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**Mississippi Prepaid Affordable
College Tuition Program**
Auditor's Reports and Financial Statements
June 30, 2014 and 2013

**Mississippi Prepaid Affordable
College Tuition Program**
June 30, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Mississippi Prepaid Affordable College Tuition Program (the Program), which are comprised of a statement of net position as of June 30, 2014, and statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Prepaid Affordable College Tuition Program as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, the financial statements of the Program are intended to present the financial position, the changes in financial position and cash flows only for the portion of the business-type activities of the State of Mississippi that is attributable to the transactions of the Program. They do not purport to, and do not present fairly, the financial position of the State of Mississippi as of June 30, 2014, and the changes in its financial position and cash flows for the year then ended, in conformity with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Report on Summarized Comparative Information

We have previously audited the Program's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2015, 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 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* in considering the Program's internal control over financial reporting and compliance.

BKD, LLC

Jackson, Mississippi
January 16, 2015

**Mississippi Prepaid Affordable
College Tuition Program
Statement of Net Position
June 30, 2014
(With Summarized Information for 2013)**

	2014			2013
	3170	3171		
	Trust Fund	Administrative Fund	Total	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 7,715,640	\$ 244,960	\$ 7,960,600	\$ 18,850,931
Due from transfer agent	2,552,038	-	2,552,038	673,646
Interest receivable	602,319	-	602,319	641,215
Total current assets	10,869,997	244,960	11,114,957	20,165,792
Non-Current Assets				
Fair value of forward exchange contract	-	-	-	404,267
Investment securities	319,381,404	-	319,381,404	276,494,966
Total non-current assets	319,381,404	-	319,381,404	276,899,233
Total assets	<u>\$ 330,251,401</u>	<u>\$ 244,960</u>	<u>\$ 330,496,361</u>	<u>\$ 297,065,025</u>
Liabilities and Net Position				
Current Liabilities				
Warrants payable	\$ 245,586	\$ 3,227	\$ 248,813	\$ 473,939
Accounts payable and accruals	2,759,340	161,762	2,921,102	1,417,242
Fair value of forward exchange contract	234,357	-	234,357	-
Total current liabilities	3,239,283	164,989	3,404,272	1,891,181
Long-term Liabilities				
Tuition benefits and expense payable	456,888,659	-	456,888,659	378,037,769
Compensated absences	-	40,019	40,019	22,980
Total long-term liabilities	456,888,659	40,019	456,928,678	378,060,749
Total liabilities	460,127,942	205,008	460,332,950	379,951,930
Net Position				
Unrestricted	(129,876,541)	39,952	(129,836,589)	(82,886,905)
Total liabilities and net position	<u>\$ 330,251,401</u>	<u>\$ 244,960</u>	<u>\$ 330,496,361</u>	<u>\$ 297,065,025</u>

**Mississippi Prepaid Affordable
College Tuition Program**
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014
(With Summarized Information for 2013)

	2014			2013
	Trust Fund	Administrative Fund	Total	Total
Operating Revenues				
Contract income	\$ 5,561,609	\$ -	\$ 5,561,609	\$ 11,968,780
Administrative fees	792,961	-	792,961	816,912
Other income	-	15,283	15,283	-
Total operating revenues	<u>6,354,570</u>	<u>15,283</u>	<u>6,369,853</u>	<u>12,785,692</u>
Operating Expenses				
Salaries and travel	-	477,513	477,513	258,533
Contractual services	-	946,577	946,577	1,070,269
Commodities and supplies	-	1,544	1,544	8,233
Capital outlay	-	-	-	1,572
Tuition benefits and expense	101,709,425	-	101,709,425	39,938,654
Total operating expenses	<u>101,709,425</u>	<u>1,425,634</u>	<u>103,135,059</u>	<u>41,277,261</u>
Operating Loss	<u>(95,354,855)</u>	<u>(1,410,351)</u>	<u>(96,765,206)</u>	<u>(28,491,569)</u>
Non-Operating Revenues				
Net investment income	49,815,522	-	49,815,522	40,067,476
Transfers	<u>(1,450,000)</u>	<u>1,450,000</u>	<u>-</u>	<u>-</u>
Net other financing sources	<u>48,365,522</u>	<u>1,450,000</u>	<u>49,815,522</u>	<u>40,067,476</u>
Net Increase (Decrease) in Net Position	(46,989,333)	39,649	(46,949,684)	11,575,907
Net Position - Beginning of Year	<u>(82,887,208)</u>	<u>303</u>	<u>(82,886,905)</u>	<u>(94,462,812)</u>
Net Position - End of Year	<u>\$ (129,876,541)</u>	<u>\$ 39,952</u>	<u>\$ (129,836,589)</u>	<u>\$ (82,886,905)</u>

