Mississippi Prepaid Affordable College Tuition Program

Independent Auditor’s Reports and Financial Statements

June 30, 2018

BKD
CPAs & Advisors

Mississippi Prepaid Affordable College Tuition Program

June 30, 2018

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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, 2018, and statement 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, 2018, 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 Matters

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, 2018, 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.

As discussed in *Note 6*, in 2018, the Program adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* 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 and other postemployment benefit 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2019, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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
January 3, 2019

Mississippi Prepaid Affordable College Tuition Program

Balance Sheet

June 30, 2018
(With Summarized Information for 2017)

	2018			
	3317000000 Trust Fund	3317100000 Administrative Fund	Total	2017 Total
Assets and Deferred Outflows of Resources				
Current assets				
Cash and cash equivalents	$ 8,647,508	346,906	$ 8,994,414	$ 16,058,499
Due from transfer agent	-	-	-	1,234,435
Interest and dividends receivable	468,763	-	468,763	467,719
Total current assets	9,116,271	346,906	9,463,177	17,760,653
Noncurrent assets				
Investment securities	314,840,093	-	314,840,093	302,451,849
Total noncurrent assets	314,840,093	-	314,840,093	302,451,849
Deferred outflows of resources	-	100,765	100,765	300,725
Total assets and deferred outflows of resources	$ 323,956,364	$ 447,671	$ 324,404,035	$ 320,513,227
Liabilities, Deferred Inflows of Resources and Net Position (Deficit)				
Current liabilities				
Warrants payable	$ 487,097	$ 75,877	$ 562,974	$ 359,815
Accounts payable and accruals	152,370	238,842	391,212	1,133,957
Tuition benefits and expense payable	38,409,055	-	38,409,055	36,629,767
Total current liabilities	39,048,522	314,719	39,363,241	38,123,539
Long-term liabilities				
Tuition benefits and expense payable	396,501,205	-	396,501,205	410,609,884
Compensated absences	-	35,878	35,878	50,746
Net other postemployment benefits liability	-	50,172	50,172	-
Net pension liability	-	997,404	997,404	1,071,750
Total long-term liabilities	396,501,205	1,083,454	397,584,659	411,732,380
Total liabilities	435,549,727	1,398,173	436,947,900	449,855,919
Deferred inflows of resources	-	28,783	28,783	2,848
Net position (deficit)				
Unrestricted	(111,593,363)	(979,285)	(112,572,648)	(129,345,540)
Total liabilities, deferred inflows of resources and net position	$ 323,956,364	$ 447,671	$ 324,404,035	$ 320,513,227

Mississippi Prepaid Affordable College Tuition Program

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2018
(With Summarized Information for 2017)

	2018			
	3317000000 Trust Fund	3317100000 Administrative Fund	Total	2017 Total
Operating Revenues				
Contract income	$ 10,349,235	$ -	$ 10,349,235	$ 10,921,354
Total operating revenues	10,349,235	-	10,349,235	10,921,354
Operating Expenses				
Salaries and travel	-	659,222	659,222	722,060
Contractual services	-	1,227,727	1,227,727	1,225,375
Commodities and supplies	-	21,871	21,871	17,536
Tuition benefits and expense	16,381,655	-	16,381,655	29,524,078
Total operating expenses	16,381,655	1,908,820	18,290,475	31,489,049
Operating Loss	(6,032,420)	(1,908,820)	(7,941,240)	(20,567,695)
Nonoperating Revenues				
Net investment income	24,769,593	-	24,769,593	39,680,917
Transfers	(1,791,221)	1,791,221	-	-
Net other financing sources	22,978,372	1,791,221	24,769,593	39,680,917
Net Increase (Decrease) in Net Position	16,945,952	(117,599)	16,828,353	19,113,222
Net Position - Beginning of Year, as Previously Reported	(128,539,315)	(806,225)	(129,345,540)	(148,458,762)
Cumulative Effect of Change in Accounting Principle	-	(55,461)	(55,461)	-
Net Position - Beginning of Year, as Restated	(128,539,315)	(861,686)	(129,401,001)	(148,458,762)
Net Position - End of Year	$ (111,593,363)	$ (979,285)	$ (112,572,648)	$ (129,345,540)

Mississippi Prepaid Affordable College Tuition Program

Statement of Cash Flows

Year Ended June 30, 2018
(With Summarized Information for 2017)

