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**Mississippi Prepaid Affordable  
College Tuition Program**

Independent Auditor's Reports and Financial Statements

June 30, 2015



**Mississippi Prepaid Affordable  
College Tuition Program**  
June 30, 2015

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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, 2015, and statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Prepaid Affordable College Tuition Program as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in *Note 1*, the financial statements of the Program are intended to present the financial position, the changes in financial position and cash flows only for the portion of the business-type activities of the State of Mississippi that is attributable to the transactions of the Program. They do not purport to, and do not present fairly, the financial position of the State of Mississippi as of June 30, 2015, 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 1* to the financial statements, in 2015 the Program adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

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

financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Report on Summarized Comparative Information**

We have previously audited the Program's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 March 1, 2016, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

*BKD, LLP*

Jackson, Mississippi  
March 1, 2016

# Mississippi Prepaid Affordable College Tuition Program

## Balance Sheet

June 30, 2015

(With Summarized Information for 2014)

|                                                                    | 2015                        |                                      |                | 2014           |
|--------------------------------------------------------------------|-----------------------------|--------------------------------------|----------------|----------------|
|                                                                    | 3317000000<br>Trust<br>Fund | 3317100000<br>Administrative<br>Fund | Total          | Total          |
| <b>Assets and Deferred Outflows of Resources</b>                   |                             |                                      |                |                |
| Current assets                                                     |                             |                                      |                |                |
| Cash and cash equivalents                                          | \$ 12,154,603               | \$ 217,721                           | \$ 12,372,324  | \$ 7,960,600   |
| Due from transfer agent                                            | 90,033                      | -                                    | 90,033         | 2,552,038      |
| Interest and dividends receivable                                  | 664,617                     | -                                    | 664,617        | 602,319        |
| Total current assets                                               | 12,909,253                  | 217,721                              | 13,126,974     | 11,114,957     |
| Noncurrent assets                                                  |                             |                                      |                |                |
| Investment securities                                              | 309,615,669                 | -                                    | 309,615,669    | 319,381,404    |
| Total noncurrent assets                                            | 309,615,669                 | -                                    | 309,615,669    | 319,381,404    |
| Deferred outflows of resources                                     | -                           | 371,422                              | 371,422        | -              |
| Total assets and deferred outflows of resources                    | \$ 322,524,922              | \$ 589,143                           | \$ 323,114,065 | \$ 330,496,361 |
| <b>Liabilities, Deferred Inflows of Resources and Net Position</b> |                             |                                      |                |                |
| Current liabilities                                                |                             |                                      |                |                |
| Warrants payable                                                   | \$ 288,666                  | \$ 53,894                            | \$ 342,560     | \$ 248,813     |
| Accounts payable and accruals                                      | 571,217                     | 120,159                              | 691,376        | 2,921,102      |
| Fair value of forward exchange contract                            | -                           | -                                    | -              | 234,357        |
| Total current liabilities                                          | 859,883                     | 174,053                              | 1,033,936      | 3,404,272      |
| Long-term liabilities                                              |                             |                                      |                |                |
| Tuition benefits and expense payable                               | 457,273,650                 | -                                    | 457,273,650    | 456,888,659    |
| Compensated absences                                               | -                           | 44,212                               | 44,212         | 40,019         |
| Net pension liability                                              | -                           | 728,290                              | 728,290        | -              |
| Total long-term liabilities                                        | 457,273,650                 | 772,502                              | 458,046,152    | 456,928,678    |
| Total liabilities                                                  | 458,133,533                 | 946,555                              | 459,080,088    | 460,332,950    |
| Deferred inflows of resources                                      | -                           | 105,571                              | 105,571        | -              |
| Net position                                                       |                             |                                      |                |                |
| Unrestricted                                                       | (135,608,611)               | (462,983)                            | (136,071,594)  | (129,836,589)  |
| Total liabilities, deferred inflows of resources and net position  | \$ 322,524,922              | \$ 589,143                           | \$ 323,114,065 | \$ 330,496,361 |

