

Mississippi Affordable College Savings Program

Independent Auditor's Reports and Financial Statements

June 30, 2016



Mississippi Affordable College Savings Program
June 30, 2016

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Mississippi Affordable College Savings Program (the Program), which are comprised of a statement of fiduciary net position as of June 30, 2016, and a statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Affordable College Savings Program as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, the financial statements of the Program are intended to present the fiduciary net position and changes in fiduciary net position only for the portion of the fiduciary activities of the State of Mississippi that is attributable to the transactions of the Program. They do not purport to, and do not present fairly, the fiduciary net position of the State of Mississippi as of June 30, 2016, and the changes in its fiduciary net position for the year then ended, in conformity with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

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

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

Report on Summarized Comparative Information

We have previously audited the Program's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 17, 2017, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
January 17, 2017

Mississippi Affordable College Savings Program
Statement of Fiduciary Net Position
June 30, 2016
(With Summarized Information for 2015)

	2016			Total	2015 Total
	331840000 Trust Fund	331830000 Administrative Fund	331850000 Endowment Fund		
Assets and Deferred Outflows of Resources					
Cash and cash equivalents	\$ 130	\$ 42,694	\$ 1,000	\$ 43,824	\$ 50,993
Accounts and other receivables	214,239	10	-	214,249	234,047
Investment securities	191,669,829	-	-	191,669,829	186,389,419
Total assets	191,884,198	42,704	1,000	191,927,902	186,674,459
Deferred outflows of resources	-	29,420	-	29,420	10,118
Total assets and deferred outflows of resources	<u>\$ 191,884,198</u>	<u>\$ 72,124</u>	<u>\$ 1,000</u>	<u>\$ 191,957,322</u>	<u>\$ 186,684,577</u>
Liabilities, Deferred Inflows of Resources and Fiduciary Net Position					
Liabilities					
Accounts and warrants payable	\$ -	\$ 1,682	\$ -	\$ 1,682	\$ 10,282
Payable for securities transactions, redemptions and management fees	281,329	-	-	281,329	367,990
Compensated absences	-	7,301	-	7,301	6,334
Net pension liability	-	154,580	-	154,580	121,382
Total liabilities	281,329	163,563	-	444,892	505,988
Deferred inflows of resources	-	4,151	-	4,151	17,595
Fiduciary net position held in trust	191,602,869	(95,590)	1,000	191,508,279	186,160,994
Total liabilities, deferred inflows of resources and fiduciary net position	<u>\$ 191,884,198</u>	<u>\$ 72,124</u>	<u>\$ 1,000</u>	<u>\$ 191,957,322</u>	<u>\$ 186,684,577</u>

Mississippi Affordable College Savings Program
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2016
(With Summarized Information for 2015)

	2016			Total	2015 Total
	3318400000 Trust Fund	3318300000 Administrative Fund	3318500000 Endowment Fund		
Additions					
Investment earnings					
Interest	\$ 288,134	\$ 575	\$ -	\$ 288,709	\$ 283,711
Dividends	3,324,521	-	-	3,324,521	2,931,340
Net realized gain (loss) and net appreciation (depreciation) in fair value of investments	(430,005)	-	-	(430,005)	1,048,350
Subscriptions	25,059,896	-	-	25,059,896	23,819,910
Program manager transfers	-	153,245	-	153,245	120,000
Total additions	<u>28,242,546</u>	<u>153,820</u>	<u>-</u>	<u>28,396,366</u>	<u>28,203,311</u>
Deductions					
Redemptions	22,112,101	-	-	22,112,101	21,244,625
Management fees	783,013	-	-	783,013	770,907
Salaries and travel	-	113,730	-	113,730	68,561
Contractual services	-	39,142	-	39,142	43,445
Commodities and supplies	-	1,095	-	1,095	129
Total deductions	<u>22,895,114</u>	<u>153,967</u>	<u>-</u>	<u>23,049,081</u>	<u>22,127,667</u>
Net Increase (Decrease)	5,347,432	(147)	-	5,347,285	6,075,644
Fiduciary Net Position, Beginning of Year	<u>186,255,437</u>	<u>(95,443)</u>	<u>1,000</u>	<u>186,160,994</u>	<u>180,085,350</u>
Fiduciary Net Position, End of Year	<u>\$ 191,602,869</u>	<u>\$ (95,590)</u>	<u>\$ 1,000</u>	<u>\$ 191,508,279</u>	<u>\$ 186,160,994</u>