	2018			
	3317000000 Trust Fund	3317100000 Administrative Fund	Total	2017 Total
Operating Activities				
Contract payments received	$ 10,349,235	$ -	$ 10,349,235	$ 10,921,354
Cash payments for tuition	(28,398,424)	-	(28,398,424)	(27,406,374)
Cash payments to suppliers for goods and services	-	(1,239,561)	(1,239,561)	(1,206,955)
Cash payments to employees for services	-	(517,243)	(517,243)	(528,249)
Net cash used in operating activities	(18,049,189)	(1,756,804)	(19,805,993)	(18,220,224)
Noncapital Financing Activities				
Operating transfers	(1,962,442)	1,962,442	-	-
Net cash provided by (used in) noncapital financing activities	(1,962,442)	1,962,442	-	-
Investing Activities				
Purchases of investments	(122,532,919)	-	(122,532,919)	(112,731,733)
Sales and maturities of investments	131,444,881	-	131,444,881	133,034,447
Net investment income received	3,829,946	-	3,829,946	3,679,844
Net cash provided by investing activities	12,741,908	-	12,741,908	23,982,558
Increase (Decrease) in Cash and Cash Equivalents	(7,269,723)	205,638	(7,064,085)	5,762,334
Cash and Cash Equivalents, Beginning of Year	15,917,231	141,268	16,058,499	10,296,165
Cash and Cash Equivalents, End of Year	$ 8,647,508	$ 346,906	$ 8,994,414	$ 16,058,499
Reconciliation of Operating Loss to Net Cash Used in Operating Activities				
Operating loss	$ (6,032,420)	$ (1,908,820)	$ (7,941,240)	$ (20,567,695)
Adjustment to reconcile operating loss to net cash used in operating activities				
Increase (decrease) in tuition benefits and expense payable	(12,329,391)	-	(12,329,391)	2,148,057
Adjustment to net pension expense	-	146,689	146,689	175,084
Adjustment to net OPEB expense	-	(429)	(429)	-
Increase (decrease) in other liabilities	312,622	5,756	318,378	24,330
Net cash used in operating activities	$ (18,049,189)	$ (1,756,804)	$ (19,805,993)	$ (18,220,224)

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

June 30, 2018

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 17 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.

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

June 30, 2018

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.

Prior Year Comparative Totals

The financial statements include certain prior year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a complete presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Plan's 2017 financial statements from which the information was derived.

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 statement 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 statement 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.

Mississippi Prepaid Affordable College Tuition Program

Notes to Financial Statements

June 30, 2018

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 reporting periods are reported as deferred outflows of resources and deferred inflows of resources. At June 30, 2018 and 2017, deferred outflows of resources and deferred inflows of resources were comprised of the following:

	Deferred Outflows of Resources	
	2018	**2017**
Pension plan (*Note 4)*	$ 98,626	$ 300,725
OPEB plan (*Note 5)*	2,139	-
	$ 100,765	$ 300,725

	Deferred Inflows of Resources	
	2018	**2017**
Pension plan (*Note 4)*	$ 21,784	$ 2,848
OPEB plan (*Note 5)*	6,999	-
	$ 28,783	$ 2,848

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Mississippi (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Cost-Sharing Defined Benefit Other Postemployment Benefit Plan

MPACT participates in a cost-sharing multiple-employer defined benefit other postemployment benefit plan, the State of Mississippi State and School Employees' Life and Health Insurance Plan, (the OPEB Plan). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2018. Other cash equivalents were not rated at June 30, 2018.

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:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
U.S. Treasuries	$ 2,674,920	$ 3,335,576	$ 5,982,172	$ 6,532,573
U.S. Agency obligations	23,262,956	23,072,353	17,385,996	17,789,948
Corporate debt securities	15,773,656	15,525,252	12,830,718	13,196,151
Corporate equity securities				
Domestic	124,759,586	160,868,032	120,894,075	156,918,974
Open-ended comingled funds - foreign	64,178,927	60,164,844	62,867,408	59,329,182
Real estate funds	14,969,126	17,019,231	14,539,856	16,470,957
Mortgage and other asset-backed securities	36,115,597	34,854,805	32,575,704	32,214,064
	$ 281,734,768	$ 314,840,093	$ 267,075,929	$ 302,451,849

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, 2018					
U.S. Treasuries	$ 3,335,576	$ -	$ -	$ -	$ 3,335,576
U.S. Agency obligations	23,072,353	70,226	1,240,476	5,378,792	16,382,859
Corporate debt securities	15,525,252	-	3,297,832	6,863,096	5,364,324
Mortgage and other asset-backed securities	34,854,805	583,346	4,785,310	4,894,961	24,591,188
	$ 76,787,986	$ 653,572	$ 9,323,618	$ 17,136,849	$ 49,673,947
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

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.