# Mississippi Prepaid Affordable College Tuition Program

## Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2015

(With Summarized Information for 2014)

|                                                                         | 2015             |                     |                  | 2014             |
|-------------------------------------------------------------------------|------------------|---------------------|------------------|------------------|
|                                                                         | 3317000000       | 3317100000          |                  | Total            |
|                                                                         | Trust Fund       | Administrative Fund | Total            |                  |
| <b>Operating Revenues</b>                                               |                  |                     |                  |                  |
| Contract income                                                         | \$ 12,420,917    | \$ -                | \$ 12,420,917    | \$ 5,561,609     |
| Administrative fees                                                     | 799,539          | -                   | 799,539          | 792,961          |
| Other income                                                            | -                | 3                   | 3                | 15,283           |
| Total operating revenues                                                | 13,220,456       | 3                   | 13,220,459       | 6,369,853        |
| <b>Operating Expenses</b>                                               |                  |                     |                  |                  |
| Salaries and travel                                                     | -                | 563,310             | 563,310          | 477,513          |
| Contractual services                                                    | -                | 1,100,169           | 1,100,169        | 946,577          |
| Commodities and supplies                                                | -                | 8,023               | 8,023            | 1,544            |
| Tuition benefits and expense                                            | 25,452,282       | -                   | 25,452,282       | 101,709,425      |
| Total operating expenses                                                | 25,452,282       | 1,671,502           | 27,123,784       | 103,135,059      |
| <b>Operating Loss</b>                                                   | (12,231,826)     | (1,671,499)         | (13,903,325)     | (96,765,206)     |
| <b>Nonoperating Revenues</b>                                            |                  |                     |                  |                  |
| Net investment income                                                   | 8,029,756        | -                   | 8,029,756        | 49,815,522       |
| <b>Transfers</b>                                                        | (1,530,000)      | 1,530,000           | -                | -                |
| Net other financing sources                                             | 6,499,756        | 1,530,000           | 8,029,756        | 49,815,522       |
| <b>Net Increase (Decrease) in Net Position</b>                          | (5,732,070)      | (141,499)           | (5,873,569)      | (46,949,684)     |
| <b>Net Position - Beginning of Year,<br/>as Previously Reported</b>     | (129,876,541)    | 39,952              | (129,836,589)    | (82,886,905)     |
| <b>Cumulative Effect of Change in<br/>Accounting Principle (Note 1)</b> | -                | (361,436)           | (361,436)        | -                |
| <b>Net Position - Beginning of Year,<br/>as Restated</b>                | (129,876,541)    | (321,484)           | (130,198,025)    | (82,886,905)     |
| <b>Net Position - End of Year</b>                                       | \$ (135,608,611) | \$ (462,983)        | \$ (136,071,594) | \$ (129,836,589) |

**Mississippi Prepaid Affordable  
College Tuition Program**  
**Statement of Cash Flows**  
**Year Ended June 30, 2015**  
**(With Summarized Information for 2014)**

|                                                                                  | 2015            |                |                 |                 |
|----------------------------------------------------------------------------------|-----------------|----------------|-----------------|-----------------|
|                                                                                  | 3317000000      | 3317100000     |                 | 2014            |
|                                                                                  | Trust           | Administrative | Total           | Total           |
|                                                                                  | Fund            | Fund           |                 |                 |
| <b>Operating Activities</b>                                                      |                 |                |                 |                 |
| Contract payments received                                                       | \$ 12,420,917   | \$ -           | \$ 12,420,917   | \$ 5,561,609    |
| Administrative fees and other payments received                                  | 799,539         | 3              | 799,542         | 808,244         |
| Cash payments for tuition                                                        | (25,483,355)    | -              | (25,483,355)    | (22,874,333)    |
| Cash payments to suppliers for goods and services                                | -               | (1,099,128)    | (1,099,128)     | (1,013,487)     |
| Cash payments to employees for services                                          | -               | (458,114)      | (458,114)       | (460,474)       |
| Net cash used in operating activities                                            | (12,262,899)    | (1,557,239)    | (13,820,138)    | (17,978,441)    |
| <b>Noncapital Financing Activities</b>                                           |                 |                |                 |                 |
| Operating transfers                                                              | (1,530,000)     | 1,530,000      | -               | -               |
| Net cash provided by (used in) noncapital financing activities                   | (1,530,000)     | 1,530,000      | -               | -               |
| <b>Investing Activities</b>                                                      |                 |                |                 |                 |
| Purchases of investments                                                         | (102,934,641)   | -              | (102,934,641)   | (157,401,212)   |
| Sales and maturities of investments                                              | 115,469,088     | -              | 115,469,088     | 159,181,644     |
| Net investment income received                                                   | 5,697,415       | -              | 5,697,415       | 5,307,678       |
| Net cash provided by investing activities                                        | 18,231,862      | -              | 18,231,862      | 7,088,110       |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                          | 4,438,963       | (27,239)       | 4,411,724       | (10,890,331)    |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                              | 7,715,640       | 244,960        | 7,960,600       | 18,850,931      |
| <b>Cash and Cash Equivalents, End of Year</b>                                    | \$ 12,154,603   | \$ 217,721     | \$ 12,372,324   | \$ 7,960,600    |
| <b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b> |                 |                |                 |                 |
| Operating loss                                                                   | \$ (12,231,826) | \$ (1,671,499) | \$ (13,903,325) | \$ (96,765,206) |
| Adjustment to reconcile operating loss to net cash used in operating activities  |                 |                |                 |                 |
| Increase in tuition benefits and expense payable                                 | 384,991         | -              | 384,991         | 78,850,890      |
| Adjustment to net pension expense                                                | -               | 101,003        | 101,003         | -               |
| Increase (decrease) in other liabilities                                         | (416,064)       | 13,257         | (402,807)       | (64,125)        |
| Net cash used in operating activities                                            | \$ (12,262,899) | \$ (1,557,239) | \$ (13,820,138) | \$ (17,978,441) |

