Mississippi Affordable College Savings Program

Independent Auditor's Reports and Financial Statements

June 30, 2017

BKD LLP
CPAs & Advisors

Mississippi Affordable College Savings Program
June 30, 2017

Contents

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CPAs & Advisors

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Mississippi Affordable College Savings Program (the Program), which are comprised of the statement of fiduciary net position as of June 30, 2017, and the statement of changes in fiduciary net position 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 Affordable College Savings Program as of June 30, 2017, and the changes in its financial position 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 fiduciary net position and changes in fiduciary net position only for the portion of the fiduciary activities of the State of Mississippi that is attributable to the transactions of the Program. They do not purport to, and do not present fairly, the fiduciary net position of the State of Mississippi as of June 30, 2017, and the changes in its fiduciary net position 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 Matter

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 (GASB), 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.

Accounting principles generally accepted in the United States of America require that the pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2017, 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, LLP

Jackson, Mississippi
November 17, 2017

Mississippi Affordable College Savings Program

Statement of Fiduciary Net Position

June 30, 2017

	3318400000 Trust Fund	3318300000 Administrative Fund	3318500000 Endowment Fund	Total
Assets and Deferred Outflows of Resources				
Cash and cash equivalents	$ 10	$ 44,859	$ 1,000	$ 45,869
Accounts and other receivables	-	20	-	20
Investment securities	212,309,039	-	-	212,309,039
Total assets	212,309,049	44,879	1,000	212,354,928
Deferred outflows of resources	-	40,925	-	40,925
Total assets and deferred outflows of resources	$ 212,309,049	$ 85,804	$ 1,000	$ 212,395,853
Liabilities, Deferred Inflows of Resources and Fiduciary Net Position				
Liabilities				
Accounts and warrants payable	$ -	$ 3,147	$ -	$ 3,147
Payable for securities transactions, redemptions and management fees	41,269	-	-	41,269
Compensated absences	-	11,356	-	11,356
Net pension liability	-	178,625	-	178,625
Total liabilities	41,269	193,128	-	234,397
Deferred inflows of resources	-	475	-	475
Fiduciary net position held in trust	212,267,780	(107,799)	1,000	212,160,981
Total liabilities, deferred inflows of resources and fiduciary net position	$ 212,309,049	$ 85,804	$ 1,000	$ 212,395,853

Mississippi Affordable College Savings Program

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2017

	3318400000 Trust Fund	3318300000 Administrative Fund	3318500000 Endowment Fund	Total
Additions				
Investment earnings				
Interest	$ 297,328	$ 709	$ -	$ 298,037
Dividends	3,517,390	-	-	3,517,390
Net realized gain and net appreciation in fair value of investments	13,449,724	-	-	13,449,724
Subscriptions	20,433,474	-	-	20,433,474
Program manager transfers	-	153,245	-	153,245
Total additions	37,697,916	153,954	-	37,851,870
Deductions				
Redemptions	16,169,594	-	-	16,169,594
Management fees	863,411	-	-	863,411
Salaries and travel	-	145,946	-	145,946
Contractual services	-	19,926	-	19,926
Commodities and supplies	-	291	-	291
Total deductions	17,033,005	166,163	-	17,199,168
Net Increase (Decrease)	20,664,911	(12,209)	-	20,652,702
Fiduciary Net Position, Beginning of Year	191,602,869	(95,590)	1,000	191,508,279
Fiduciary Net Position, End of Year	$ 212,267,780	$ (107,799)	$ 1,000	$ 212,160,981

Note 1: Organization

Mississippi Affordable College Savings Program (MACS or the Program) was created by the 2000 Session of the Mississippi Legislature to assist qualified students in financing costs of attending institutions of higher education, to encourage timely financial planning for higher education, provide a savings program for those persons who wish to save to meet post-secondary educational needs beyond the traditional baccalaureate curriculum and to provide a choice of programs to persons who determine that the overall educational needs of their families are best provided by either a savings trust agreement under MACS or a prepaid tuition contract under Mississippi Prepaid Affordable College Tuition Program (MPACT). MACS operates under the provisions of Mississippi Code Ann., Section 37-155-101 through Section 37-155-125. The administration functions of MACS are delegated to the State of Mississippi Treasury Department (State Treasury). The Program is governed by the 13-member College Savings Plans of Mississippi Board of Directors (the Board) consisting of the following members: the State Treasurer (or designee), the Commissioner of Higher Education (or designee), the Executive Director of the Community and Junior College Board (or designee), the Department of Finance and Administration Executive Director (or designee), one member from each congressional district as appointed by the Governor with the advice and consent of the Senate and four nonvoting advisory members appointed by the Lieutenant Governor and the Speaker of the Mississippi House of Representatives. 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), a subsidiary of Teachers Insurance and Annuity Association of America (TIAA), and the Board entered into a management agreement under which TFI served as Program Manager until June 25, 2017. On June 26, 2017 Intuition College Savings Solution, LLC (Intuition) began serving as Program Administrator. MACS is operated in a manner such that it is exempt from registration as an investment company under the Investment Company Act of 1940.

Contributions to the Program can be made among 10 investment options.

- **Managed Allocation Option**

  Investment Objective. The Managed Allocation Option seeks to match the investment objective and level of risk to the investment horizon by taking into account the beneficiary's current age and the number of years before the beneficiary turns 18 and is expected to enter an eligible educational institution.

  Investment Strategy. Depending on the beneficiary's age, contributions to this investment option will be placed in one of nine age bands, each of which has a different investment objective and investment strategy. The age bands for younger beneficiaries seek a favorable long-term return by investing primarily in mutual funds that primarily invest in equity securities, which may have greater potential for returns than debt securities, but which also have greater risk than debt securities. As a beneficiary nears college age, the age bands invest less in mutual funds that invest primarily in equity securities and invest more heavily in mutual funds that invest in fixed-income securities and in a funding agreement to preserve capital.

