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**State of Mississippi
Department of Corrections**

Independent Accountants' Report,
Financial Statements of Funds Selected for Audit and
Schedule of Analysis of Changes in Long-term Obligations
June 30, 2012



State of Mississippi
Department of Corrections
June 30, 2012

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Independent Accountants' Report on Financial Statements

Commissioner Christopher B. Epps
State of Mississippi, Department of Corrections
Jackson, Mississippi

We have audited the accompanying financial statements of the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the General Support Contingency Fund, the Community Service Revolving Fund, the Medical Fund, the Medical Contingency Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, the Regional Prison Contingency Fund and the Local Confinement Fund of the State of Mississippi, Department of Corrections (MDOC) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of MDOC's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in *Note 1*, the financial statements present only the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the General Support Contingency Fund, the Community Service Revolving Fund, the Medical Fund, the Medical Contingency Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, the Regional Prison Contingency Fund and the Local Confinement Fund representing funds selected for audit by the State of Mississippi, Office of the State Auditor and do not purport to, and do not present fairly the financial position of MDOC as of June 30, 2012, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the General Support Contingency Fund, the Community Service Revolving Fund, the Medical Fund, the Medical Contingency Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, the Regional Prison Contingency Fund and the Local Confinement Fund of MDOC as of June 30, 2012, and the respective changes in financial positions thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2012, on our consideration of MDOC'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* and should be considered in assessing the results of our audit.

BKD, LLP

October 11, 2012

Governmental Fund Type

Medical Fund	Medical Contingency Fund	Private Prison Fund	Private Prison Contingency Fund	Regional Prison Fund	Regional Prison Contingency Fund	Local Confinement Fund
\$ -	\$ 82,336	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
1,071,696	-	385	-	254,132	-	490,646
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 1,071,696</u>	<u>\$ 82,336</u>	<u>\$ 385</u>	<u>\$ -</u>	<u>\$ 254,132</u>	<u>\$ -</u>	<u>\$ 490,646</u>
\$ 2,223,436	\$ -	\$ -	\$ -	\$ 1,185,381	\$ -	\$ -
2,525	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
43,890	-	-	-	-	-	3,839,305
<u>2,269,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,185,381</u>	<u>-</u>	<u>3,839,305</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	82,336	385	-	-	-	-
<u>(1,198,155)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(931,249)</u>	<u>-</u>	<u>(3,348,659)</u>
<u>(1,198,155)</u>	<u>82,336</u>	<u>385</u>	<u>-</u>	<u>(931,249)</u>	<u>-</u>	<u>(3,348,659)</u>
<u>\$ 1,071,696</u>	<u>\$ 82,336</u>	<u>\$ 385</u>	<u>\$ -</u>	<u>\$ 254,132</u>	<u>\$ -</u>	<u>\$ 490,646</u>

Governmental Fund Type

Medical Fund	Medical Contingency Fund	Private Prison Fund	Private Prison Contingency Fund	Regional Prison Fund	Regional Prison Contingency Fund	Local Confinement Fund
\$ 49,380,516	\$ -	\$ 73,862,095	\$ -	\$ 41,059,658	\$ -	\$ 10,106,299
-	-	-	-	-	-	-
-	-	-	-	-	7,680	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	315,267	-	-	-	-	-
<u>49,380,516</u>	<u>315,267</u>	<u>73,862,095</u>	<u>-</u>	<u>41,059,658</u>	<u>7,680</u>	<u>10,106,299</u>
235,310	-	-	-	-	-	-
-	-	-	-	-	-	-
49,976,822	236,990	63,796,485	731,042	41,342,747	29,620	13,220,170
-	-	-	-	-	-	-
-	-	10,154,991	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>50,212,132</u>	<u>236,990</u>	<u>73,951,476</u>	<u>731,042</u>	<u>41,342,747</u>	<u>29,620</u>	<u>13,220,170</u>
<u>(831,616)</u>	<u>78,277</u>	<u>(89,381)</u>	<u>(731,042)</u>	<u>(283,089)</u>	<u>(21,940)</u>	<u>(3,113,871)</u>
-	-	-	-	-	7,140	-
-	-	-	-	-	-	(234,788)
-	-	-	-	-	-	-
-	-	-	-	-	7,140	(234,788)
(831,616)	78,277	(89,381)	(731,042)	(283,089)	(14,800)	(3,348,659)
(366,539)	4,059	89,766	731,042	(648,160)	14,800	-
<u>\$ (1,198,155)</u>	<u>\$ 82,336</u>	<u>\$ 385</u>	<u>\$ -</u>	<u>\$ (931,249)</u>	<u>\$ -</u>	<u>\$ (3,348,659)</u>