**Mississippi Prepaid Affordable
College Tuition Program
Statement of Cash Flows
Year Ended June 30, 2014
(With Summarized Information for 2013)**

	2014			2013
	Trust Fund	Administrative Fund	Total	Total
Operating Activities				
Contract payments received	\$ 5,561,609	\$ -	\$ 5,561,609	\$ 11,968,780
Administrative fees and other payments received	792,961	15,283	808,244	816,912
Cash payments for tuition	(22,874,333)	-	(22,874,333)	(21,153,428)
Cash payments to suppliers for goods and services	-	(1,013,487)	(1,013,487)	(907,983)
Cash payments to employees for services	-	(460,474)	(460,474)	(249,776)
Net cash used in operating activities	(16,519,763)	(1,458,678)	(17,978,441)	(9,525,495)
Noncapital Financing Activities				
Operating transfers	(1,450,000)	1,450,000	-	-
Net cash provided by (used in) noncapital financing activities	(1,450,000)	1,450,000	-	-
Investing Activities				
Purchases of investments	(157,401,212)	-	(157,401,212)	(85,858,180)
Sales of maturities of investments	159,181,644	-	159,181,644	81,260,111
Net investment income received	5,307,678	-	5,307,678	5,353,475
Net cash provided by investing activities	7,088,110	-	7,088,110	755,406
Decrease in Cash and Cash Equivalents	(10,881,653)	(8,678)	(10,890,331)	(8,770,089)
Cash and Cash Equivalents, Beginning of Year	18,597,293	253,638	18,850,931	27,621,020
Cash and Cash Equivalents, End of Year	\$ 7,715,640	\$ 244,960	\$ 7,960,600	\$ 18,850,931
Reconciliation of Operating Loss to Net Cash Used in Operating Activities				
Operating loss	\$ (95,354,855)	\$ (1,410,351)	\$ (96,765,206)	\$ (28,491,569)
Adjustment to reconcile operating loss to net cash provided by (used in) operating activities				
Increase in tuition benefits and expense payable	78,850,890	-	78,850,890	18,463,302
Increase (decrease) in other liabilities	(15,798)	(48,327)	(64,125)	502,772
Net cash used in operating activities	\$ (16,519,763)	\$ (1,458,678)	\$ (17,978,441)	\$ (9,525,495)

Mississippi Prepaid Affordable College Tuition Program Notes to Financial Statements June 30, 2014

Note 1: Summary Of Significant Accounting Policies

Organization

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

Due to actual investment earnings being less than the Program assumptions, the Program has operated at a net deficit for the last thirteen years (see analysis of sensitivity of changes in assumed earnings in *Note 3*). In August 2012, the Board of Directors voted to suspend accepting new contracts while an independent actuarial analysis was being performed. This actuarial analysis was completed in April 2013. Changes in actuarial assumptions that resulted from this analysis are noted in *Note 3*. Subsequent to year end, the Board of Directors reopened the Program to new enrollment effective October 1, 2014. New contracts will be referred to as "Horizon Contracts," while contracts purchased prior to 2014 are referred to as "Legacy Contracts." The Program will account for the assets and liabilities of the two contract groups separately, but the investments will be pooled for management purposes.

MPACT operates under the provisions of Mississippi Code Ann., §37-155-1 through §37-155-27. The effective date of the enabling legislation was July 1, 1996. MPACT is administratively located within the State of Mississippi Treasury Department (State Treasury). 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 member from each congressional district as appointed by the Governor with the advice and consent of the Senate.

**Mississippi Prepaid Affordable
College Tuition Program
Notes to Financial Statements
June 30, 2014**

Reporting Entity

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

MPACT is comprised of the following proprietary funds:

- Trust Fund (Fund 3170) includes contract tuition payments, interest earnings from investments and disbursements to universities and colleges for tuition.
- Administrative Fund (Fund 3171) operates the administrative functions of MPACT.

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).

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

**Mississippi Prepaid Affordable
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Contract Income

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

Investment Securities

MPACT follows GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, which requires that investments in equity securities with readily determinable fair values, all investments in debt securities and open-end mutual funds, and certain investments in interest-earning investment contracts be reported at fair value with gains and losses included as a component of revenues and expenses. Fair value is determined using quoted market prices. The net investment income reported in the statement of revenues, expenses and changes in net position includes both realized and unrealized gains and losses.