	2018	2017
AAA	$ -	$ -
Not rated	20,595,539	17,415,197
	$ 20,595,539	$ 17,415,197

Other Debt Securities

	2018	2017
AAA	$ 5,207,841	$ 9,282,122
AA	2,965,497	2,934,080
A	10,995,077	9,919,436
BBB	4,578,890	3,089,670
BB	-	-
B	-	-
Not rated	-	-
	$ 23,747,305	$ 25,225,308

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 is 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, 2018.

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

	Legacy Contracts 2018	Horizon Contracts 2018	Legacy Contracts 2017	Horizon Contracts 2017
Assumptions				
Rate of return on investment	6.80%	6.80%	6.90%	6.90%
Future tuition increases				
4-year universities	5.50%	5.50%	5.65%	5.65%
2-year community colleges	5.00%	5.00%	5.15%	5.15%
Results				
Actuarial value of assets	$ 278,588,581	$ 35,702,970	$ 290,920,434	$ 25,675,966
Payments to be received from installment contract purchases	12,921,118	18,546,696	16,149,467	15,072,567
	291,509,699	54,249,666	307,069,901	40,748,533
APV of tuition benefits and expenses payable - long-term	418,404,526	47,973,548	442,525,400	35,936,285
Net tuition benefits and expenses payable (over) under actuarial value of assets	$ (126,894,827)	$ 6,276,118	$ (135,455,499)	$ 4,812,248
Net assets as percentage of total tuition benefits and expenses payable	69.67%	113.08%	69.39%	113.39%
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	$ 418,404,526	$ 47,973,548	$ 442,525,400	$ 35,936,285
Payments to be received from installment contract purchases	(12,921,118)	(18,546,696)	(16,149,467)	(15,072,567)
Tuition benefits and expenses payable, net	$ 405,483,408	$ 29,426,852	$ 426,375,933	$ 20,863,718

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 2018 of approximately $4.3 million, which will be recognized as an increase to the actuarial value of assets at approximately $1.4 million in the current year and the two subsequent years. 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 years 2017 through 2019.

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 6.80%, net of investment expenses of .50%, yielding a net rate of 6.30% for the year ended June 30, 2018. 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 (5.30%)	Current Rate (6.30%)	100 Basis Points Increase (7.30%)
Legacy Contracts	$ (150,128,480)	$ (126,894,827)	$ (105,611,221)
Horizon Contracts	457,718	6,276,118	11,218,275
	$ (149,670,762)	$ (120,618,709)	$ (94,392,946)

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 $127 million as of June 30, 2018. This deficit is expected to grow at the assumed rate of 6.30% per year. The Legacy Plan is projected to be insolvent before the end of the 2028 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 a decrease in the funding deficit by approximately $863,000 in the Legacy Plan and an increase in the funding margin by approximately $340,000 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, 2018, 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, 2018 and 2017, contributions to the pension plan from MPACT were $62,130 and $61,928, respectively.

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

At June 30, 2018 and 2017, MPACT reported a liability of $997,404 and $1,071,750, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates. MPACT's proportion of the net pension liability was based on employer contributions to PERS for the Plan's fiscal year ended June 30, 2017, relative to the total employer contributions of participating employers to PERS. At June 30, 2017, MPACT's proportion was 0.006%, which was consistent with its proportion measured as of June 30, 2016.

For the years ended June 30, 2018 and 2017, MPACT recognized pension expense of $70,123 and $175,084, respectively. At June 30, 2018 and 2017, 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, 2018		
Difference between expected and actual experience	$ 14,329	$ 7,278
Net difference between projected and actual earnings on pension plan investments	-	12,806
Changes of assumptions	22,167	1,700
Changes in proportion	-	-
Contributions subsequent to the measurement date	62,130	-
	$ 98,626	$ 21,784
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

At June 30, 2018, MPACT reported $62,130 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, 2019.

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 Ended June 30	Amount
2019	$ 17,348
2020	15,704
2021	927
2022	(19,267)
	$ 14,712

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	3.00%
Salary increases	3.75% -18.50%, 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 2022, set forward one year for males.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The experience report is dated April 18, 2017.

