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MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

AUDIT REPORT

JUNE 30, 2014

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

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COLLINS & BARR, LTD.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS

To the Board of Directors
Mississippi Business Finance Corporation
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying basic financial statements of Mississippi Business Finance Corporation, a component unit of the State of Mississippi, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and statements of cash flows for the years 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 audits. 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. 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 basic financial statements referred to above present fairly, in all material respects, the respective net position of Mississippi Business Finance Corporation, as of June 30, 2014 and 2013, and the respective changes in net position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014, on our consideration of Mississippi Business Finance Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Mississippi Business Finance Corporation's internal control over financial reporting and compliance.

Collins & Barn, LTD.

September 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Mississippi Business Finance Corporation's ("MBFC," the "Corporation") audit report presents our discussion and analysis of the Corporation's financial performance during the fiscal years that ended on June 30, 2014 and 2013. Please read it in conjunction with the Corporation's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

MBFC is a not-for-profit public corporation that administers a variety of finance programs designed to assist business and industry in locating or expanding in the State of Mississippi (the "State"). The Corporation was established in 1983 pursuant to MS Code Section 57-10-167. MBFC works with other public entities and the private sector to coordinate efforts to stimulate both commercial and industrial development.

MBFC is an independent public body and the powers conferred upon the Corporation are vested in the Board of Directors of MBFC ("Board") and in no other state agency (House Bill 781, 2001 Regular Session). MBFC has been determined to be a component unit of the State.

Funds are accounting devices that state and local political subdivisions use to keep track of specific sources of funding and spending for particular purposes. Activities the political subdivision operates like businesses are accounted for in proprietary funds. Proprietary fund reporting focuses on the determination of net position, operating income, changes in net position, and cash flows. The proprietary fund category includes enterprise funds. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. All of the activities of the Corporation are recorded in one enterprise fund.

GASB Statement No. 34 and related pronouncements are written from the perspective of general purpose governments – states, cities, counties, towns, and villages. However, the Corporation and many political subdivisions are special purpose governments. These political subdivisions are legally separate entities and generally provide a limited set of services or programs. Special purpose governments engaged only in business-type activities should present only the financial statements required for enterprise funds under the provisions of GASB Statement No. 34 and related pronouncements.

MISSISSIPPI BUSINESS FINANCE CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the special purpose governments described in the previous paragraph, basic financial statements consist of:

1. Statement of net position,
2. Statement of revenues, expenses, and changes in net position,
3. Statement of cash flows.

The financial statements also include notes to the financial statements that explain some of the information in the financial statements and provide more detailed data. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities, both financial and capital, and short-term and long-term are included in the financial statements. In addition, all revenues and expenses during the year are included in the financial statements using the accrual method of accounting, regardless of when cash is received or paid.

FINANCIAL ANALYSIS

Changes in Net Position

Net position increased \$339,112 during the year ended June 30, 2014 as compared to an increase of \$148,460 in 2013 and a decrease of \$72,688 in 2012. The primary reasons for the differences in changes in net position are the fluctuations in program participation from year to year and net earnings on investments.

Operating revenues consist of program fees and administrative fees. Program fees earned by the Corporation decreased to \$483,876 in 2014 from \$546,210 in 2013. Program fees of \$398,067 were earned in 2012. Program fees earned depend upon the level of participation in the various finance programs administered by the Corporation. Participation varies from year to year based on the level of economic development in the State and various other economic factors.

MBFC provides office facilities and administrative support to the Mississippi Development Bank ("MDB") and MBFC CDE, Inc., both of which are related parties. MBFC recorded administrative fees for these services of \$350,000 for 2014, 2013, and 2012.

Operating expenses totaled \$890,561 in 2014 compared to \$931,569 in 2013. Operating expenses were \$888,734 for 2012.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonoperating revenue for fiscal years 2014, 2013 and 2012 consists of net earnings on investments and an income allocation from MDB. The net earnings on investments for fiscal years 2014, 2013 and 2012 totaled \$345,797, \$133,819 and \$317,979, respectively. The differences between years are primarily due to fluctuations in the yield on the Corporation's investments, including adjustments to market value in each respective year. MBFC recorded a \$300,000 income allocation received from MDB in 2014 and 2013. No income allocation was recorded during the year ended June 30, 2012. The amount of any income allocations is determined by the Board of Directors of MDB.