- **Aggressive Allocation Option**

  Investment Objective. This investment option seeks a favorable long-term return.

  Investment Strategy. This investment option invests in the same mutual funds and at the same percentages as the Managed Allocation Option age band for beneficiaries aged 0-4 years. This investment option invests primarily in mutual funds that invest primarily in equity securities and, to a lesser extent, in mutual funds that invest primarily in debt securities.

- **Moderate Allocation Option**

  Investment Objective. This investment option seeks moderate growth.

  Investment Strategy. This investment option invests in the same mutual funds and at the same percentages as the Managed Allocation Option age band for beneficiaries aged 9-10 years. This investment option invests in mutual funds that invest primarily in equity securities and in mutual funds that invest primarily in debt securities.

- **Conservative Allocation Option**

  Investment Objective. This investment option seeks a conservative to moderate total return.

  Investment Strategy. This investment option invests in the same mutual funds and at the same percentages as the Managed Allocation Option age band for 15-year-old beneficiaries. This investment option invests primarily in mutual funds that invest primarily in debt securities and, to a lesser extent, in mutual funds that invest primarily in equity securities.

- **Diversified Equity Option**

  Investment Objective. This investment option seeks to provide a favorable long-term return, mainly from capital appreciation.

  Investment Strategy. This investment option invests 100% of its assets in mutual funds that invest primarily in equity securities

- **Fixed Income Option**

  Investment Objective. This investment option seeks to provide a moderate long-term rate of return primarily through current income.

  Investment Strategy. This investment option invests in mutual funds that invest primarily in debt securities.

- **U.S. Large-Cap Stock Index Option**

  Investment Objective. This investment option seeks to provide a favorable long-term total return, mainly through capital appreciation, by investing primarily in a portfolio of equity securities of large domestic companies selected to track U.S. equity markets based on a market index.

  Investment Strategy. This investment option invests in mutual funds that invest primarily in equity securities.

- **International Equity Fund Option**

  Investment Objective. This investment option seeks to provide favorable long-term total return, mainly through capital appreciation, by investing primarily in a portfolio of foreign equity investments based on a market index.

  Investment Strategy. This investment option invests in mutual funds that invest primarily in equity securities.

- **Bond Fund Option**

  Investment Objective. This investment option seeks to provide a favorable long-term total return, mainly from current income, by primarily investing in a portfolio of fixed- income securities that is designed to produce a return that corresponds with the total return of the U.S. investment-grade bond market based on a broad bond index.

  Investment Strategy. This investment option invests in mutual funds that invest primarily in fixed income funds.

- **Guaranteed Option**

  Investment Objective. This investment option seeks to preserve capital and provide a stable return.

  Investment Strategy. The assets in this investment option are allocated to a funding agreement issued by TIAA-CREF Life, which is an affiliate of TFI, to the Board as the policyholder on behalf of the trust. The funding agreement provides a minimum guaranteed rate of return on the amounts allocated to it by the investment option. The minimum effective annual interest rate will be neither less than 1% nor greater than 3% at any time. The guarantee is made by the insurance company to the policyholder, not to account owners. In addition to the guaranteed rate of interest to the policyholder, the funding agreement allows for the possibility that additional interest may be credited as declared periodically by TIAA-CREF Life. The rate of any additional interest is declared in advance for a period of up to 12 months and is not guaranteed for any future periods.

  Effective April 1, 2016, accumulations (including contributions and earnings) under the Funding Agreement for the Guaranteed Option as of March 31, 2016, were credited to

MACS with an effective interest rate of 1.20% and were guaranteed to earn this rate through March 31, 2017, subject to the claims-paying ability of TIAA-CREF Life Insurance Company. Effective April 1, 2017 through March 31, 2018, the rate increased to 1.50%.

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

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

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

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, deferred inflows of resources, liabilities and deferred outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in fiduciary net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Investments

The fair 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 financial statement date.

The value of the TIAA-CREF Life Insurance Company Funding Agreement is based on the principal contributed and interest credited less any amounts withdrawn. The Funding Agreement is considered a nonparticipating, interest-earning investment contract and is accounted for at cost, which approximates fair value. Because it is valued at cost, it is not included in the fair value hierarchy in *Note 6*.

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

The Program's assets are invested in various types of investment securities and in different companies and multiple markets. Investment securities are exposed to several risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the Program's financial statements.

Deferred Outflows/Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources.

Contributions and Withdrawals

Contributions by an account owner are evidenced through the issuance of units in the particular assigned investment option. Contributions received by the Program Manager before the close of trading on the New York Stock Exchange on any business day are credited to the account to which the contribution is made within one business day thereafter. Contributions are invested in units of the assigned investment option on the business day the contribution is credited to the account owner's account. Withdrawals are based on the net asset value calculated for such investment option at the end of the business day on which the Program Manager processes the withdrawal request.

Exchanges

For certain investment options, account balances will automatically be exchanged from one portfolio to another more conservative portfolio as the beneficiary gets older. The transfers of funds between portfolios are referred to as exchanges, age band roll or customer age band restructuring. The amounts of contributions and withdrawals reported in the statement of changes in fiduciary net position do not include these exchanges, as they have no impact on the overall net financial position or changes in net financial position of the Program.

Penalty Fees

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

Tax Status

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

Reporting Entity

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

MACS is comprised of the following three fiduciary funds:

- Trust Fund (Fund 3318400000) includes contributions from MACS’ account owners and serves to acquire, invest and disburse amounts from account owners pursuant to savings trust agreements.

- Administrative Fund (Fund 3318300000) includes administrative fees from MACS for the purpose of administration and marketing of the Program.

- Endowment Fund (Fund 3318500000) includes contributions and donations to MACS and serves to receive and disburse monies as specified by the Board.

