2,788	3,117	2,656	2,746	3,153	2,970	2,864	2,962
2001-02	3,203	3,100	3,206	3,586	3,054	3,158	3,626	3,416	3,294	3,408

Tuition – Four Year Universities

Annual Increases in Tuition and Required Fees

Year	A.S.U	D.S.U.	J.S.U.	M.S.U.	M.U.W.	M.V.S.U.	U.M.	U.S.M.	Average
1981-82	7.42%	6.94%	10.93%	10.75%	9.74%	6.67%	13.73%	10.90%	9.82%
1982-83	0.00%	0.00%	8.17%	9.90%	0.00%	0.00%	7.56%	13.54%	5.33%
1983-84	6.06%	3.90%	8.00%	9.36%	3.13%	6.25%	13.20%	9.62%	7.90%
1984-85	11.43%	12.50%	10.29%	9.69%	12.12%	14.71%	6.06%	7.54%	10.11%
1985-86	28.21%	25.56%	9.33%	9.87%	16.22%	23.08%	8.28%	14.27%	15.91%
1986-87	32.00%	30.97%	25.60%	13.94%	37.21%	33.33%	13.84%	14.20%	24.10%
1987-88	0.00%	8.11%	1.90%	4.59%	7.12%	10.00%	3.07%	5.25%	4.94%
1988-89	1.21%	0.00%	0.00%	0.90%	0.00%	0.00%	0.56%	0.00%	0.35%
1989-90	8.98%	8.38%	15.07%	10.76%	12.66%	3.69%	11.01%	8.91%	9.83%
1990-91	2.75%	6.46%	3.48%	3.72%	3.37%	1.37%	3.62%	6.22%	3.86%
1991-92	10.59%	8.34%	13.61%	7.86%	11.58%	5.51%	7.87%	8.83%	9.21%
1992-93	14.89%	9.70%	9.56%	11.25%	9.06%	10.86%	9.64%	13.40%	11.05%
1993-94	0.00%	0.00%	0.31%	0.00%	0.00%	0.00%	0.86%	0.00%	0.15%
1994-95	0.55%	4.56%	6.73%	1.01%	0.22%	1.16%	3.66%	1.04%	2.34%
1995-96	0.00%	0.00%	0.00%	3.72%	0.00%	4.07%	0.00%	1.61%	1.17%
1996-97	0.00%	0.00%	0.00%	1.54%	1.78%	0.00%	3.34%	2.03%	1.12%
1997-98	2.18%	2.88%	2.69%	4.26%	1.75%	5.58%	5.47%	3.61%	3.59%
1998-99	10.00%	10.00%	9.98%	9.99%	9.98%	10.02%	10.02%	10.00%	10.00%
1999-00	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2000-01	3.72%	3.85%	3.72%	3.31%	3.91%	3.78%	3.28%	3.48%	3.62%
2001-02	15.01%	14.99%	14.99%	15.05%	14.98%	15.00%	15.00%	15.02%	15.01%
Compounded Averages:									
20 Years	7.02%	7.21%	6.98%	6.44%	6.93%	7.11%	6.22%	6.80%	6.81%
15 years	4.52%	5.05%	5.33%	5.10%	4.97%	4.64%	5.07%	5.19%	4.98%
10 years	4.47%	4.48%	4.68%	4.90%	4.05%	4.93%	5.02%	4.89%	4.69%
5 years	6.04%	6.21%	6.14%	6.39%	5.98%	6.75%	6.63%	6.29%	6.31%

Resident Enrollment

	Resident Full Time Equivalent Enrollment				Average	Percent of
	Fall 1997	Fall 1998	Fall 1999	Fall 2000	Enrollment	Total
Alcorn State University	2,381	2,344	2,259	2,269	2,313	5.7%
Delta State University	3,168	3,025	3,110	2,909	3,053	7.5%
Jackson State University	3,967	3,817	4,344	4,648	4,194	10.3%
Mississippi State University	10,197	10,134	10,181	10,708	10,305	25.4%
Mississippi University for Women	1,879	1,843	1,716	1,632	1,767	4.4%
Mississippi Valley State University	1,779	1,974	2,017	2,131	1,976	4.9%
University of Mississippi	6,339	6,587	6,788	7,028	6,686	16.5%
University of Southern Mississippi	10,073	10,308	10,277	10,666	10,331	25.4%
Totals	39,784	40,033	40,691	41,991	40,625	100.0%