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2012

Note 1: Significant Accounting Policies

Background Information

The State of Mississippi Department of Corrections (MDOC or the Agency), an agency of the State of Mississippi, follows fund accounting with respect to its Inmate Welfare Fund, Area Supervision Fee Fund, General Support Fund, General Support Contingency Fund, Community Service Revolving Fund, Medical Fund, Medical Contingency Fund, Private Prison Fund, Private Prison Contingency Fund, Regional Prison Fund, Regional Prison Contingency Fund and Local Confinement Fund and pursuant to applicable state statutes. The Inmate Welfare Fund is used to account for revenues and other sources received by MDOC through phone and vending commissions, as well as canteen revenues and related expenditures to provide for certain benefits for the inmates. The Area Supervision Fee Fund is used to account for supervision fees paid by parolees and probationers and their subsequent remittance to other designated state treasury funds. The General Support Fund and General Support Contingency Fund are used to account for the general operations of MDOC. The Community Service Revolving Fund is used to supervise parolees. The Medical Fund and Medical Contingency Fund are used to account for expenditures related to yearly health care contracts, specialty health care needs and security for hospitalized inmates. The Private Prison Fund and Private Prison Contingency Fund are used to account for the expenditures paid to private prison entities for the management of the five (5) private prisons. The Regional Prison Fund and Regional Prison Contingency Fund are used to account for the expenditures related to managing and maintaining the twelve (12) regional facilities. The Local Confinement Fund is used to account for the expenditures related to housing inmates in local county jail facilities.

These funds represent funds selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying presentation does not purport to present the financial position and changes in financial position of MDOC.

Basis of Presentation

The accompanying fund financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting*, as issued by the Government Finance Officers Association.

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2012

Fund Accounting

The financial activities of the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the General Support Contingency Fund, the Community Service Revolving Fund, the Medical Fund, the Medical Contingency Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, the Regional Prison Contingency Fund and the Local Confinement Fund are recorded in individual funds and account groups used to report financial position and changes in financial position. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Basis of Accounting/Measurement Focus

The Governmental Fund Type is accounted for on a flow of current financial resources measurement focus. This focus measures financial resources available to the entity in the near future as a result of transactions and events of the fiscal period reported. The modified accrual basis of accounting is utilized. Under this method, revenues are recognized when they become measurable and available, and expenditures are recognized at the time liabilities are incurred.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and other changes in fund balance during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue from phone commission in the Inmate Welfare Fund is recognized in the month the commissions are earned. Revenues from area supervision fees in the Area Supervision Fee Fund are recognized when they are received. Other revenues in the various funds are generally recognized when the revenue is received or appropriated by the Mississippi Legislature.

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2012

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. All short-term, highly liquid investments that are readily convertible to cash (generally with a maturity of three months or less) are considered cash equivalents. At June 30, 2012, there were no cash equivalents.

Appropriations/Allotment Balance

This amount is held in the treasury of the State of Mississippi and is defined as the balance of the Agency's current allotment, which is available to spend for the current fiscal year.

Interfund Receivables/Payables

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due from or due to other funds." Noncurrent portions of interfund receivables/payables are reported as "advances to or advances from other funds."

Accounts Receivable

Accounts receivable are reported net of allowances for uncollectible accounts, where applicable.

Inventories

Inventories consist of food supplies, clothing and maintenance supplies. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Fund Balance – Governmental Funds

The fund balances for MDOC's governmental funds are displayed in five components.

- ***Nonspendable*** – Amounts that are not in a spendable form or are required to be maintained intact, such as inventories.
- ***Restricted*** – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers. Fund balances under the Inmate Welfare Fund, the Area Supervision Fee Fund and the Community Service Revolving Fund are restricted by enabling legislation under Sections 47-5-158, 47-5-1013 and 47-7-49, Miss. Code Ann. (1972), respectively.
- ***Committed*** – Amounts that can be used only for the specific purposes determined by a formal action of the Mississippi Legislature.