Nonoperating expenses consist of funding to the Mississippi Development Authority ("MDA"). These expenses totaled \$250,000 for each of the years ended June 30, 2014, 2013 and 2012. The amounts paid to MDA are approved annually by MBFC's Board of Directors.

CHANGES IN NET POSITION

	For the Year Ended June 30,	
	2014	2013
Operating revenues	\$ 833,876	\$ 896,210
Operating expenses	890,561	931,569
Operating loss	(56,685)	(35,359)
Nonoperating revenues (expenses)	395,797	183,819
Change in net position	339,112	148,460
Net position, beginning of year	16,111,358	15,962,898
Net position, end of year	<u>\$ 16,450,470</u>	<u>\$ 16,111,358</u>

MISSISSIPPI BUSINESS FINANCE CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Position

Cash and cash equivalents, investments and interest receivable represent approximately 96% of total assets at June 30, 2014 and over 99% as of 2013 and 2012.

The Corporation provides an allowance for estimated losses on guaranteed loans. The allowance for guaranty losses at June 30, 2014, 2013 and 2012 was recorded at \$60,000.

Net position of the Corporation totaled \$16,450,470 at June 30, 2014 as compared to \$16,111,358 at June 30, 2013 and \$15,962,898 at June 30, 2012.

NET POSITION

	As of June 30,	
	<u>2014</u>	<u>2013</u>
Current assets	\$ 16,548,390	\$ 16,202,571
Noncurrent assets	<u>21,125</u>	<u>28,185</u>
Total assets	<u>16,569,515</u>	<u>16,230,756</u>
Current liabilities	59,045	59,398
Noncurrent liabilities	<u>60,000</u>	<u>60,000</u>
Total liabilities	<u>119,045</u>	<u>119,398</u>
Net position:		
Invested in capital assets	21,125	28,185
Unrestricted	<u>16,429,345</u>	<u>16,083,173</u>
Total net position	<u>\$ 16,450,470</u>	<u>\$ 16,111,358</u>

BASIC FINANCIAL STATEMENTS

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,151,422	\$ 1,075,239
Investments	14,687,981	15,074,470
Accrued interest	58,987	52,862
Due from related party	<u>650,000</u>	<u>-</u>
Total current assets	16,548,390	16,202,571
Capital assets:		
Property and equipment, net	<u>21,125</u>	<u>28,185</u>
Total assets	<u>16,569,515</u>	<u>16,230,756</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	<u>59,045</u>	<u>59,398</u>
Total current liabilities	59,045	59,398
Noncurrent liabilities:		
Allowance for guaranty losses	<u>60,000</u>	<u>60,000</u>
Total liabilities	<u>119,045</u>	<u>119,398</u>
NET POSITION		
Invested in capital assets	21,125	28,185
Unrestricted	<u>16,429,345</u>	<u>16,083,173</u>
Total net position	<u>\$ 16,450,470</u>	<u>\$ 16,111,358</u>

The notes to the financial statements are an integral part of these statements.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Program fees	\$ 483,876	\$ 546,210
Administrative fees	<u>350,000</u>	<u>350,000</u>
Total operating revenues	<u>833,876</u>	<u>896,210</u>
OPERATING EXPENSES:		
Salaries and benefits	502,072	544,746
Contractual services	216,341	192,869
Depreciation	7,060	14,887
Other	<u>165,088</u>	<u>179,067</u>
Total operating expenses	<u>890,561</u>	<u>931,569</u>
Operating loss	<u>(56,685)</u>	<u>(35,359)</u>
NONOPERATING REVENUES (EXPENSES):		
Net earnings on investments	345,797	133,819
Income allocation - related party	300,000	300,000
Nonoperating expenses (MDA funding)	<u>(250,000)</u>	<u>(250,000)</u>
Total nonoperating revenues (expenses)	<u>395,797</u>	<u>183,819</u>
Change in net position	339,112	148,460
NET POSITION, BEGINNING OF YEAR	<u>16,111,358</u>	<u>15,962,898</u>
NET POSITION, END OF YEAR	<u>\$ 16,450,470</u>	<u>\$ 16,111,358</u>

The notes to the financial statements are an integral part of these statements.