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

June 30, 2015

### 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 Board of Directors determines the Program to be financially infeasible, the Board of Directors may discontinue the Program. Any qualified beneficiary who has been accepted by and is enrolled or is within five years of enrollment in an institution of higher learning or any in-state or out-of-state regionally accredited private four or two year college or university shall be entitled to exercise the complete benefits of the Program. All other contract holders would receive a refund of principal paid into the Program, plus an amount of interest not less than the prevailing rates of interest paid by bank savings accounts.

Due to actual investment earnings being less than the Program assumptions, the Program has operated at a net deficit for the last fourteen 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. 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 thirteen-member College Savings Plans of Mississippi Board of Directors consisting of the following members: the State Treasurer, the Commissioner of Higher Education, the Executive Director of the Community and Junior College Board, the Department of Finance and Administration Executive Director, one member from each congressional district as appointed by the Governor with the advice and consent of the Senate and four nonvoting advisory

# **Mississippi Prepaid Affordable College Tuition Program**

## **Notes to Financial Statements**

### **June 30, 2015**

members appointed by the Lieutenant Governor and the Speaker of the Mississippi House of Representatives.

#### ***Reporting Entity***

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

MPACT is comprised of the following proprietary funds:

- Trust Fund (Fund 3317000000) includes contract tuition payments, interest earnings from investments and disbursements to universities and colleges for tuition.
- Administrative Fund (Fund 3317100000) operates the administrative functions of MPACT.

#### ***Basis of Presentation***

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

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

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred 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.

**Mississippi Prepaid Affordable  
College Tuition Program  
Notes to Financial Statements  
June 30, 2015**

***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 and the change in the actuarially determined present value of future installment payments.

***Investment Securities***

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

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

***Deferred Outflows/Inflows of Resources***

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

***Tuition Benefits and Expense Payable***

Tuition benefits and expense payable represent 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.

# **Mississippi Prepaid Affordable College Tuition Program**

## **Notes to Financial Statements**

**June 30, 2015**

### ***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.

### ***Change in Accounting Principles***

MPACT adopted GASB No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, (GASB 68) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB 71), which revise and establish new accounting and financial reporting requirements for governments that provide their employees with pension benefits. MPACT provides its employees with pension benefits through the Mississippi Public Employees' Retirement System (PERS), a multiple-employer cost-sharing defined benefit retirement program administered by PERS. GASB 68 requires employers participating in multiple-employer, cost-sharing plans, such as PERS, to record their proportionate share, as defined in GASB 68, of PERS' unfunded pension liability. MPACT has no legal obligation to fund this shortfall, nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERS. The cumulative effect of adopting GASB 68 and GASB 71 resulted in a \$361,436 restatement of net position as of July 1, 2014. This restatement decreased previously reported net position. Information regarding PERS' current funding status can be found in their CAFR. Information related to beginning balances for fiscal year 2014 was not available; thus the effects of GASB 68 and GASB 71, including the related pension liability, were not reported on the balance sheet or statement of revenues, expenses and changes in net position for that year.