Mississippi Affordable College Savings Program

Notes to Financial Statements

June 30, 2016

Note 1: Organization

Mississippi Affordable College Savings Program (MACS or the Program) was created by the 2000 Session of the Mississippi Legislature to assist qualified students in financing costs of attending institutions of higher education, to encourage timely financial planning for higher education, provide a savings program for those persons who wish to save to meet post-secondary educational needs beyond the traditional baccalaureate curriculum and to provide a choice of programs to persons who determine that the overall educational needs of their families are best provided by either a savings trust agreement under MACS or a prepaid tuition contract under Mississippi Prepaid Affordable College Tuition Program (MPACT). MACS operates under the provisions of Mississippi Code Ann., Section 37-155-101 through Section 37-155-125. The administration functions of MACS are delegated to the State of Mississippi Treasury Department (State Treasury). The Program is governed by the thirteen-member College Savings Plans of Mississippi Board of Directors (the Board) 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 members appointed by the Lieutenant Governor and the Speaker of the Mississippi House of Representatives. The Board has authority to appoint investment managers, adopt resolutions for the administration of the Program and establish investment policies for the Program. TIAA-CREF Tuition Financing, Inc. (TFI), a subsidiary of Teachers Insurance and Annuity Association of America (TIAA), and the Board entered into a management agreement under which TFI serves as Program Manager. MACS is operated in a manner such that it is exempt from registration as an investment company under the Investment Company Act of 1940.

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

- **Managed Allocation Option**

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

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

Mississippi Affordable College Savings Program

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- **Aggressive Allocation Option**

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

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

- **Moderate Allocation Option**

Investment Objective. This investment option seeks moderate growth.

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

- **Conservative Allocation Option**

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

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

- **Diversified Equity Option**

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

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

- **Fixed Income Option**

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

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

- **Guaranteed Option**

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

Mississippi Affordable College Savings Program

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

Effective April 1, 2016, accumulations (including contributions and earnings) under the Funding Agreement for the Guaranteed Option as of March 31, 2016, will be credited to MACS with an effective interest rate of 1.20% and are guaranteed to earn this rate through March 31, 2017, subject to the claims-paying ability of TIAA-CREF Life Insurance Company.

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

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred inflows of resources, liabilities and deferred outflows of resources and disclosure of contingent assets and liabilities at the date of the financial

Mississippi Affordable College Savings Program

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June 30, 2016

statements and the reported amounts of changes in fiduciary net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Investments

The fair value of the investments in mutual funds is based on the net asset values of the funds as of the close of business on the financial statement date.

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

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

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

Deferred Outflows/Inflows of Resources

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

Contributions and Withdrawals

Contributions by an account owner are evidenced through the issuance of units in the particular assigned investment option. Contributions received by the Program Manager before the close of trading on the New York Stock Exchange on any business day are credited to the account to which the contribution is made within one business day thereafter. Contributions are invested in units of the assigned investment option on the business day the contribution is credited to the

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account owner's account. Withdrawals are based on the net asset value calculated for such investment option at the end of the business day on which the Program Manager processes the withdrawal request.

Exchanges

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

Penalty Fees

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

Tax Status

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

Reporting Entity

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

Mississippi Affordable College Savings Program

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MACS is comprised of the following three fiduciary funds:

- Trust Fund (Fund 3318400000) includes contributions from MACS' account owners and serves to acquire, invest and disburse amounts from account owners pursuant to savings trust agreements.
- Administrative Fund (Fund 3318300000) includes administrative fees from MACS for the purpose of administration and marketing of the Program.
- Endowment Fund (Fund 3318500000) includes contributions and donations to MACS and serves to receive and disburse monies as specified by the Board.

Note 3: Management Agreements

For its services as Program Manager, TFI and related entities are paid an annual management fee of 0.5% of the average daily net assets of the Program, plus specific investment management fees for the underlying investments in the TIAA-CREF Institutional Mutual Funds. Total management fees earned by TFI and related entities for the years ended June 30, 2016 and 2015, were \$1,040,593 and \$1,053,500, respectively, which included \$783,013 during 2016 and \$770,907 during 2015 of fees on average daily net assets of the Program and \$257,580 during 2016 and \$282,593 during 2015 of fees on the underlying Program investments in the TIAA-CREF Institutional Mutual Funds. Fees earned by TFI and related entities on the underlying Program investments were not charged to the Program but were paid by account owners according to the Program management agreements and are reported in the statement of changes in fiduciary net position as customer redemptions.