State of Mississippi Department of Corrections

Notes to Financial Statements of Funds Selected for Audit

June 30, 2012

- **Assigned** – Amounts intended to be used by the government for specific purposes. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- **Unassigned** – The residual classification for the General Fund and includes all amounts not contained in the other classifications. The unassigned classification is also used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

MDOC considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. MDOC applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Note 2: Cash and Other Deposits

Custodial risk is the risk that in the event of bank failure, a government's deposits may not be returned. The fund's deposit policy for protection of custodial risk is handled under a statewide collateral program. The collateral for public entities' deposits in financial institutions is held by the depository bank in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entities' funds are protected through a collateral pool administered by the State Treasurer. 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 Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Note 3: Defined Benefit Pension Plan

MDOC participates in the Public Employees' Retirement System of Mississippi (PERS) a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS.

During fiscal year 2012, PERS members were required to contribute 9% of their annual covered salary, and MDOC is required to contribute at an actuarially determined rate, which was 12% of annual covered payroll. The contribution requirements of PERS members are established and may

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2012

be amended only by the State of Mississippi Legislature. MDOC's contributions are made at the agency level; therefore, information is not available on contributions by specific funds.

Note 4: Interfund Receivables, Payables and Transfers

Interfund receivables and payables at June 30, 2012, are as follows:

	Interfund Receivables	Interfund Payables
Inmate Welfare Fund		
Canteen Fund	\$ 340,667	\$ -
General Support Fund	-	53,755
Employee Cafeteria Fund	-	2,704
Prison Agricultural Fund	-	75,257
	\$ 340,667	\$ 131,716
Area Supervision Fee Fund		
Community Service Fund	\$ -	\$ 27,316
Training Revolving Fund	-	1,201
Crime Victims Compensation Fund	-	1,501
	\$ -	\$ 30,018
General Support Fund		
State of Mississippi	\$ -	398,800
Mississippi Prison Industries	-	3,351
	\$ -	\$ 402,151
General Support Contingency Fund		
State of Mississippi	\$ 230,596	\$ -
Inmate Welfare Fund	53,755	-
Recycle Program Fund	-	41,103
	\$ 284,351	\$ 41,103
Community Service Revolving Fund		
Mississippi Prison Industries	\$ -	\$ 411
Supervision Fee Fund	27,316	-
	\$ 27,316	\$ 411

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2012

Interfund transfers for the year ended June 30, 2012, are as follows:

	Interfund Transfers Out	Interfund Transfers In
Inmate Welfare Fund		
Telecommunications Equipment Fund	\$ 253,378	\$ -
Prison Agricultural Enterprises Fund	776,361	-
Institution Fund	301,165	-
Employee Cafeteria Fund	23,523	-
Canteen Fund	-	1,049,695
	<u>\$ 1,354,427</u>	<u>\$ 1,049,695</u>
Area Supervision Fee Fund		
Community Service Revolving Fund*	\$ 15,562,518	\$ -
Crime Victims Compensation Fund	764,194	-
Training Revolving Fund	611,356	-
	<u>\$ 16,938,068</u>	<u>\$ -</u>
General Support Fund		
State of Mississippi	\$ -	\$ 234,788
	<u>\$ -</u>	<u>\$ 234,788</u>
General Support Contingency Fund		
State of Mississippi	\$ -	\$ 1,903,769
	<u>\$ -</u>	<u>\$ 1,903,769</u>
Community Service Revolving Fund		
Area Supervision Fund*	\$ -	\$ 15,497,269
	<u>\$ -</u>	<u>\$ 15,497,269</u>
Regional Prison Contingency Fund		
State of Mississippi	\$ -	\$ 7,140
	<u>\$ -</u>	<u>\$ 7,140</u>
Local Confinement Fund		
General Support Fund	\$ 234,788	\$ -
	<u>\$ 234,788</u>	<u>\$ -</u>

*Differences relate to perspective difference resulting from development of statewide CAFR.