## **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

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

**June 30, 2015**

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 Poors' at June 30, 2015. Other cash equivalents were not rated at June 30, 2015.

### ***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:

|                                            | <b>2015</b>           |                       | <b>2014</b>           |                       |
|--------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                            | <b>Cost</b>           | <b>Fair Value</b>     | <b>Cost</b>           | <b>Fair Value</b>     |
| U.S. Treasuries and agencies               | \$ 2,319,096          | \$ 2,767,835          | \$ 4,414,424          | \$ 4,693,267          |
| U.S. Agency obligations                    | 32,002,432            | 32,301,381            | 34,270,886            | 34,698,458            |
| Corporate debt securities                  | 21,914,582            | 22,288,187            | 20,705,902            | 21,482,428            |
| Corporate equity securities                |                       |                       |                       |                       |
| Domestic                                   | 133,459,324           | 166,555,953           | 124,921,552           | 167,358,609           |
| Foreign                                    | 51,364,008            | 59,542,309            | 51,216,164            | 66,110,932            |
| Real estate - Timberland Fund              | 3,988,029             | 5,984,371             | 4,034,302             | 5,785,902             |
| Mortgage and other asset-backed securities | 19,755,033            | 20,175,633            | 18,503,006            | 19,251,808            |
|                                            | <u>\$ 264,802,504</u> | <u>\$ 309,615,669</u> | <u>\$ 258,066,236</u> | <u>\$ 319,381,404</u> |

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

June 30, 2015

### *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, 2015 and 2014, are as follows:

|                                            | Investment Maturities (in years) |                 |                     |                      |                      |
|--------------------------------------------|----------------------------------|-----------------|---------------------|----------------------|----------------------|
|                                            | Fair Value                       | Less than 1     | 1 - 5               | 6 - 10               | More than 10         |
| <b>June 30, 2015</b>                       |                                  |                 |                     |                      |                      |
| U.S. Treasuries and agencies               | \$ 2,767,835                     | \$ -            | \$ -                | \$ -                 | \$ 2,767,835         |
| U.S. Agency obligations                    | 32,301,381                       | 2,577           | 760,053             | 2,890,404            | 28,648,347           |
| Corporate debt securities                  | 22,288,187                       | -               | 2,529,671           | 6,554,284            | 13,204,232           |
| Mortgage and other asset-backed securities | 20,175,633                       | -               | 2,997,680           | 5,437,816            | 11,740,137           |
|                                            | <u>\$ 77,533,036</u>             | <u>\$ 2,577</u> | <u>\$ 6,287,404</u> | <u>\$ 14,882,504</u> | <u>\$ 56,360,551</u> |
| <b>June 30, 2014</b>                       |                                  |                 |                     |                      |                      |
| U.S. Treasuries and agencies               | \$ 4,693,267                     | \$ -            | \$ -                | \$ 1,925,160         | \$ 2,768,107         |
| U.S. Agency obligations                    | 34,698,458                       | -               | 443,235             | 2,437,362            | 31,817,861           |
| Corporate debt securities                  | 21,482,428                       | -               | 2,636,289           | 6,424,782            | 12,421,357           |
| Mortgage and other asset-backed securities | 19,251,808                       | -               | 797,397             | 7,047,404            | 11,407,007           |
|                                            | <u>\$ 80,125,961</u>             | <u>\$ -</u>     | <u>\$ 3,876,921</u> | <u>\$ 17,834,708</u> | <u>\$ 58,414,332</u> |

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.

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

June 30, 2015

During 2015 and 2014, the investments in derivatives by MPACT were exclusively in foreign currency exchange contracts (*Note 4*) and asset/liability-based derivatives such as collateralized mortgage obligations and asset-backed securities. MPACT reviews fair values of all securities on a monthly basis, and prices are obtained from recognized pricing sources. Derivative securities are held, in part, to maximize yields.