Note 3: Management Agreements

For its services as Program Manager from July 1, 2016 through June 25, 2017, TFI and related entities are paid an annual management fee of 0.5% of the average daily net assets of the Program, plus specific investment management fees for the underlying investments in the TIAA-CREF Institutional Mutual Funds. Total management fees earned by TFI and related entities for the year ended June 30, 2017, was $1,122,089, which included $851,113 of fees on average daily net assets of the Program and $270,976 of fees on the underlying Program investments in the TIAA-CREF Institutional Mutual Funds. Fees earned by TFI and related entities on the underlying Program investments were not charged to the Program but were paid by account owners according to the Program management agreements and are reported in the statement of changes in fiduciary net position as customer redemptions.

For its services as Plan Administrator from June 26, 2017 through June 30, 2017, Intuition and related entities are paid an annual administration fee of 0.6% of the average daily net assets of the Program. Total administration fees earned by Intuition and related entities for the year ended June 30, 2017 was $12,298, calculated on the average daily net assets of the Program. In addition to the Plan Administration fee, Intuition is authorized to withdraw an annual paper delivery fee for those plan participants not electing to receive information electronically.

Note 4: Investment Securities

As of June 30, 2017, investment securities consisted of the following:

	Cost	Fair Value
Schwab Mutual Funds		
Treasury Inflation Protected Securities Fund	$ 10,926,562	$ 10,854,164
TIAA-CREF Institutional Mutual Funds		
International Equity Fund	7,083,929	7,054,897
International Equity Index Fund	23,765,319	23,763,311
Small-Cap Blend Index Fund	2,424,030	2,419,721
Large-Cap Value Index Fund	32,118,414	32,084,373
Large-Cap Growth Index Fund	25,211,774	24,897,804
S&P 500 Index Fund	15	15,159
Small-Cap Equity Fund	3,091,169	3,092,771
Bond Index Fund	31,866,222	31,667,982
Short-Term Bond Index Fund	7,416,223	7,408,480
Vanguard Mutual Funds		
REIT Index Fund	11,151,018	10,960,806
High-Yield Corporate Fund	1,694,135	1,701,694
Total International Bond Index Fund	1,701,100	1,693,277
Emerging Markets Stock Index Fund	8,561,970	8,520,959
TIAA-CREF Life Insurance Company Funding Agreement	46,159,351	46,173,641
	$ 213,171,231	$ 212,309,039

At June 30, 2017, the net unrealized depreciation of mutual funds was $862,192, consisting of gross unrealized appreciation of $38,595 and gross unrealized depreciation of $900,787.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MACS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the government and are held by either the counterparty or the counterparty's trust department or agent. The Mississippi Code of 1972, Section 37-155-115(3) requires that all investments be clearly marked to indicate ownership by MACS and, to the extent possible, be registered in the name of MACS. Investments of the Program are entirely uninsured and are held by third parties in the name of MACS for the benefit of account owners.

For deposits, custodial credit risk is the risk that in the event of a bank failure, MACS' deposits may not be returned to it. Deposits of the Program are entirely insured or collateralized with securities.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Credit ratings of the underlying bonds in the bond funds held by MACS consisted of the following at June 30, 2017.

	Vanguard Total International Bond Index Fund	TIAA-CREF Short-Term Bond Index Fund	TIAA-CREF Bond Index Fund	Vanguard High-Yield Corporate Fund	Schwab Treasury Inflation Protection Securities Fund
Credit rating					
AAA	22%	41%	71%	3%	100%
AA	28%	11%	5%	-	-
A	31%	15%	10%	-	-
BBB	19%	23%	14%	6%	-
BB	-	5%	-	46%	-
B or below	-	3%	-	45%	-
Not rated	-	2%	-	-	-
Total	100%	100%	100%	100%	100%

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. MACS does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

The maturities of the underlying bonds in the bond funds held by MACS consisted of the following at June 30, 2017.

	Vanguard Total International Bond Index Fund	TIAA-CREF Short-Term Bond Index Fund	TIAA-CREF Bond Index Fund	Vanguard High-Yield Corporate Fund	Schwab Treasury Inflation Protection Securities Fund
Maturity					
Less than 1 year	1%	23%	2%	6%	-
1-5	40%	66%	43%	27%	39%
6-10	31%	7%	40%	58%	42%
More than 10	28%	4%	15%	9%	19%
Total	100%	100%	100%	100%	100%
Weighted average maturity in years	7.77	1.92	5.97	4.31	7.65

Foreign Currency Risk

Foreign currency and investment risk is the risk that changes in exchange rates that will adversely affect the fair value of investments in foreign securities. The Program does not have any direct investment in foreign fixed income securities. Certain program options allocate assets to underlying mutual funds that are exposed to foreign currency and investment risk. At June 30, 2017, the TIAA-CREF International Equity Fund, the TIAA-CREF International Equity Index Fund, the Vanguard Total International Bond Index Fund and the Vanguard Emerging Markets Stock Index Fund significantly invested in foreign securities.

Note 5: Program Manager Transfers

Expenditures from the Administrative Fund during 2017 were funded through payments to the State Treasury on behalf of MACS by TFI from fees charged to MACS account owners as specified by the Management Agreement.

Note 6: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	$ 166,135,398	$ 166,135,398	$ -	$ -

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. MACS held no Level 2 or Level 3 investments at June 30, 2017.

Note 7: Pension Plan

Plan Description

MACS contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing the Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 601.359.3589 or 1.800.444.PERS or online at http://www.pers.ms.gov.

Benefits Provided

For the cost-sharing plan, participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.00% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.50% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years, or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of 8 years of membership service (4 years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary.

A cost-of-living adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.00% of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.00% compounded for each fiscal year thereafter.