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 years ended June 30, 2017 and 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, 2017, are summarized in the following table:

Asset Class	Target Allocation Percentage	Long-term Expected Real Rate of Return
U.S. Broad	27%	4.60%
International equity	18%	1.50%
Emerging markets equity	4%	4.75%
Global	12%	4.75%
Fixed income	18%	75.00%
Real assets	10%	3.50%
Private equity	8%	5.10%
Emergin debt	2%	2.25%
Cash	1%	0.00%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% at June 30, 2017 and 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 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, 2017. 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	$ 1,307,161	$ 997,404	$ 739,407

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, 2018 and 2017, MPACT had no amounts payable for outstanding contributions to the pension plan.

Note 5: Other Postemployment Benefit Plan

Plan Description

The following brief description of the State of Mississippi State and School Employees' Life and Health Insurance Plan (the OPEB Plan) is provided for general information purposes only. Participants should refer to Title 25 Chapter 15 of the Mississippi statutes as amended or the OPEB Plan Document for more complete information.

The OPEB Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the OPEB Board) administers the OPEB Plan. The OPEB Plan is self-insured and is financed through premiums collected from employers, employees, retirees and COBRA participants. The OPEB Plan is maintained solely for the benefit of eligible employees, dependents and retirees. The OPEB Plan is a fund of the State of Mississippi (the State).

The 14-member OPEB board, which administers the OPEB Plan, is comprised of the Chairman of the Workers' Compensation Commission; the State Personnel Director; the Commissioner of Insurance; the Commissioner of Higher Education; the State Superintendent of Public Education; the Executive Director of the Department of Finance and Administration; the Executive Director of the Mississippi Community College Board; the Executive Director of the Public Employees Retirement System; two appointees of the Governor; the Chairman of the Senate Insurance Committee, or his designee; the Chairman of the House of Representatives Insurance Committee, or his designee; the Chairman of the Senate Appropriations Committee, or his designee; and the Chairman of the House of Representatives' Appropriations Committee, or his designee. The OPEB Board has a fiduciary responsibility to manage the funds of the OPEB Plan. The OPEB Plan maintains a budget approved by the OPEB Board.

Benefits Provided

The OPEB Plan provides for Other Postemployment Benefits (OPEB) as a multiple-employer defined benefit OPEB plan for units of state government, political subdivisions, community colleges and school districts. A trust was created June 28, 2018 for the OPEB Plan and, while no trust was in place for the June 30, 2017 plan year-end, for purposes of comparability for future periods, terminology used herein is based on the plan being a cost-sharing multiple-employer defined benefit OPEB plan. Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between the average cost of providing health care benefits to retirees under age 65 and the average cost of providing health care benefits to all participants when premiums paid by retirees are not age-adjusted.

Contributions

Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The OPEB Board has the sole authority for setting life and health insurance premiums for the OPEB Plan.

Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance will have the full cost of such insurance premium deducted monthly from his state retirement plan check or direct billed for the cost of the premium if the retirement check is insufficient to pay for the premium. If the OPEB Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the OPEB Plan to the State, then the OPEB Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the

OPEB Board may impose a premium surcharge in an amount the actuarially determined to cover the full cost of insurance.

Pursuant to the authority granted by Mississippi Statute, the OPEB Board has the authority to establish and change premium rates for the participants, employers and other contributing entities. An outside consulting actuary advises the OPEB Board regarding changes in premium rates. If premium rates are changed, they generally become effective at the beginning of the next calendar year or next fiscal year.

Plan participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to the OPEB Plan. If the assets of the OPEB Plan were to be exhausted, participants would not be responsible for the OPEB Plan's liabilities.

For the year ended June 30, 2018, contributions to the OPEB Plan from MPACT were $2,139.