Mortgage and other asset-backed securities, including collateralized mortgage obligations (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 U.S.

|           | 2015                 | 2014                 |
|-----------|----------------------|----------------------|
| AAA       | \$ -                 | \$ -                 |
| Not rated | 18,614,491           | 16,557,915           |
|           | <u>\$ 18,614,491</u> | <u>\$ 16,557,915</u> |

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

June 30, 2015

### Other Debt Securities

|           | <b>2015</b>          | <b>2014</b>          |
|-----------|----------------------|----------------------|
| AAA       | \$ 1,737,619         | \$ 1,386,130         |
| AA        | 4,128,476            | 5,013,951            |
| A         | 9,140,682            | 6,751,756            |
| BBB       | 3,833,832            | 5,089,584            |
| BB        | -                    | -                    |
| B         | -                    | -                    |
| Not rated | -                    | -                    |
|           | <u>\$ 18,840,609</u> | <u>\$ 18,241,421</u> |

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

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

June 30, 2015

### **Foreign Currency Risk**

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

|                        | <b>2015</b>   |                      | <b>2014</b>   |                      |
|------------------------|---------------|----------------------|---------------|----------------------|
|                        | <b>%</b>      | <b>Fair Value</b>    | <b>%</b>      | <b>Fair Value</b>    |
| Australian Dollars     | 11.4%         | \$ 3,864,769         | 10.6%         | \$ 4,129,097         |
| Euro                   | 25.7%         | 8,717,465            | 25.7%         | 10,040,225           |
| Hong Kong Dollars      | 8.0%          | 2,718,887            | 8.0%          | 3,115,808            |
| Israeli Shekel         | 1.8%          | 595,028              | 1.5%          | 594,130              |
| Japanese Yen           | 10.2%         | 3,457,045            | 9.7%          | 3,768,700            |
| Malaysian Ringgit      | 0.0%          | -                    | 5.0%          | 1,969,931            |
| New Taiwan Dollar      | 0.0%          | -                    | 3.3%          | 1,289,759            |
| Norway/Norwegian Krone | 2.2%          | 738,079              | 0.9%          | 351,737              |
| Singapore Dollars      | 5.2%          | 1,749,068            | 5.3%          | 2,079,378            |
| Sweden/Swedish Krona   | 4.0%          | 1,351,754            | 3.4%          | 1,314,801            |
| Swiss Francs           | 14.9%         | 5,025,304            | 12.8%         | 4,994,401            |
| Pound Sterling         | 16.6%         | 5,604,665            | 13.8%         | 5,396,297            |
|                        | <b>100.0%</b> | <b>\$ 33,822,064</b> | <b>100.0%</b> | <b>\$ 39,044,264</b> |

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

### **Note 3: Tuition Benefits and Expense Payable**

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

### **Actuarially Determined Funding Status**

Presented below are the total tuition benefits obligation of the Program, separated by Legacy Contracts and Horizon Contracts. The standardized measurement is the actuarial present value

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

### June 30, 2015

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

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

|                                                                                                   | <b>Legacy Contracts</b> |                         | <b>Horizon<br/>Contracts</b> |
|---------------------------------------------------------------------------------------------------|-------------------------|-------------------------|------------------------------|
|                                                                                                   | <b>2015</b>             | <b>2014</b>             | <b>2015<sup>(1)</sup></b>    |
| <b>Assumptions</b>                                                                                |                         |                         |                              |
| Rate of return on investment                                                                      | 7.25%                   | 7.50%                   | 7.25%                        |
| Future tuition increases                                                                          |                         |                         |                              |
| 4-year universities                                                                               | 6.25%                   | 6.50%                   | 6.25%                        |
| 2-year community colleges                                                                         | 5.75%                   | 6.00%                   | 5.75%                        |
| <b>Results</b>                                                                                    |                         |                         |                              |
| Actuarial value of assets <sup>(2)</sup>                                                          | \$ 323,856,851          | \$ 327,092,089          | \$ 7,830,100                 |
| APV of tuition benefits and expenses payable - long-term                                          | <u>451,623,142</u>      | <u>456,888,659</u>      | <u>5,650,508</u>             |
| Net tuition benefits and expenses payable (over) under actuarial value of assets                  | <u>\$ (127,766,291)</u> | <u>\$ (129,796,570)</u> | <u>\$ 2,179,592</u>          |
| Net assets as percentage of total tuition benefits and expenses payable                           | <u>71.71%</u>           | <u>71.59%</u>           | <u>138.57%</u>               |
| 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 | \$ 476,528,201          | \$ 488,063,349          | \$ 13,961,773                |
| Payments to be received from installment contract purchases                                       | <u>(24,905,059)</u>     | <u>(31,174,690)</u>     | <u>(8,311,265)</u>           |
| Tuition benefits and expenses payable, net                                                        | <u>\$ 451,623,142</u>   | <u>\$ 456,888,659</u>   | <u>\$ 5,650,508</u>          |

<sup>(1)</sup> Horizon Plan opened effective October 1, 2014.