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

Tuition Benefits and Expense Payable

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

Interfund Transactions

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

Note 2: Deposits and Investment Securities

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a MPACT's deposits may not be returned to it. The Program's deposit policy for custodial credit risk requires compliance with the provisions of state law. Mississippi Code of 1972 Section 37-155-9(v)(iii) requires MPACT funds

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to be deposited in federally insured institutions domiciled in the State of Mississippi or a custodial bank which appears on the State Treasury's approved depository list and/or safekeeper list. Deposits of the Program are entirely insured or collateralized with securities.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasury under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the Program's funds are protected through a collateral pool administered by the State Treasury. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasury to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Credit Risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Program's investments in TIAA-CREF money market mutual funds, classified as cash equivalents, were rated AAA by Standard and Poors' at June 30, 2014. Other cash equivalents were not rated at June 30, 2014.

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, MPACT is permitted to invest in equity securities, including covered call or put options on securities traded on a regulated exchange, that are determined by the Board of Directors to be 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).

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Investment securities consisted of the following:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
U.S. Treasuries and agencies	\$ 4,414,424	\$ 4,693,267	\$ 1,278,292	\$ 1,287,558
Municipal bonds	-	-	11,840,161	11,624,852
Corporate debt securities	20,705,902	21,482,428	17,087,152	17,912,753
Corporate equity securities				
Domestic	124,921,552	167,358,609	114,143,526	150,180,766
Foreign	51,216,164	66,110,932	51,687,555	58,876,498
Real estate - Timberland Fund	4,034,302	5,785,902	4,093,475	5,999,116
Mortgage and other asset-backed securities	52,773,892	53,950,266	29,647,786	30,613,423
Total	<u>\$ 258,066,236</u>	<u>\$ 319,381,404</u>	<u>\$ 229,777,947</u>	<u>\$ 276,494,966</u>

Custodial Credit Risk

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

Interest Rate Risk

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

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Maturities of fixed income securities by type at June 30, 2014 and 2013, are as follows:

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
June 30, 2014					
U.S. Treasuries and agencies	\$ 4,693,267	\$ -	\$ -	\$ 1,925,160	\$ 2,768,107
Corporate debt securities	21,482,428	-	2,636,289	6,424,782	12,421,357
Mortgage and other asset-backed securities	53,950,266	-	1,240,632	9,484,766	43,224,868
Totals	<u>\$ 80,125,961</u>	<u>\$ -</u>	<u>\$ 3,876,921</u>	<u>\$ 17,834,708</u>	<u>\$ 58,414,332</u>

	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
June 30, 2013					
U.S. Treasuries and agencies	\$ 1,287,558	\$ -	\$ -	\$ -	\$ 1,287,558
Municipal bonds	11,624,852	1,118,303	2,928,425	1,835,778	5,742,346
Corporate debt securities	17,912,753	122,465	5,222,986	3,801,407	8,765,895
Mortgage and other asset-backed securities	30,613,423	12,274	287,181	5,778,070	24,535,898
Totals	<u>\$ 61,438,586</u>	<u>\$ 1,253,042</u>	<u>\$ 8,438,592</u>	<u>\$ 11,415,255</u>	<u>\$ 40,331,697</u>

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

During 2014 and 2013, the investments in derivatives by MPACT were exclusively in foreign currency exchange contracts (*Note 4*), and asset/liability-based derivatives such as collateralized mortgage obligations and asset backed securities. MPACT reviews fair values of all securities on a monthly basis and prices are obtained from recognized pricing sources. Derivative securities are held, in part, to maximize yields.

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

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

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security. Rising interest rates may cause an increase in interest payments, thus an increase in the fair value of the security.

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

Credit Risk

Credit Risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Program's investments in fixed income securities were rated as follows at June 30:

Government-sponsored enterprise obligations implicitly guaranteed by the U.S.