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, MPACT reported a liability of $50,172 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. MPACT's proportion of the net OPEB liability was determined by comparing the employer's average monthly employees participating in the Plan with the total average employees participating in the plan in the fiscal year of all employers. This allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by an employee. At June 30, 2017, MPACT's proportion was 0.0064%, which was a decrease of 0.0006% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, MPACT recognized OPEB expense of $1,711. At June 30, 2018, MPACT reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Changes of assumptions or other inputs	$	-	$	2,555
Changes in proportion and differences between MACS's contributions and proportionate share of contributions		-		4,444
Contributions subsequent to the measurement date		2,139		-
	$	2,139	$	6,999

At June 30, 2018, MPACT reported $2,139, as deferred outflows of resources related to OPEB resulting from MPACT contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB at June 30, 2018, will be recognized in OPEB expense as follows:

Year Ending June 30		Amount
2019	$	(1,228)
2020		(1,228)
2021		(1,228)
2022		(1,228)
2023		(1,228)
Thereafter		(859)
	$	(6,999)

Actuarial Methods and Assumptions

Year Ended June 30,	2018	2017
Actuarial valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2017	June 30, 2016
Experience study	April 18, 2017	April 18, 2017
Actuarial assumptions		
Actuarial cost metod	Entry Age Normal	Entry Age Normal
Inflation rate	3.00%	3.00%
Long-term expected rate of return	NA	NA
Discount rate	3.56%	3.01%
Projected cash flows	NA	NA
Projected salary increases	3.25%-18.50%	3.25%-18.50%
Healthcare cost trend rates	7.75% decreasing to 5.00% by 2023	7.75% decreasing to 5.00% by 2023

Both pre-retirement and post-retirement mortality rates were based on the RP 2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, male rates set forward 1 year and adjusted by 106% for males at all ages, and females adjusted to 90% for ages less than 76, 95% for age 76, 105% for age 78 and 110% for ages 79 and greater. Post-disability mortality rates were based on the RP 2014 Disabled Retiree Mortality Table set forward 4 years for males and 3 years for females.

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2016 and June 30, 2017 was based on an average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

Long-term Expected Rate of Return

Since no trust was set up as of June 30, 2017, there is no projection of cash flows for the OPEB Plan and no long-term expected rate of return on plan assets.

Sensitivity of MPACT's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates

MPACT's proportionate share of the net OPEB liability has been calculated using a discount rate of 3.56%. The following presents MPACT's proportionate share of the net OPEB liability calculated using a discount rate 1% higher and 1% lower than the current discount rate.

	1.00% Decrease (2.56%)	Current Discount Rate (3.56%)	1.00% Increase (4.56%)
Proportionate share of the net OPEB liability	$ 51,497	$ 50,172	$ 49,185

MPACT's proportionate share of the net OPEB liability has been calculated using health care trend rates of 7.75% decreasing to 5.00% by 2023. The following presents MPACT's proportionate share of the net OPEB liability calculated using health care cost trend rates 1% higher and 1% lower than the current health care cost rend rates.

	1.00% Decrease	Current Health Care Cost Trend Rates	1.00% Increase
Proportionate share of the net OPEB liability	$ 46,337	$ 50,172	$ 54,550

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB Plan's fiduciary net position is available in the separately issued plan financial report.

Payable to the OPEB Plan

At June 30, 2018, MPACT did not have a payable for any outstanding amounts of contributions to the OPEB Plan.

Note 6: Change in Accounting Principle

In 2018, MPACT changed its method of accounting for its postemployment benefits other than pensions as a result of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which became effective for reporting periods beginning after June 15, 2017.

The impact of the change in accounting principle was to improve accounting and financial reporting for OPEB. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses. The statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Changes made to comply with the adoption of GASB 75 were reported as an adjustment to beginning net position as of July 1, 2017. Beginning net position as of July 1, 2017, was decreased by $55,461 as a result of adoption GASB 75.

Note 7: 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

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, 2018:

	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, 2018				
Investments by fair value level				
U.S. Treasuries	$ 3,335,576	$ 3,335,576	$ -	$ -
U.S. Agency obligations	23,072,353	-	23,072,353	-
Corporate debt securities	15,525,252	-	15,525,252	-
Corporate equity securities				
Domestic	160,868,032	160,868,032	-	-
Mortgage and other asset-backed securities	34,854,805	-	34,854,805	-
	237,656,018	164,203,608	73,452,410	-
Investments measured at the net asset value (NAV) [A]				
Open-ended comingled funds - foreign	60,164,844	-	-	-
Real estate funds	17,019,231	-	-	-
	77,184,075	-	-	-
	$ 314,840,093	$ 164,203,608	$ 73,452,410	$ -

	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 NAV [A]				
Open-ended comingled fund - foreign	59,329,182	-	-	-
Real estate fund	16,470,957	-	-	-
	75,800,139	-	-	-
	$ 302,451,849	$ 163,451,547	$ 63,200,163	$ -

(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, 2018 or 2017.