<sup>(2)</sup> For 2014, actuarial value of assets equaled net assets available for benefits. See changes in actuarial valuation assumptions.

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

June 30, 2015

### ***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, net of investment expenses of 6.75% for the year ended June 30, 2015. 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.

|                   | <b>100 Basis<br/>Points<br/>Decrease<br/>(5.75%)</b> | <b>Current Rate<br/>(6.75%)</b> | <b>100 Basis<br/>Points<br/>Increase<br/>(7.75%)</b> |
|-------------------|------------------------------------------------------|---------------------------------|------------------------------------------------------|
| Legacy Contracts  | \$ (159,880,786)                                     | \$ (127,766,291)                | \$ (98,807,218)                                      |
| Horizon Contracts | 384,074                                              | 2,179,592                       | 3,674,744                                            |
|                   | <u>\$ (159,496,712)</u>                              | <u>\$ (125,586,699)</u>         | <u>\$ (95,132,474)</u>                               |

### ***Change in Actuarial Valuation Assumptions***

#### ***Valuation Assumptions***

Assumed price inflation was reduced by 0.25% from 2.75% to 2.50%, which reduced the assumed rate of return, net of investment expenses, and the assumed rate of tuition increases by 0.25% from 7.00% to 6.75%, net of investment expenses. These new assumptions resulted in an increase in the funding deficit by approximately \$343,000.

#### ***Valuation Methods***

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 below the assumed rate of return in 2015 of approximately \$14.4 million, which will be recognized as a reduction to the actuarial value of assets at approximately \$4.8 million in each of the years 2015, 2016 and 2017.

# **Mississippi Prepaid Affordable College Tuition Program**

## **Notes to Financial Statements**

**June 30, 2015**

### **Note 4: Currency Rate Management**

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

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

### **Note 5: Pension Plan**

#### ***Plan Description***

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

#### ***Benefits Provided***

For the cost-sharing plan, participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.00% of their average compensation for each year of creditable service up to and including 30

# **Mississippi Prepaid Affordable College Tuition Program**

## **Notes to Financial Statements**

### **June 30, 2015**

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

### **Contributions**

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

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

Employees are required to contribute 9.00% of their annual pay. The employer's contractually required contribution rate for the year ended June 30, 2015, was 15.75% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, contributions to the pension plan from MPACT were \$54,351.

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

June 30, 2015

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

At June 30, 2015, MPACT reported a liability of \$728,290 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MPACT's proportion of the net pension liability was based on employer contributions to PERS for the Plan's fiscal year ended June 30, 2014, relative to the total employer contributions of participating employers to PERS. At June 30, 2014, MPACT's proportion was 0.006%, which was an increase of 0.003% from its proportion measured as of June 30, 2013. MPACT actuarially determined pension liability at June 30, 2014 was \$415,678. Information related to beginning balances for fiscal year 2014 was not available, thus the effects of GASB 68 and GASB 71, including the related pension liability, were not reported on the balance sheet or statement of revenues, expenses and changes in net position for that year.

For the year ended June 30, 2015, MPACT recognized pension expense of \$159,292. At June 30, 2015, MPACT reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                     | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|-------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Difference between expected and actual experience                                   | \$ 11,361                                     | \$ -                                         |
| Net difference between projected and actual earnings<br>on pension plan investments | -                                             | 105,571                                      |
| Changes in proportion                                                               | 305,710                                       | -                                            |
| Contributions subsequent to the measurement date                                    | 54,351                                        | -                                            |
|                                                                                     | <u>\$ 371,422</u>                             | <u>\$ 105,571</u>                            |

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

June 30, 2015

At June 30, 2015, MPACT reported \$54,351 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30 | Amount            |
|---------------------|-------------------|
| 2016                | \$ 87,662         |
| 2017                | 87,662            |
| 2018                | 62,569            |
| 2019                | (26,393)          |
|                     | <u>\$ 211,500</u> |

### **Actuarial Assumptions**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions and other inputs:

|                           |                                                                       |
|---------------------------|-----------------------------------------------------------------------|
| Inflation                 | 3.50%                                                                 |
| Salary increases          | 4.25-19.50%, average, including inflation                             |
| Investment rate of return | 8.00%, net of pension plan investment expense,<br>including inflation |

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2012. The experience report was dated June 12, 2013.