Contributions

Plan provisions and the PERS Board of Trustees' authority to determine contribution rates are established by Mississippi Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature.

Policies for PERS provide for employer and member contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Contribution rates for PERS are established in accordance with actuarial contribution requirements determined through the most recent June 30 annual valuation and adopted by the PERS Board of Trustees. Employer contribution rates consist of an amount for service cost; the amount estimated to finance benefits earned by current members during the year; and an amount for amortization of the unfunded actuarial accrued liability. For determining employer contribution rates, the actuary evaluates the assets of the plan based on a five-year smoothed expected return with 20.00% of a year's excess or shortfall of expected return recognized each year for five years. Contribution rates are determined using the entry age actuarial cost method and include provisions for an annual 3.00% cost-of-living increase calculated according to the terms of the respective plan.

Employees are required to contribute 9.00% of their annual pay. The employer's contractually required contribution rate for the year ended June 30, 2017, was 15.75% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, contributions to the pension plan from MACS were $15,420.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, MACS reported a liability of $178,625 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MACS' proportion of the net pension liability was based on employer contributions to PERS for the plan's fiscal year ended June 30, 2016, relative to the total employer contributions of participating employers to PERS. At June 30, 2016, MACS' proportion was 0.001%, which was consistent with its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, MACS recognized pension expense of $8,864. At June 30, 2017, MACS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 4,983	$ -
Changes of assumptions or other inputs	8,420	475
Net difference between projected and actual earnings on pension plan investments	12,102	-
Contributions subsequent to the measurement date	15,420	-
	$ 40,925	$ 475

At June 30, 2017, MACS reported $15,420 as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2018	$ 8,690
2019	6,542
2020	6,270
2021	3,528
	$ 25,030

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	3.00%
Salary increases	3.75% -19.00%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, set forward one year for males.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2014. The experience report is dated May 4, 2015.

For the year ended June 30, 2016, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016, are summarized in the following table:

Asset Class	Target Allocation Percentage	Long-term Expected Real Rate of Return
U.S. Broad	34%	5.20%
International equity	19%	5.00%
Emerging markets equity	8%	5.45%
Fixed income	20%	0.25%
Real assets	10%	4.00%
Private equity	8%	6.15%
Cash	1%	-0.50%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% at June 30, 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate (9.00%), and that participating employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of MACS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

MACS' proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents MACS' proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75%)
Proportionate share of the net pension liability	$ 229,037	$ 178,625	$ 136,799

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CAFR, which can be obtained at http://www.pers.ms.gov.

Payable to the Pension Plan

At June 30, 2017, MACS has no amounts payable for outstanding contributions to the pension plan required for the year ended June 30, 2017.

Required Supplementary Information

Mississippi Affordable College Savings Program

Schedule of the Employer's Proportionate Share of the Net Pension Liability

	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.001%	0.001%	0.001%	0.001%
Employer's proportionate share of the net pension liability	$ 178,625	$ 154,580	$ 121,382	$ 138,559
Employer's covered-employee payroll	$ 79,441	$ 52,216	$ 75,625	$ 66,926
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	224.9%	296.0%	160.5%	207.0%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%	67.21%	61.02%

Notes to Schedule:
Information above is presented as of the measurement date.

The average expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined as of the beginning of the measurement period decreased from 3.72 years for the 2015 measurement period to 3.48 for the 2016 measurement period.

Information is not currently available for prior years; additional years will be displayed as they become available.

Mississippi Affordable College Savings Program

Schedule of the Employer's Contributions

	2017	2016	2015	2014
Contractually required contribution	$ 15,420	$ 12,512	$ 8,224	$ 11,911
Contributions in relation to the contractually required contribution	15,420	12,512	8,224	11,911
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Employer's covered-employee payroll	$ 97,905	$ 79,441	$ 52,216	$ 75,625
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%	15.75%

Notes to Schedule:
Information above is presented as of the employer's fiscal year.

Information is not currently available for prior years; additional years will be displayed as they become available.

Changes in Assumptions:
In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table Projected to 2016 using Scale BB rather than the RP-2000 Combined Mortality Table Projected, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate-of-return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

In 2016, the assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

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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*

Board of Directors
College Savings Plans of Mississippi
Mississippi Affordable College Savings 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 Affordable College Savings Program (the Program), which comprise the statement of fiduciary net position as of June 30, 2017, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2017, which contained an "Emphasis of Matter" paragraph regarding the entity reflected in the financial statements and "Other Matter" paragraph regarding the omission and inclusion 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 of the financial statements, 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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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, LLP

Jackson, Mississippi
November 17, 2017

Mississippi Prepaid Affordable College Tuition Program

Independent Auditor's Reports and Financial Statements

June 30, 2017

BKD LLP
CPAs & Advisors

Mississippi Prepaid Affordable College Tuition Program

June 30, 2017

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Independent Auditor's Report

Board of Directors
College Savings Plans of Mississippi
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 balance sheet as of June 30, 2017, 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, 2017, 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, 2017, 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 Matter

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 Government Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report of Summarized Comparative Information

We have previously audited the Program's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 November 17, 2017, 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, LLP

Jackson, Mississippi
November 17, 2017

Mississippi Prepaid Affordable College Tuition Program

Balance Sheets

June 30, 2017
(With Summarized Information for 2016)