	2014	2013
AAA	\$ -	\$ -
Not rated	<u>16,557,915</u>	<u>9,491,691</u>
Total government-sponsored enterprise obligations	<u>\$ 16,557,915</u>	<u>\$ 9,491,691</u>

Other Debt Securities

	2014	2013
AAA	\$ 1,386,130	\$ 1,941,623
AA	5,013,951	7,894,166
A	6,751,756	12,435,332
BBB	5,089,584	5,025,087
BB	-	-
B	-	-
Not rated	<u>-</u>	<u>-</u>
Total other debt securities	<u>\$ 18,241,421</u>	<u>\$ 27,296,208</u>

The above charts do not include equity securities, obligations of the U. S. Treasury, U.S. Agencies or securities explicitly guaranteed by the U.S. Government. State law requires a minimum quality rating of AAA by Standard and Poor's for corporate short-term obligations. This law also requires

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corporate and taxable municipal bonds to be of investment grade as rated by Standard and Poor's, with bonds rated BAA/BBB not to exceed 5% of total fixed income investments.

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

Foreign Currency Risk

Foreign currency risk relates to adverse affects on the fair value of an investment from changes in foreign exchange rates. MPACT investments denominated in foreign currency are as follows as June 30:

	2014		2013	
	%	Fair Value	%	Fair Value
Australian Dollars	10.6%	\$ 4,129,097	9.6%	\$ 3,449,314
Euro	25.7%	10,040,225	27.2%	9,758,420
Hong Kong Dollars	8.0%	3,115,808	7.9%	2,838,644
Israeli Shekel	1.5%	594,130	1.4%	504,433
Japanese Yen	9.7%	3,768,700	9.2%	3,277,602
Malaysian Ringgit	5.0%	1,969,931	5.1%	1,818,943
New Taiwan Dollar	3.3%	1,289,759	3.0%	1,082,332
Norway/Norwegian Krone	0.9%	351,737	0.9%	333,237
Singapore Dollars	5.3%	2,079,378	5.0%	1,806,098
Sweden/Swedish Krona	3.4%	1,314,801	3.6%	1,271,364
Swiss Francs	12.8%	4,994,401	13.0%	4,659,109
Pound Sterling	13.8%	5,396,297	14.1%	5,045,199
Total international investments denominated in foreign currencies	100.0%	\$ 39,044,264	100.0%	\$ 35,844,695

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

Note 3: Tuition Benefits and Expense Payable

Tuition benefits and expense payable is recorded as a long-term liability since short-term installment contract receipts are expected to exceed short-term tuition payments required of the Program. Installment contract holders are not contractually bound to continue making installment

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payments. The future tuition obligations are recorded at an actuarially determined present value which results in the recognition of tuition benefit expense and a corresponding increase in tuition benefits payable.

Actuarially Determined Funding Status

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

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

	2014	2013
Assumptions		
Rate of return on investment	7.5%	7.5%
Future tuition increases		
4-year universities	6.5%	6.5%
2-year community colleges	6.0%	6.0%
Maximum number of credit hours utilizable for payment of tuition and mandatory fees	160	160
Results		
APV of tuition benefits and expenses payable - long-term	\$ 456,888,659	\$ 378,037,769
Net assets available for benefits	327,092,089	295,173,844
Net tuition benefits and expenses payable in excess of net assets available for benefits	\$ 129,796,570	\$ 82,863,925
Net assets as percentage of total tuition benefits and expenses payable	71.59%	78.08%
Tuition benefits and expenses payable, net includes the following actuarial present value of future payments:		
Payments to be made for tuition, fees, expenses and contract cancellations for all contracts sold	\$ 488,063,349	\$ 417,467,654
Payments to be received from installment contract purchases	(31,174,690)	(39,429,885)
Tuition benefits and expenses payable, net	\$ 456,888,659	\$ 378,037,769

**Mississippi Prepaid Affordable
College Tuition Program
Notes to Financial Statements
June 30, 2014**

The margin between the assumed tuition inflation rates and rate of return on investments has a significant effect on the amounts reported as tuition benefits and expense payable in the accompanying financial statements. The assumed rate of return, net of investment expenses, for each of the years ended June 30, 2014 and 2013, is 7.00%. If the assumed rate of return on investments, net of investment expenses, increased by 100 basis points in all future years to 8.00%, the Program's deficit would decrease from approximately \$129.8 million to approximately \$98.1 million. If the assumed rate of return on investments, net of investment expenses, decreased by 100 basis points in all future years to 6.00%, the Program's deficit would increase to approximately \$165.2 million.