Mississippi Affordable College Savings Program

Notes to Financial Statements

June 30, 2016

Note 4: Investment Securities

As of June 30, 2016 and 2015, investment securities consisted of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
TIAA-CREF Institutional Mutual Funds				
International Equity Fund	\$ 12,523,960	\$ 12,892,617	\$ 5,607,749	\$ 7,359,049
High-Yield Fund	7,809,668	7,324,163	7,224,768	6,941,251
Inflation-Linked Bond Fund	9,838,620	9,877,097	9,482,705	9,168,985
Bond Index Fund	32,709,309	33,978,841	30,616,266	30,768,521
Large-Cap Value Index Fund	18,301,523	26,396,094	16,943,901	25,843,057
Large-Cap Growth Index Fund	16,133,714	27,624,294	15,508,162	27,010,298
Small-Cap Blend Index Fund	1,767,101	2,044,354	1,607,768	2,124,927
Real Estate Securities Fund	8,299,887	11,303,168	7,688,900	9,528,781
Money Market Fund	2,286,500	2,286,500	2,078,054	2,078,054
Small-Cap Equity Fund	2,518,206	2,693,758	2,402,964	2,964,536
International Equity Index Fund	5,461,020	6,267,090	12,132,988	14,178,977
Emerging Markets Equity Index Fund	5,019,632	4,314,667	5,137,165	4,911,149
Short-Term Bond Fund	17,847,956	17,866,501	15,887,748	15,831,505
TIAA-CREF Life Insurance Company Funding Agreement	26,800,686	26,800,685	27,680,312	27,680,329
	<u>\$ 167,317,782</u>	<u>\$ 191,669,829</u>	<u>\$ 159,999,450</u>	<u>\$ 186,389,419</u>

At June 30, 2016, the net unrealized appreciation of mutual funds was \$24,352,047, consisting of gross unrealized appreciation of \$25,542,518 and gross unrealized depreciation of \$1,190,471. At June 30, 2015, the net unrealized appreciation of mutual funds was \$26,389,969, consisting of gross unrealized appreciation of \$27,269,465 and gross unrealized depreciation of \$879,496.

Custodial Credit Risk

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

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Notes to Financial Statements

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

Credit Risk

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

	<u>Inflation-Linked Bond Fund</u>	<u>Short-Term Bond Fund</u>	<u>Bond Index Fund</u>	<u>High-Yield Fund</u>
2016				
Credit rating				
AAA	100%	25%	71%	-
AA	-	12%	5%	-
A	-	20%	11%	-
BBB	-	26%	13%	1%
BB	-	11%	-	45%
B or below	-	5%	-	54%
Not rated	-	1%	-	-
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
2015				
Credit rating				
AAA	100%	32%	71%	-
AA	-	15%	5%	-
A	-	20%	12%	-
BBB	-	24%	12%	1%
BB	-	6%	-	39%
B or below	-	3%	-	60%
Not rated	-	-	-	-
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Interest Rate Risk

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

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

	<u>Inflation-Linked Bond Fund</u>	<u>Short-Term Bond Fund</u>	<u>Bond Index Fund</u>	<u>High-Yield Fund</u>
2016				
Maturity				
Less than 1 year	3%	27%	4%	-
1-5	45%	68%	56%	26%
6-10	40%	5%	25%	69%
More than 10	12%	-	15%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Weighted average maturity in years	5.97	2.50	7.39	7.69
2015				
Maturity				
Less than 1 year	1%	12%	3%	-
1-5	33%	82%	57%	19%
6-10	38%	6%	26%	74%
More than 10	28%	-	14%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Weighted average maturity in years	8.30	2.54	7.41	6.86

Foreign Currency Risk

Foreign currency and investment risk is the risk that changes in exchange rates that will adversely affect the fair value of investments in foreign securities. The Program does not have any direct investment in foreign fixed income securities. Certain program options allocate assets to underlying mutual funds that are exposed to foreign currency and investment risk. At June 30, 2016, the International Equity Fund, the International Equity Index Fund and the Emerging Markets Equity Index Fund significantly invested in foreign securities.