	2017			
	3317000000 Trust Fund	3317100000 Administrative Fund	Total	2016 Total
Assets and Deferred Outflows of Resources				
Current assets				
Cash and cash equivalents	$ 15,917,231	$ 141,268	$ 16,058,499	$ 10,296,165
Due from transfer agent	1,234,435	-	1,234,435	619,132
Interest and dividends receivable	467,719	-	467,719	428,769
Total current assets	17,619,385	141,268	17,760,653	11,344,066
Noncurrent assets				
Investment securities	302,451,849	-	302,451,849	288,156,953
Total noncurrent assets	302,451,849	-	302,451,849	288,156,953
Deferred outflows of resources	-	300,725	300,725	353,603
Total assets and deferred outflows of resources	$ 320,071,234	$ 441,993	$ 320,513,227	$ 299,854,622
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities				
Warrants payable	$ 296,868	$ 62,947	$ 359,815	$ 169,242
Accounts payable and accruals	1,074,030	59,927	1,133,957	2,068,137
Tuition benefits and expense payable	36,629,767	-	36,629,767	34,863,999
Total current liabilities	38,000,665	122,874	38,123,539	37,101,378
Long-term liabilities				
Tuition benefits and expense payable	410,609,884	-	410,609,884	410,227,595
Compensated absences	-	50,746	50,746	32,019
Net pension liability	-	1,071,750	1,071,750	927,482
Total long-term liabilities	410,609,884	1,122,496	411,732,380	411,187,096
Total liabilities	448,610,549	1,245,370	449,855,919	448,288,474
Deferred inflows of resources	-	2,848	2,848	24,910
Net position				
Unrestricted	(128,539,315)	(806,225)	(129,345,540)	(148,458,762)
Total liabilities, deferred inflows of resources and net position	$ 320,071,234	$ 441,993	$ 320,513,227	$ 299,854,622

Mississippi Prepaid Affordable College Tuition Program

Statements of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2017
(With Summarized Information for 2016)

	2017			
	3317000000 Trust Fund	3317100000 Administrative Fund	Total	2016 Total
Operating Revenues				
Contract income	$ 10,921,354	$ -	$ 10,921,354	$ 12,774,522
Other income	-	-	-	10
Total operating revenues	10,921,354	-	10,921,354	12,774,532
Operating Expenses				
Salaries and travel	-	722,060	722,060	604,746
Contractual services	-	1,225,375	1,225,375	1,269,286
Commodities and supplies	-	17,536	17,536	5,470
Tuition benefits and expense	29,524,078	-	29,524,078	14,423,248
Total operating expenses	29,524,078	1,964,971	31,489,049	16,302,750
Operating Loss	(18,602,724)	(1,964,971)	(20,567,695)	(3,528,218)
Nonoperating Revenues				
Net investment income (loss)	39,680,917	-	39,680,917	(8,858,950)
Transfers	(1,771,221)	1,771,221	-	-
Net other financing sources	37,909,696	1,771,221	39,680,917	(8,858,950)
Net Increase (Decrease) in Net Position	19,306,972	(193,750)	19,113,222	(12,387,168)
Net Position - Beginning of Year	(147,846,287)	(612,475)	(148,458,762)	(136,071,594)
Net Position - End of Year	$ (128,539,315)	$ (806,225)	$ (129,345,540)	$ (148,458,762)

Mississippi Prepaid Affordable College Tuition Program

Statements of Cash Flows

Year Ended June 30, 2017
(With Summarized Information for 2016)

	2017			
	3317000000 Trust Fund	3317100000 Administrative Fund	Total	2016 Total
Operating Activities				
Contract payments received	$ 10,921,354	$ -	$ 10,921,354	$ 12,774,522
Administrative fees and other payments received	-	-	-	10
Cash payments for tuition	(27,406,374)	-	(27,406,374)	(26,526,476)
Cash payments to suppliers for goods and services	-	(1,206,955)	(1,206,955)	(1,190,670)
Cash payments to employees for services	-	(528,249)	(528,249)	(480,589)
Net cash used in operating activities	(16,485,020)	(1,735,204)	(18,220,224)	(15,423,203)
Noncapital Financing Activities				
Operating transfers	(1,600,000)	1,600,000	-	-
Net cash provided by (used in) noncapital financing activities	(1,600,000)	1,600,000	-	-
Investing Activities				
Purchases of investments	(112,731,733)	-	(112,731,733)	(105,919,073)
Sales and maturities of investments	133,034,447	-	133,034,447	114,948,019
Net investment income received	3,679,844	-	3,679,844	4,318,098
Net cash provided by investing activities	23,982,558	-	23,982,558	13,347,044
Increase (Decrease) in Cash and Cash Equivalents	5,897,538	(135,204)	5,762,334	(2,076,159)
Cash and Cash Equivalents, Beginning of Year	10,019,693	276,472	10,296,165	12,372,324
Cash and Cash Equivalents, End of Year	$ 15,917,231	$ 141,268	$ 16,058,499	$ 10,296,165
Reconciliation of Operating Loss to Net Cash Used in Operating Activities				
Operating loss	$ (18,602,724)	$ (1,964,971)	$ (20,567,695)	$ (3,528,218)
Adjustment to reconcile operating loss to net cash used in operating activities				
Increase (decrease) in tuition benefits and expense payable	2,148,057	-	2,148,057	(12,182,056)
Adjustment to net pension expense	-	175,084	175,084	136,350
Increase (decrease) in other liabilities	(30,353)	54,683	24,330	150,721
Net cash used in operating activities	$ (16,485,020)	$ (1,735,204)	$ (18,220,224)	$ (15,423,203)

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

June 30, 2017

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 at any Mississippi public university or community college depending on contract type. 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 and risk premiums. 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 Program is discontinued, 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 16 years (see analysis of sensitivity of net tuition benefits and expenses payable to changes in the assumed rate of return on investments, net of investment expenses 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*. 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 October 1, 2014 are referred to as "Legacy Contracts."

MPACT operates under the provisions of Mississippi Code Ann. (1972), Section 37-155-1 through Section 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 13-member College Savings Plans of Mississippi Board of Directors consisting of the following members: the State Treasurer (or designee), the Commissioner of Higher Education (or designee), the Executive Director of the Community and Junior College Board (or designee), the Department of Finance and Administration Executive Director (or designee), one member from each congressional district as appointed by the Governor with the advice and consent of the Senate and four nonvoting advisory members appointed by the Lieutenant Governor and the Speaker of the Mississippi House of Representatives.