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.

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

June 30, 2015

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014, are summarized in the following table:

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

### ***Discount Rate***

The discount rate used to measure the total pension liability was 8.00%. 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.

# Mississippi Prepaid Affordable College Tuition Program

## Notes to Financial Statements

June 30, 2015

### ***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 8.00%. 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.

|                                                  | <b>1% Decrease<br/>(7.00%)</b> | <b>Current<br/>Discount<br/>Rate (8.00%)</b> | <b>1% Increase<br/>(9.00%)</b> |
|--------------------------------------------------|--------------------------------|----------------------------------------------|--------------------------------|
| Proportionate share of the net pension liability | \$ 992,877                     | \$ 728,290                                   | \$ 507,586                     |

### ***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, 2015, MPACT had no amounts payable for outstanding contributions to the pension plan required for the year ended June 30, 2015.

### **Note 6: Tax Status**

The Board of the Program has, based on the opinion of tax counsel, held the view that the Program Fund is exempt from federal income taxation. The Board has taken the position that the Trust Fund is tax-exempt in its relationship and position as an agency and instrumentality of the State of Mississippi. The Mississippi statutes which establish the Trust Fund (Section 37-155-1-27) specify that it is a state "agency and instrumentality" as confirmed by an official Attorney General's opinion. The Administrative Fund, which is a fund of a state agency, is not subject to income taxation under general principles of federal tax law.

When the Small Business Job Protection Act of 1996 became law, Section 529 was added to the Internal Revenue Code of 1986. This code section provides that a "qualified state tuition program" is exempt from all federal income taxation except that relating to unrelated business income (which is unlikely to apply to MPACT given its current investment policies and because the Program's sources of revenue do not include unrelated business income). In March 1998, the Board received an official ruling from the Internal Revenue Service that MPACT qualifies under Section 529 and is thus exempt from federal taxation. Accordingly, no provision has been made in these financial statements for accrual of income taxes for the years ended June 30, 2015 and 2014.

## **Required Supplementary Information**

**Mississippi Prepaid Affordable  
College Tuition Program**  
**Schedule of the Employer's Proportionate Share  
of the Net Pension Liability**

|                                                                                                                | <b>2015</b> | <b>2014</b> |
|----------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Employer's proportion of the net pension liability                                                             | 0.006%      | 0.003%      |
| Employer's proportionate share of the net pension liability                                                    | \$ 728,290  | \$ 415,678  |
| Employer's covered-employee payroll                                                                            | \$ 344,394  | \$ 181,889  |
| Employer's proportionate share of the net pension liability<br>as a percentage of its covered-employee payroll | 211.5%      | 228.5%      |
| Plan fiduciary net position as a percentage of the total pension<br>liability                                  | 67.21%      | 61.02%      |

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.

**Mississippi Prepaid Affordable  
College Tuition Program  
Schedule of the Employer's Contributions**

|                                                                      | <b>2015</b>   | <b>2014</b>   |
|----------------------------------------------------------------------|---------------|---------------|
| Contractually required contribution                                  | \$ 54,531     | \$ 54,242     |
| Contributions in relation to the contractually required contribution | <u>54,531</u> | <u>54,242</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>   | <u>\$ -</u>   |
| Employer's covered-employee payroll                                  | \$ 346,229    | \$ 344,394    |
| Contributions as a percentage of covered-employee payroll            | 15.75%        | 15.75%        |

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.

**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, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 1, 2016, which contained "Emphasis of Matter" paragraphs regarding the entity reflected in the financial statements and a change in accounting principles and "Other Matter" paragraphs 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, we considered the Program's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Program's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### ***Compliance***

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

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

*BKD, LLC*

Jackson, Mississippi  
March 1, 2016