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Notes to Financial Statements

June 30, 2016

Note 5: Program Manager Transfers

Expenditures from the Administrative Fund during 2016 and 2015 were funded through payments to the State Treasury on behalf of MACS by TFI from fees charged to MACS account owners as specified by the Management Agreement.

Note 6: Disclosures About Fair Value of Assets and Liabilities

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Mississippi Affordable College Savings Program

Notes to Financial Statements

June 30, 2016

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Investments by fair value level				
TIAA-CREF Institutional Mutual Funds	\$ 164,869,144	\$ 164,869,144	\$ -	\$ -
June 30, 2015				
Investments by fair value level				
TIAA-CREF Institutional Mutual Funds	158,709,090	158,709,090	-	-

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. MACS held no Level 2 or Level 3 investments at June 30, 2016 or 2015.

Note 7: Pension Plan

Plan Description

MACS contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of

Mississippi Affordable College Savings Program

Notes to Financial Statements

June 30, 2016

Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing the Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 601.359.3589 or 1.800.444.PERS or online at <http://www.pers.ms.gov>.

Benefits Provided

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

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

Contributions

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

Policies for PERS provide for employer and member contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Contribution rates for PERS are established in accordance with actuarial contribution requirements determined through the most recent June 30 annual valuation and adopted by the PERS Board of Trustees. Employer contribution rates consist of an amount for service cost; the amount estimated to finance benefits earned by current members during the year; and an amount for amortization of the unfunded actuarial accrued liability. For determining

Mississippi Affordable College Savings Program

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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, 2016, 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, 2016 and 2015, contributions to the pension plan from MACS were \$12,512 and \$8,224, respectively.

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

At June 30, 2016 and 2015, MACS reported a liability of \$154,580 and \$121,382, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MACS' proportion of the net pension liability was based on employer contributions to PERS for the plan's fiscal year ended June 30, 2015 and 2014, relative to the total employer contributions of participating employers to PERS. At June 30, 2015, MACS' proportion was 0.001%, which was consistent with its proportion measured as of June 30, 2014.

Mississippi Affordable College Savings Program

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For the years ended June 30, 2016 and 2015, MACS recognized pension expense of \$18,424 and \$8,221, respectively. At June 30, MACS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
June 30, 2016		
Difference between expected and actual experience	\$ 3,592	\$ -
Changes of assumptions or other inputs	13,316	-
Net difference between projected and actual earnings on pension plan investments	-	4,151
Contributions subsequent to the measurement date	12,512	-
	\$ 29,420	\$ 4,151
June 30, 2015		
Difference between expected and actual experience	\$ 1,894	\$ -
Net difference between projected and actual earnings on pension plan investments	-	17,595
Contributions subsequent to the measurement date	8,224	-
	\$ 10,118	\$ 17,595

At June 30, 2016 and 2015, MACS reported \$12,512 and \$8,224, respectively, 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, 2017. 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
2017	\$ 4,314
2018	4,165
2019	2,016
2020	2,262
	\$ 12,757

Mississippi Affordable College Savings Program

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June 30, 2016

Actuarial Assumptions

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

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

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

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

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, 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 is dated June 12, 2013.

For the years ended June 30, 2015 and 2104, 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.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 and 2014, are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.75% at June 30, 2015 and 8.00% at June 30, 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate (9.00%), and that participating employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75%)
Proportionate share of the net pension liability	\$ 203,751	\$ 154,580	\$ 113,778

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June 30, 2016

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, 2016, MACS has no amounts payable for outstanding contributions to the pension plan required for the year ended June 30, 2016.

Required Supplementary Information

Mississippi Affordable College Savings Program

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

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

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.

Mississippi Affordable College Savings Program
Schedule of the Employer's Contributions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 12,512	\$ 8,224	\$ 11,911
Contributions in relation to the contractually required contribution	<u>12,512</u>	<u>8,224</u>	<u>11,911</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 79,441	\$ 52,216	\$ 75,625
Contributions as a percentage of covered-employee payroll	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 able 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.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Mississippi Affordable College Savings Program (the Program), which comprise the statement of fiduciary net position as of June 30, 2016, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 17, 2017, which contained an "Emphasis of Matter" paragraph regarding the entity reflected in the financial statements and "Other Matter" paragraph regarding the omission and inclusion of required supplementary information.

Internal Control Over Financial Reporting

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

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

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

Compliance

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

Purpose of this Report

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

BKD, LLP

Jackson, Mississippi
January 17, 2017