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 3317000000) includes contract tuition payments, interest earnings from investments and disbursements to universities and colleges for tuition.
- Administrative Fund (Fund 3317100000) 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 (GAAP) and standards of the Governmental Accounting Standards Board (GASB).

MPACT distinguishes between operating revenues and expenses from nonoperating 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 nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows 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.

Contract Income

Contract income represents the payments received from contract holders.

Investment Securities

Investments in equity securities with readily determinable fair values, all investments in debt securities, investments in open-end mutual funds and certain investments in interest-earning investment contracts are 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 statements of revenues, expenses and changes in net position include both realized and unrealized gains and losses and dividends and interest.

The value of certain investments is measured at fair value using the net asset value per share (or its equivalent) practical expedient.

The Program provides for investments in various investment securities. In general, investment securities 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 balance sheets.

Deferred Outflows/Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources.

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, 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 Ann. (1972), Section 37-155-9(v)(iii) requires MPACT funds to be deposited in federally insured institutions domiciled in the State of Mississippi or a custodial bank which appears on the State 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, Mississippi 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 (FDIC).

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Program's investments in money market mutual funds, classified as cash equivalents, were rated AAA by Standard and Poor's at June 30, 2017. Other cash equivalents were not rated at June 30, 2017.

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. (1972), Section 37-155-9(v).

Investment securities consisted of the following at June 30:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
U.S. Treasuries	$ 5,982,172	$ 6,532,573	$ 1,661,415	$ 2,425,874
U.S. Agency obligations	17,385,996	17,789,948	16,120,672	17,105,710
Corporate debt securities	12,830,718	13,196,151	10,455,722	11,234,439
Corporate equity securities				
Domestic	120,894,075	156,918,974	127,251,979	146,507,336
Open-ended comingled funds - foreign	62,867,408	59,329,182	60,161,061	56,961,503
Real estate funds	14,539,856	16,470,957	14,210,045	16,305,888
Mortgage and other asset-backed securities	32,575,704	32,214,064	37,152,707	37,616,203
	$ 267,075,929	$ 302,451,849	$ 267,013,601	$ 288,156,953

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. Mississippi Code Ann. (1972), Section 37-155-9(v)(x) requires 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.

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

		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
June 30, 2017					
U.S. Treasuries	$ 6,532,573	$ -	$ -	$ 3,598,907	$ 2,933,666
U.S. Agency obligations	17,789,948	6,489	159,597	3,113,137	14,510,725
Corporate debt securities	13,196,151	-	749,170	5,800,938	6,646,043
Mortgage and other asset-backed securities	32,214,064	-	4,884,010	5,777,106	21,552,948
	$ 69,732,736	$ 6,489	$ 5,792,777	$ 18,290,088	$ 45,643,382
June 30, 2016					
U.S. Treasuries	$ 2,425,874	$ -	$ -	$ -	$ 2,425,874
U.S. Agency obligations	17,105,710	-	229,928	2,698,354	14,177,428
Corporate debt securities	11,234,439	-	1,008,069	3,385,881	6,840,489
Mortgage and other asset-backed securities	37,616,203	-	5,650,454	6,437,160	25,528,589
	$ 68,382,226	$ -	$ 6,888,451	$ 12,521,395	$ 48,972,380

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

Mortgage and other asset-backed securities, including collateralized mortgage obligations (CMOs), 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 CMOs may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. Reductions in interest payments cause a decline in cash flows and, thus, a decline in fair value of the CMO security. Rising interest rates may cause an increase in interest payments, thus an increase in the fair value of the security.

Other asset-backed securities are bonds or notes backed by banks, credit card companies or other credit providers. The originator of the loan or accounts receivables paper sells it to a specially created trust, which repackages it as securities. Similar to CMOs, 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 United States.

	2017	2016
AAA	$ -	$ -
Not rated	17,415,197	17,867,328
	$ 17,415,197	$ 17,867,328

Other Debt Securities

	2017	2016
AAA	$ 9,282,122	$ 94,333
AA	2,934,080	4,717,567
A	9,919,436	8,291,104
BBB	3,089,670	3,485,157
BB	-	-
B	-	-
Not rated	-	-
	$ 25,225,308	$ 16,588,161

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 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 and investment risk relates to adverse effects on the fair value of an investment from changes in foreign exchange rates.

MPACT's investments in individual foreign equities are invested in an open-ended comingled fund of foreign equities of which MPACT owns shares.

Note 3: Tuition Benefits and Expense Payable

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

Actuarially Determined Funding Status

Presented below are the total tuition benefits obligation of the Program, separated by Legacy Contracts and Horizon Contracts. 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 as of June 30, 2017.

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

	Legacy Contracts 2017	Horizon Contracts 2017	Legacy Contracts 2016	Horizon Contracts 2016
Assumptions				
Rate of return on investment	6.90%	6.90%	7.25%	7.25%
Future tuition increases				
4-year universities	5.65%	5.65%	6.00%	6.25%
2-year community colleges	5.15%	5.15%	5.50%	5.75%
Results				
Actuarial value of assets	$ 290,920,434	$ 25,675,966	$ 306,085,437	$ 16,760,182
Payments to be received from installment contract purchases	16,149,467	15,072,567	19,957,703	11,956,923
	307,069,901	40,748,533	326,043,140	28,717,105
APV of tuition benefits and expenses payable - long-term	442,525,400	35,936,285	452,513,010	24,493,210
Net tuition benefits and expenses payable (over) under actuarial value of assets	$ (135,455,499)	$ 4,812,248	$ (126,469,870)	$ 4,223,895
Net assets as percentage of total tuition benefits and expenses payable	69.39%	113.39%	72.05%	117.25%
Tuition benefits and expenses payable, net - includes the following APV of future payments				
Payments to be made for tuition, fees, expenses and contract cancellations for all contracts sold	$ 442,525,400	$ 35,936,285	$ 452,513,010	$ 24,493,210
Payments to be received from installment contract purchases	(16,149,467)	(15,072,567)	(19,957,703)	(11,956,923)
Tuition benefits and expenses payable, net	$ 426,375,933	$ 20,863,718	$ 432,555,307	$ 12,536,287