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, 2018						
Open-ended comingled funds - foreign (A)	$	60,164,844	$	-	Daily	Up to 30 days
Real estate funds (B)		17,019,231		-	Daily	Up to 60 days
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

(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 8: 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, 2018 or 2017.

Required Supplementary Information

Mississippi Prepaid Affordable College Tuition Program

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

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.006%	0.006%	0.006%	0.006%	0.003%
Employer's proportionate share of the net pension liability	$ 997,404	$ 1,071,750	$ 927,482	$ 728,290	$ 415,678
Employer's covered-employee payroll	393,194	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	253.7%	299.2%	267.9%	211.5%	228.5%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	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 3.48 years for the 2016 measurement period to 3.37 for the 2017 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 Pension Contributions

	2018	2017	2016	2015	2014
Contractually required contribution	$ 62,130	$ 61,928	$ 56,145	$ 54,531	$ 54,242
Contributions in relation to the contractually required contribution	62,130	61,928	56,145	54,531	54,242
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Employer's covered-employee payroll	$ 394,476	$ 393,194	$ 356,476	$ 346,229	$ 344,394
Contributions as a percentage of covered-employee payroll	15.75%	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%.

In 2017, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives. In 2017, the wage inflation assumption was reduced from 3.75% to 3.25%. In 2017, withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. Finally, the percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

Changes in Benefit Provisions:

In 2017, the interest rate on employee contributions shall be calculated based on the money market rate as published by The Wall Street Journal on December 31 of each preceding year, with a minimum rate of 1% and a maximum rate of 5%.

Mississippi Prepaid Affordable College Tuition Program

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

		2018		2017
Employer's proportion of the net OPEB liability		0.0064%		0.0070%
Employer's proportionate share of the net OPEB liability	$	50,172	$	57,435
Employer's covered-employee payroll		393,194		358,190
Employer's proportionate share of the net OPEB liability as a percentage of its covered employee payroll		12.8%		16.0%
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%		0.00%

Notes to Schedule:

Information above is presented as of the measurement date.

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

A trust was created June 28, 2018 for the OPEB Plan.

Mississippi Prepaid Affordable College Tuition Program

Schedule of the Employer's OPEB Contributions

	2018	2017
Contractually required contribution	$ 2,139	$ 1,974
Contributions in relation to the contractually required contribution	2,139	1,974
Contribution deficiency (excess)	$ -	$ -
Employer's covered-employee payroll	$ 394,476	$ 393,194
Contributions as a percentage of covered-employee payroll	0.54%	0.50%

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.

BKD
CPAs & Advisors

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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, 2018, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 3, 2019, which contained an "Emphasis of Matters" paragraph regarding the entity reflected in the financial statements and a chance in accounting principles 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
January 3, 2019

BKD
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Board of Directors, Audit Committee and Management
College Savings Plans of Mississippi
Jackson, Mississippi

As part of our audits of the financial statements of Mississippi Prepaid Affordable College Tuition Program (MPACT) and Mississippi Affordable College Savings Program (MACS) [collectively, the Programs] as of and for the year ended June 30, 2018, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under 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

An audit performed 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Programs' significant accounting policies are described in *Note 1* and *Note 2* of the audited financial statements of MPACT and MACS, respectively.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- MPACT – Actuarially determined funding status
- MPACT and MACS – Investment disclosures
- MPACT and MACS – Net pension liability

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- MPACT – Actuarially determined funding status
- MPACT and MACS – Pension plan
- MPACT and MACS – Change in Accounting Principle

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

MPACT and MACS Proposed Audit Adjustments Recorded

- MACS – adjust net presentation of certain Guaranteed Option subscriptions, redemptions and unrealized gains

MPACT and MACS Proposed Audit Adjustments Not Recorded

No matters are reportable.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Disagreements with Management

No matters are reportable.

Difficulties Encountered in Performing the Audit

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letters (attached)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

This communication is intended solely for the information and use of management, the Audit Committee, the Board of Directors and others within the Programs, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

January 3, 2019

Office of the State Treasurer
Lynn Fitch
Treasurer

January 3, 2019

BKD, LLP
Certified Public Accountants
190 East Capitol Street, Suite 500
Jackson, MS 39201-2190

We are providing this letter in connection with your audits of the financial statements of Mississippi Prepaid Affordable College Tuition Program (MPACT) and of and for the years ended June 30, 2018 and 2017. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated July 25, 2018, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

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4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.