Change in Actuarial Valuation Assumptions

Credit Utilization

In prior actuarial valuations (and prior pricings), it was assumed that credits would be utilized at the rate of 16 credits per semester, resulting in a depletion of beneficiary accounts coincident with graduation. Data from the Institutions of Higher Learning (IHL) indicates that beneficiaries utilize credits at the average rate of 12.8 credits per semester for university attendance and the average rate of 11.9 credits per semester for community college attendance. Valuation of contracts were priced using these updated credit utilization rates for the current year. Contracts allow for a refund of unused credits (or use toward graduate school) at the then current WAT, this utilization rate results in additional, previously unanticipated liabilities. The increase can be as much as 25% for beneficiaries who have not yet fulfilled all academic credit hours under the individual's purchased plan (matriculated), as shown below:

Plan purchased:	4-year University Plan
Credits in account after payment received:	$8 * 16 = 128$
Average utilization after 4 years of college:	$8 * 12.8 = 102.4$

This average utilization essentially allows the MPACT to pay 5 years of tuition for the cost of 4 years. Reflecting this utilization increased tuition benefits and expenses payable by approximately \$100 million.

Immediate Payment

The previous valuations assumed that anyone who had matriculated would continue to utilize credits at the maximum amount per year. However, there has been a large difference between the expected tuition payments and the actual tuition payment over the last few years. For example, tuition payments for the year ending June 30, 2014 were expected to be approximately \$33 million, as modeled from the June 30, 2013 valuation data. The actual payments were approximately \$23 million. A similar discrepancy existed in the prior valuation.

**Mississippi Prepaid Affordable
College Tuition Program
Notes to Financial Statements
June 30, 2014**

Approximately 5,000 beneficiaries, who had matriculated, had not used any benefits during the past year. We requested additional information from IHL regarding these beneficiaries to determine if they were still enrolled. Information regarding whether these beneficiaries were still enrolled was unavailable at the date of the completion of the actuarial report. The actuary assumed that 80% of these beneficiaries have withdrawn and will request a refund of unused credits on the 10 anniversary of their matriculation. This resulted in a decrease in tuition benefits and expenses payable of approximately \$19 million.

Note 4: Currency Rate Management

Certain investments of MPACT are exposed to continuing fluctuations in currency rates, which are recorded as an adjustment of realized and unrealized gains and losses. MPACT addresses this risk through a controlled program of risk management that includes the use of foreign currency forward exchange contracts accounted for as an investment derivative instrument. A forward exchange contract (or forward contract) is a binding obligation to buy or sell a certain amount of foreign currency at a pre-agreed rate of exchange, on a certain future date. Such contracts are initiated within the guidelines of investment statutes and policies and to mitigate foreign currency risk because resulting gains and losses offset gains and losses on the investment being hedged. MPACT does not hold or issue forward contracts or derivative instruments for trading purposes.

The fair values of the forward contracts were estimated based on the present value of their estimated future cash flows. Australian dollar currency exchange contracts with a negative fair value of approximately \$234,000 and a positive fair value of approximately \$404,000 were held by MPACT at June 30, 2014 and 2013, respectively. These contracts could have been settled by a cash payment or receipt equal to fair value, resulting in associated unrealized gains and losses on these contracts which are recorded as a component of net investment income.

Note 5: Tax Status

The Board of the Program has, based on the opinion of tax counsel, held the view that the Program Fund is exempt from federal income taxation. The Board has taken the position that the Trust Fund is tax-exempt 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. The Administrative Fund, which is a fund of a state agency, is not subject to income taxation under general principles of federal tax law.

When the Small Business Job Protection Act of 1996 became law, Section 529 was added to the Internal Revenue Code of 1986. This code section provides that a “qualified state tuition Program” is exempt from all federal income taxation except that relating to unrelated business

**Mississippi Prepaid Affordable
College Tuition Program
Notes to Financial Statements
June 30, 2014**

income (which is unlikely to apply to MPACT given its current investment policies and because the Program's sources of revenue do not include unrelated business income). In March of 1998, the Board received an official ruling from the Internal Revenue Service that MPACT qualifies under Section 529 and is thus exempt from federal taxation. Accordingly, no provision has been made in these financial statements for accrual of income taxes for the years ended June 30, 2014 and 2013.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

College Savings Plans of Mississippi
Mississippi Prepaid Affordable College Tuition Program
Jackson, Mississippi

We have audited, 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, the financial statements of Mississippi Prepaid Affordable College Tuition Program (the Program), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 16, 2015, which contained an "Emphasis of Matter" paragraph regarding the entity reflected in the financial statements and an "Other Matter" paragraph regarding omission of required supplementary information.

Internal Control Over Financial Reporting

Management of the Program is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Program's internal control to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLC

Jackson, Mississippi
January 16, 2015