In accordance with the funding policy adopted by the Board, the Program has implemented an actuarial value of asset method (also known as an asset smoothing method or funding value of asset method). The method spreads investment income above or below the assumed rate of return over a three-year period, subject to a 20% corridor around the market value. This method is intended to reduce the volatility of the annual measurement of the funded status. The Program experienced an investment return above the assumed rate of return in 2017 of approximately $18.9 million, which will be recognized as an increase to the actuarial value of assets at approximately $6.3 million in the current year and the two subsequent years. In 2016, the Program experienced an investment return below the assumed rate of return of approximately $30.6 million, which will be recognized as a reduction to the actuarial value of assets at approximately $10.2 million in years 2016 through 2018.

Sensitivity of Net Tuition Benefits and Expenses Payable to Changes in the Assumed Rate of Return on Investments, Net of Investment Expenses

MPACT's net tuition benefits and expenses payable have been calculated using an assumed rate of return of 6.90%, net of investment expenses of .50%, yielding a net rate of 6.40% for the year ended June 30, 2017. The following table presents MPACT's net tuition benefits and expenses payable calculated using an assumed rate of return, net of investment expenses, 100 basis points higher and 100 basis points lower than the current rate.

	100 Basis Points Decrease (5.40%)	Current Rate (6.40%)	100 Basis Points Increase (7.40%)
Legacy Contracts	$ (161,767,105)	$ (135,455,499)	$ (111,475,055)
Horizon Contracts	400,616	4,812,248	8,540,151
	$ (161,366,489)	$ (130,643,251)	$ (102,934,904)

As described in *Note 1*, the Board of Directors established Legacy Contracts and Horizon Contracts in 2014. Under the funding policy established by the Board, the unfunded liability attributable to Legacy Contracts will not be paid by future Horizon Contract purchases. As noted above, the Legacy plan has a deficit of approximately $135 million as of June 30, 2017. This deficit is expected to grow at the assumed rate of 6.40% per year. The Legacy Plan is projected to be insolvent before the end of the 2026 fiscal year if all assumptions are met. Both the Legacy and Horizon Plans are backed by the full faith and credit of the State of Mississippi.

Change in Actuarial Valuation Assumptions

Valuation Assumptions

Assumed rate of tuition increases and the rate of return on investments were reduced as noted above. These new assumptions resulted in an increase in the funding deficit by approximately $570,000 in the Legacy Plan and an increase in the funding margin by approximately $149,000 in the Horizon Plan.

Note 4: Pension Plan

Plan Description

MPACT contributes to Public Employees' Retirement System (PERS), a cost sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments (COLA) and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing the Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 601.359.3589 or 1.800.444.PERS or online at http://www.pers.ms.gov.

Benefits Provided

For the cost-sharing plan, participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.00% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.50% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary.

A COLA payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.00% of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.00% compounded for each fiscal year thereafter.

Contributions

Plan provisions and the PERS Board of Trustees' authority to determine contribution rates are established by Mississippi Code Ann. (1972), Section 25-11-1 et seq., and may be amended only by the Mississippi Legislature.

Policies for PERS provide for employer and member contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Contribution rates for PERS are established in accordance with actuarial contribution requirements determined through the most recent June 30 annual valuation and adopted by the PERS Board of Trustees. Employer contribution rates consist of an amount for service cost; the amount estimated to finance benefits earned by current members during the year; and an amount for amortization of the unfunded actuarial accrued liability. For determining employer contribution rates, the actuary evaluates the assets of the plan based on a five-year smoothed expected return with 20.00% of a year's excess or shortfall of expected return recognized each year for five years. Contribution rates are determined using the entry age actuarial cost method and include provisions for an annual 3.00% cost-of-living increase calculated according to the terms of the respective plan.

Employees are required to contribute 9.00% of their annual pay. The employer's contractually required contribution rate for the year ended June 30, 2017, was 15.75% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the years ended June 30, 2017 and 2016, contributions to the pension plan from MPACT were $61,928 and $56,415, respectively.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017 and 2016, MPACT reported a liability of $1,071,750 and $927,482, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MPACT's proportion of the net pension liability was based on employer contributions to PERS for the Plan's fiscal year ended June 30, 2016, relative to the total employer contributions of participating employers to PERS. At June 30, 2016, MPACT's proportion was 0.006%, which was consistent with its proportion measured as of June 30, 2015.

For the years ended June 30, 2017 and 2016, MPACT recognized pension expense of $175,084 and $136,350, respectively. At June 30, 2017 and 2016, MPACT reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
June 30, 2017		
Difference between expected and actual experience	$ 29,893	$ -
Net difference between projected and actual earnings on pension plan investments	72,606	-
Changes in assumptions	50,524	2,848
Changes in proportion	85,774	-
Contributions subsequent to the measurement date	61,928	-
	$ 300,725	$ 2,848
June 30, 2016		
Difference between expected and actual experience	$ 21,547	$ -
Net difference between projected and actual earnings on pension plan investments	-	24,910
Changes in assumptions	79,899	-
Changes in proportion	195,742	-
Contributions subsequent to the measurement date	56,415	-
	$ 353,603	$ 24,910

At June 30, 2017, MPACT reported $61,928 as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2018	$ 137,912
2019	39,255
2020	37,611
2021	21,171
	$ 235,949

Actuarial Assumptions

The total pension liability in the June 30, 2016 and 2015, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	3.00%
Salary increases	3.75%-19.00%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, set forward one year for males.