Independent Accountants' Report on Schedule of Analysis of Changes in Long-term Obligations

Commissioner Christopher B. Epps
State of Mississippi, Department of Corrections
Jackson, Mississippi

We have audited the accompanying schedule of analysis of changes in long-term obligations of the State of Mississippi, Department of Corrections (MDOC) as of and for the year ended June 30, 2012. This schedule is presented for the purpose of assisting the State of Mississippi in preparation of its annual financial report and is not a required part of the fund financial statements. This schedule is the responsibility of MDOC's management. Our responsibility is to express an opinion on this financial statement 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of analysis of changes in long-term obligations referred to above presents fairly, in all material respects, the balance of and the changes in long-term obligations of MDOC as of and for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2012, on our consideration of MDOC'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* and should be considered in assessing the results of our audit.

BKD, LLP

October 11, 2012

State of Mississippi
Department of Corrections
Schedule of Analysis of Changes in Long-term Obligations
Year Ended June 30, 2012

Governmental Activities Liability Category	Balance as of June 30, 2011	Additions	Deletions	Balance as of June 30, 2012
Accrued compensated absences	\$ 21,745,898	\$ 12,842,517	\$ 10,428,045	\$ 24,160,370
Capital lease obligations	480,867	1,436,922	329,134	1,588,655
Bonds and notes payable	<u>211,701,435</u>	<u>-</u>	<u>789,462</u>	<u>210,911,973</u>
	<u>\$ 233,928,200</u>	<u>\$ 14,279,439</u>	<u>\$ 11,546,641</u>	<u>\$ 236,660,998</u>

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in Long-term Obligations
June 30, 2012

Note 1: Summary of Significant Accounting Policies

Bond and Note Premiums/Discounts

Bond and note proceeds, premiums and discounts are reported as an other financing source or use in the governmental fund financial statements. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures in governmental funds. In the government-wide and proprietary fund financial statements, bond and note premiums and discounts, as well as issuance costs and refunding charges (the difference between the carrying amount of redeemed/defeased debt and its reacquisition price), are deferred and amortized over the life of the bonds and notes using the straight-line method. Bonds and notes payable are reported exclusive of the applicable unamortized bond and note premium, discount or refunding charge, while bond and note issuance costs are reported as deferred charges.

Accumulated Compensated Absences

State law authorizes payment for a maximum of 30 days accrued personal leave in a lump sum upon termination of employment. No payment is authorized for accrued major medical leave, unless employees present medical evidence that their physical condition is such that they can no longer work in a capacity of state government. The state's obligation for accumulated unpaid personal leave, up to the maximum of 30 days per employee, is reported as "accrued compensated absences" in the accompanying schedule of analysis of changes in long-term obligations. The state uses the last-in, first-out method of recognizing use of compensated absences. The reported liability applicable to all funds includes the related fringe benefits that the state, as employer, is required to pay when the accrued compensated absences are liquidated. Accumulated unpaid major medical leave is not accrued, because it is not probable that the compensation will be paid in a lump sum other than in the event of severe illness.

Note 2: Other Long-term Liabilities

Compensated Absences

MDOC's liability for compensated absences at June 30, 2012, is \$24,160,370 for governmental activities and \$189,510 for proprietary activities. The report liability includes related fringe benefits and excludes any obligations related to leave accumulations in excess of 30 days per employee.

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Long-term Obligations
June 30, 2012

Bonds and Notes Payable

At June 30, 2012, MDOC's outstanding bonds and notes payable as presented in the governmental activities are as follows:

Purpose	Outstanding Amount	Interest Rates	Final Maturity Date	Original Amount
Equipment	\$ 9,826,973	4.15% - 4.59%	April 2023	\$ 13,531,391
Buildings	<u>201,085,000</u>	3.62% - 5.37%	August 2027	<u>201,085,000</u>
	210,911,973			214,616,391
Premiums	11,636,049			13,114,663
Deferred amount of refunding	<u>(21,629,624)</u>			<u>(24,372,153)</u>
Total notes payable, net	<u>\$ 200,918,398</u>			<u>\$ 203,358,901</u>

Refunding and Defeased Notes

In 2010, as part of an advance refunding, the net proceeds of the refunding issues were deposited in an irrevocable trust to be used solely for satisfying all future scheduled principal and interest payments on the refunded debt. Accordingly, for financial reporting purposes, the defeased notes and the related trust account are not included in the financial statements. At June 30, 2012, \$27,770,000 of outstanding notes (including prior years' refundings) is considered defeased.