   (b) Additional information that you have requested from us for the purpose of the audit.

   (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   (d) All minutes of meetings of the governing body and related committees held through the date of this letter.

   (e) All significant contracts and grants.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets, liabilities or net position.

8. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the MPACT received in communications from employees, customers, regulators, suppliers or others.

10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term <u>related party</u> refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term <u>affiliate</u> refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.

11. Except as reflected in the financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial statements.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating balance agreements.

    (g) Guarantees, whether written or oral, under which the <u>MPACT</u> is contingently liable.

12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

13. We have no reason to believe MPACT owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

14. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.

15. Except as disclosed in the financial statements, we have:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.

16. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

17. With regard to deposit and investment activities:

    (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.

    (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.

    (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

18. With respect to any nonattest services you have provided us during the year, including the preparation of the financial statements from information provided by MPACT:

    (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

    (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    (d) We have evaluated the adequacy of the services performed and any findings that resulted.

19. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.

20. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.

21. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

22. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.

23. We have a process to track the status of audit findings and recommendations.

24. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.

25. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.

26. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events <u>could</u> occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

27. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

28. The supplementary information required by the Governmental Accounting Standards Board, consisting of pension information and other post-employment benefit information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

29. Actuarial assumptions have been approved by the Board of Trustees and such are appropriate for MPACT.

30. Management of MPACT intends to use cash and cash equivalents, accounts receivable, interest receivable and subscription revenue and investment returns in the next year to satisfy current obligations. All other investment securities are intended to be used to settle long-term obligations.

31. Management of MPACT has elected to omit management's discussion and analysis, which is supplementary information required by the Governmental Accounting Standards Board. We understand you will include an emphasis of matter paragraph in your opinion related to this omission.

32. Subsequent to year end, we rebalanced our investment portfolio in order to comply with the applicable investment policies defined in Mississippi Code Section 37-155-9.

Emelia W. Nordan

Emelia Nordan, Treasury Division Director of MPACT/MACS

Jesse Graham

Jesse Graham, Deputy Treasurer

Office of the State Treasurer
Lynn Fitch
Treasurer

January 3, 2019

BKD, LLP
Certified Public Accountants
190 East Capitol Street, Suite 500
Jackson, MS 39201-2190

We are providing this letter in connection with your audits of the financial statements of Mississippi Affordable College Savings Program (MACS) and of and for the years ended June 30, 2018 and 2017. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated July 25, 2018, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.

   (b) Additional information that you have requested from us for the purpose of the audit.

   (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   (d) All minutes of meetings of the governing body and related committees held through the date of this letter.

   (e) All significant contracts and grants.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets, liabilities or net position.

8. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the <u>MACS</u> received in communications from employees, customers, regulators, suppliers or others.

10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.

11. Except as reflected in the financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial statements.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating balance agreements.

    (g) Guarantees, whether written or oral, under which the MACS is contingently liable.

12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

13. We have no reason to believe MACS owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

14. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.

15. Except as disclosed in the financial statements, we have:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.

16. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

17. With regard to deposit and investment activities:

    (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.

    (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.

    (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

18. With respect to any nonattest services you have provided us during the year, including the preparation of the financial statements from information provided by MACS:

    (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

    (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    (d) We have evaluated the adequacy of the services performed and any findings that resulted.

19. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.

20. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.

21. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

22. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.

23. We have a process to track the status of audit findings and recommendations.

24. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.

25. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.

26. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events <u>could</u> occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

27. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

28. The supplementary information required by the Governmental Accounting Standards Board, consisting of pension information and other post-employment benefit information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

29. MACS maintains the following accounting policy exchanges: For each of the Age-based Options, account balances will automatically be exchanged from one portfolio to another more conservative portfolio as the beneficiary gets older. The transfer of funds between portfolios are referred to as "exchanges or "age band rolls." The amounts of contributions and withdrawals reported in the Statement of Changes in Fiduciary Net Assets do not include these exchanges, as they have no impact on the overall position of the program.

30. Management of MACS has elected to omit management's discussion and analysis, which is supplementary information required by the Governmental Accounting Standards Board. We understand you will include an emphasis of matter paragraph in your opinion related to this omission.

Emelia W. Nordan

Emelia Nordan, Treasury Division Director of MPACT/MACS

Jesse Graham

Jesse Graham, Deputy Treasurer