The actuarial assumptions used in the June 30, 2016 and 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2014. The experience report was dated May 4, 2015.

For the years ended June 30, 2016 and 2015, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 and 2015, are summarized in the following table:

Asset Class	Target Allocation Percentage	Long-term Expected Real Rate of Return
U.S. Broad	34%	5.20%
International equity	19%	5.00%
Emerging markets equity	8%	5.45%
Fixed income	20%	0.25%
Real assets	10%	4.00%
Private equity	8%	6.15%
Cash	1%	-0.50%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% at June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate (9.00%), and that participating employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of MPACT's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

MPACT's proportionate share of the net pension liability has been calculated using a discount rate of 7.75% at June 30, 2016. The following presents MPACT's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability	$ 1,374,224	$ 1,071,750	$ 820,795

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CAFR, which can be obtained at http://www.pers.ms.gov.

Payable to the Pension Plan

At June 30, 2017 and 2016, MPACT had no amounts payable for outstanding contributions to the pension plan.

Note 5: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

June 30, 2017

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017				
Investments by fair value level				
U.S. Treasuries	$ 6,532,573	$ 6,532,573	$ -	$ -
U.S. Agency obligations	17,789,948	-	17,789,948	-
Corporate debt securities	13,196,151	-	13,196,151	-
Corporate equity securities				
Domestic	156,918,974	156,918,974	-	-
Mortgage and other asset-backed securities	32,214,064	-	32,214,064	-
	226,651,710	163,451,547	63,200,163	-
Investments measured at the net asset value (NAV) [A]				
Open-ended comingled funds - foreign	59,329,182	-	-	-
Real estate funds	16,470,957	-	-	-
	75,800,139	-	-	-
	$ 302,451,849	$ 163,451,547	$ 63,200,163	$ -

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Investments by fair value level				
U.S. Treasuries	$ 2,425,874	$ 2,425,874	$ -	$ -
U.S. Agency obligations	17,105,710	-	17,105,710	-
Corporate debt securities	11,234,439	-	11,234,439	-
Corporate equity securities				
Domestic	146,507,336	146,507,336	-	-
Mortgage and other asset-backed securities	37,616,203	-	37,616,203	-
	214,889,562	148,933,210	65,956,352	-
Investments measured at the NAV [A]				
Open-ended comingled fund - foreign	56,961,503	-	-	-
Real estate fund	16,305,888	-	-	-
	73,267,391	-	-	-
	$ 288,156,953	$ 148,933,210	$ 65,956,352	$ -

(A) Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. MPACT held no Level 3 securities at June 30, 2017 or 2016.

The valuation method for investments measured at the NAV per share (or its equivalent) is presented below.

		Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
June 30, 2017						
Open-ended comingled funds - foreign (A)	$	59,329,182	$	-	Daily	Up to 30 days
Real estate funds (B)		16,470,957		-	Daily	Up to 60 days
June 30, 2016						
Open-ended comingled funds - foreign (A)		56,961,503	$	-	Daily	Up to 30 days
Real estate funds (B)		16,305,888		-	Daily	Up to 60 days

(A) This category includes two investments in open-ended comingled funds that take both long and short positions, primarily in foreign common stocks.

(B) This category includes three real estate funds that invest primarily in U.S. commercial real estate and timberland. The investment in the timberland fund can be redeemed upon the maturity of the fund. Distributions from the timberland fund will be made as the underlying investments of the funds are liquidated. The U.S. commercial real estate funds have quarterly liquidity availability.

Note 6: 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 in its relationship and position as an agency and instrumentality of the State of Mississippi. The Mississippi statutes which establish the Trust Fund (Section 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 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 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, 2017 or 2016.

Required Supplementary Information

Mississippi Prepaid Affordable College Tuition Program

Schedule of the Employer's Proportionate Share of the Net Pension Liability

	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.006%	0.006%	0.006%	0.003%
Employer's proportionate share of the net pension liability	$ 1,071,750	$ 927,482	$ 728,290	$ 415,678
Employer's covered-employee payroll	358,190	346,229	344,394	181,889
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	299.2%	267.9%	211.5%	228.5%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%	67.21%	61.02%

Notes to Schedule:

Information above is presented as of the measurement date.

The average expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined as of the beginning of the measurement period decreased from 3.72 years for the 2015 measurement period to 3.48 for the 2016 measurement period.

Information is not currently available for prior years; additional years will be displayed as they become available.

Mississippi Prepaid Affordable College Tuition Program

Schedule of the Employer's Contributions

	2017	2016	2015	2014
Contractually required contribution	$ 61,928	$ 56,415	$ 54,531	$ 54,242
Contributions in relation to the contractually required contribution	61,928	56,415	54,531	54,242
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Employer's covered-employee payroll	$ 393,194	$ 358,190	$ 346,229	$ 344,394
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%	15.75%

Notes to Schedule:

Information above is presented as of the employer's fiscal year.

Information is not currently available for prior years; additional years will be displayed as they become available.

Changes in Assumptions:

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table Projected to 2016 using Scale BB rather than the RP-2000 Combined Mortality Table Projected, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate-of-return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

In 2016, the assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

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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*

Board of Directors
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 of America, the financial statements of Mississippi Prepaid Affordable College Tuition Program (the Program), which comprise the balance sheet as of June 30, 2017, 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 November 17, 2017, which contained an "Emphasis of Matter" paragraph regarding the entity reflected in the financial statements and "Other Matter" paragraph regarding the omission and inclusion 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 of the financial statements, 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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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, LLP

Jackson, Mississippi
November 17, 2017