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Long-term Obligations
June 30, 2012

At June 30, 2012, future debt service requirements for bonds and notes payable as presented in the governmental activities are as follows:

Year Ending June 30	Principal	Interest
2013	\$ 823,954	\$ 10,567,303
2014	859,956	10,531,301
2015	897,535	10,493,722
2016	6,936,760	10,454,497
2017	13,132,704	10,120,143
2018-2022	75,200,374	40,412,333
2023-2027	91,815,690	18,128,169
2028	<u>21,245,000</u>	<u>557,681</u>
Total	210,911,973	<u>\$ 111,265,149</u>
Premiums	11,636,049	
Deferred amount on refunding	<u>(21,629,624)</u>	
Total debt service, net	<u>\$ 200,918,398</u>	

Capital Lease Commitments

MDOC leases property with varying terms and options. Most leases contain a fiscal funding addendum stating that the lease shall terminate on the last day for the fiscal year if appropriated funds for the ensuing fiscal year are insufficient. However, if renewal is reasonably assured, leases requiring appropriation by the state legislature are considered noncancellable leases for financial reporting purposes.

State of Mississippi
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Notes to Schedule of Analysis of Long-term Obligations
June 30, 2012

At June 30, 2012, assets recorded under capital leases are as follows:

	Governmental Activities	Proprietary Activities
Machinery and equipment	\$ 757,778	\$ 1,123,434
Accumulated depreciation	(391,654)	(367,387)
	<u>\$ 366,124</u>	<u>\$ 756,047</u>

At June 30, 2012, future minimum commitments under capital leases are as follows:

Year Ending June 30	Governmental Activities
2013	\$ 391,383
2014	391,383
2015	309,058
2016	309,058
2017	309,058
	<u>1,709,940</u>
Total minimum lease payments	1,709,940
	<u>(121,285)</u>
Less amount representing interest	(121,285)
Present value of minimum lease payments	<u>\$ 1,588,655</u>

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

Commissioner Christopher B. Epps
State of Mississippi, Department of Corrections
Jackson, Mississippi

We have audited the financial statements of the funds selected for audit consisting of the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the General Support Contingency Fund, the Community Service Revolving Fund, the Medical Fund, the Medical Contingency Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, the Regional Prison Contingency Fund and the Local Confinement Fund of the State of Mississippi, Department of Corrections (MDOC) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 11, 2012, which contained an explanatory paragraph emphasizing a matter regarding the financial statements. We have also audited the schedule of analysis of changes in long-term obligations of MDOC as of and for the year ended June 30, 2012, and have issued our report thereon dated October 11, 2012. We conducted our audits 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.

Internal Control Over Financial Reporting

Management of MDOC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered MDOC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and schedule, but not for the purpose of expressing an opinion on the effectiveness of MDOC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MDOC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 MDOC's financial statements and schedule will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MDOC's financial statements and schedule 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 and schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits 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*.

We also noted certain matters that we reported to MDOC's management in a separate letter dated October 11, 2012.

This report is intended solely for the information and use of the governing body, management and others within MDOC and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 11, 2012

State of Mississippi
Department of Corrections
Schedule of Findings and Responses
Year Ended June 30, 2012

<i>Reference Number</i>	<i>Finding</i>
2012-01	<p><i>Criteria or Specific Requirement</i> – Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.</p> <p><i>Condition</i> – MDOC did not have procedures in place to ensure that all significant year-end liabilities are properly stated in the GAAP reporting financial statements.</p> <p><i>Effect</i> – As a result, the following were noted.</p> <ul style="list-style-type: none">• Unrecorded liabilities in the Inmate Welfare Fund for invoices received after year-end close• Unrecorded liabilities in the Medical Fund invoices for invoices received after year-end close• Unrecorded liabilities in the General Support Contingency Fund for invoices received after year-end close• Overstatement of Regional Prison Fund expenses associated with facilities closed during the fiscal year ended June 30, 2012 <p><i>Cause</i> – MDOC has not designed internal control procedures for proper identification and recording of year-end liabilities.</p> <p><i>Recommendation</i> – MDOC should implement a policy, whereas invoices received after the year-end close and estimated liabilities to be paid from current financial resources are captured for recording in the annual financial statements. Additionally, there should be appropriate review and approval of the liability assessment for inclusion in the GAAP package financial statements.</p> <p><i>View of Responsible Officials and Planned Corrective Actions</i> – Management will implement more thorough procedures in future periods to ensure all material liabilities are identified and recorded.</p>