Tuition and Required Fees by School

	Annual Resident Tuition and Required Fees						
	1998/99	Increase	1999/00	Increase	2000/01	Increase	2001/02
Coahoma Community College	$970	28.9%	$1,250	0.0%	$1,250	16.0%	$1,450
Copiah-Lincoln Community College	1,000	0.0%	1,000	12.0%	1,120	16.1%	1,300
East Central Community College	1,000	0.0%	1,000	0.0%	1,000	20.0%	1,200
East Mississippi Community College	1,040	0.0%	1,040	0.0%	1,040	21.2%	1,260
Hinds Community College	1,070	2.8%	1,100	9.1%	1,200	16.7%	1,400
Holmes Community College	1,054	0.0%	1,054	14.2%	1,204	18.3%	1,424
Itawamba Community College	1,000	0.0%	1,000	5.0%	1,050	21.9%	1,280
Jones Community College	792	7.1%	848	7.1%	908	22.0%	1,108
Meridian Community College	1,000	3.8%	1,038	3.9%	1,078	20.4%	1,298
Mississippi Delta Community College	920	3.3%	950	21.1%	1,150	8.7%	1,250
Mississippi Gulf Coast Community College	920	10.9%	1,020	7.1%	1,092	10.1%	1,202
Northeast Mississippi Community College	1,000	3.0%	1,030	7.2%	1,104	24.6%	1,376
Northwest Mississippi Community College	1,000	0.0%	1,000	0.0%	1,000	20.0%	1,200
Pearl River Community College	950	0.0%	950	10.5%	1,050	23.8%	1,300
Southwest Mississippi Community College	850	11.8%	950	5.3%	1,000	20.0%	1,200
Average Tuition	$971	4.6%	$1,015	6.7%	$1,083	18.5%	1,283
Weighted Average Tuition	973	4.2%	1,014	6.6%	1,081	18.2%	1,278

Increase in Average Tuition and Required Fees

Fiscal Year	Average Tuition	Percentage Increase
1984	454	
1985	502	10.6%
1986	522	4.0%
1987	614	17.6%
1988	622	1.3%
1989	646	3.9%
1990	686	6.2%
1991	728	6.1%
1992	818	12.4%
1993	942	15.2%
1994	938	-0.4%
1995	938	0.0%
1996	953	1.6%
1997	960	0.7%
1998	971	1.1%
1999	1,015	4.5%
2000	1,083	6.7%
2001	1,283	18.5%
Average increase last 15 years		6.2%
Average increase last 10 years		5.8%

Resident Enrollment

	Fall 1999	Fall 2000	Average	Percent of Total
Coahoma Community College	1,148	1,244	1,196	2.2%
Copiah-Lincoln Community College	2,493	2,572	2,533	4.6%
East Central Community College	2,174	2,254	2,214	4.1%
East Mississippi Community College	2,531	2,623	2,577	4.7%
Hinds Community College	8,910	9,408	9,159	16.8%
Holmes Community College	2,802	3,031	2,917	5.3%
Itawamba Community College	3,443	3,561	3,502	6.4%
Jones Community College	4,363	4,514	4,439	8.1%
Meridian Community College	2,901	3,092	2,997	5.5%
Mississippi Delta Community College	2,428	2,584	2,506	4.6%
Mississippi Gulf Coast Community College	8,727	8,575	8,651	15.8%
Northeast Mississippi Community College	2,771	2,796	2,784	5.1%
Northwest Mississippi Community College	4,566	4,775	4,671	8.6%
Pearl River Community College	2,727	2,840	2,784	5.1%
Southwest Mississippi Community College	1,685	1,652	1,669	3.1%
Totals	53,669	55,521	54,595	100.0%