MISSISSIPPI BUSINESS FINANCE CORPORATION

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STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 483,876	\$ 546,210
Administrative fees received from related parties	350,000	350,000
Cash payments to employees for services	(502,072)	(544,746)
Cash payments to suppliers for goods and services	(381,782)	(390,082)
Net cash used by operating activities	<u>(49,978)</u>	<u>(38,618)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Income allocation from related party	300,000	300,000
Funding paid to Mississippi Development Authority	(250,000)	(250,000)
Advance to related party	(800,000)	-
Repayments from related party	150,000	-
Net cash used by noncapital financing activities	<u>(600,000)</u>	<u>50,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	270,283	271,791
Proceeds from sale of investments	3,628,273	3,667,685
Purchases of investments	(3,172,395)	(3,967,003)
Proceeds from sale of capital assets	-	6,500
Net cash provided (used) by investing activities	<u>726,161</u>	<u>(21,027)</u>
Net increase (decrease) in cash and cash equivalents	76,183	(9,645)
Cash and cash equivalents, beginning of year	<u>1,075,239</u>	<u>1,084,884</u>
Cash and cash equivalents, end of year	<u>\$ 1,151,422</u>	<u>\$ 1,075,239</u>
Reconciliation of operating loss to		
net cash used by operating activities:		
Operating loss	\$ (56,685)	\$ (35,359)
Adjustments to reconcile operating loss		
to net cash used by operating activities:		
Depreciation	7,060	14,887
Loss on sale of fixed assets	-	6,827
Changes in assets and liabilities:		
Increase (decrease) in accounts payable	(353)	(24,973)
Net cash used by operating activities	<u>\$ (49,978)</u>	<u>\$ (38,618)</u>

The notes to the financial statements are an integral part of these statements.

MISSISSIPPI BUSINESS FINANCE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Mississippi Business Finance Corporation ("MBFC," the "Corporation"), which have been followed in preparing the accompanying financial statements are set forth below. The Corporation's fiscal year runs annually from July 1st to June 30th of the following year.

Organization

MBFC is a not-for-profit public corporation that administers a variety of finance programs designed to assist business and industry in locating or expanding in the State of Mississippi (the "State"). The Corporation was established in 1983 pursuant to Mississippi Code Section 57-10-167. MBFC works with other public entities and the private sector to coordinate efforts to stimulate both commercial and industrial development.

MBFC is an independent public body and the powers conferred upon the Corporation are vested in the Board of Directors of MBFC ("Board") and in no other state agency (House Bill 781, 2001 Regular Session). MBFC has been determined to be a component unit of the State. The Corporation's members are appointed by various state elected officials. MBFC's Board is elected by its members. In the event of dissolution, any net assets of MBFC will be transferred to the State.

Revenue Recognition

Bond issuance fees related to the Small Enterprise Development Program ("SED") and the Industrial Development Revenue Bond Program ("IRB") are recognized when bonds are sold. Annual bond fees are recognized when billed, and fees earned under the guaranty program are recognized when received. Revenue transactions are classified as operating revenue if those transactions constitute the Corporation's principal ongoing operations.

Operating Expenses

Expense transactions are classified as operating expenses if those transactions constitute the Corporation's principal ongoing operations.

Receivables

Management believes that receivables are fully collectible and no allowance for uncollectible amounts was considered necessary at June 30, 2014 and 2013.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets

Purchased or constructed capital assets are stated at cost and include expenditures for new additions and those which substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor replacements are expensed as incurred. The cost of equipment is depreciated on a straight-line basis over the estimated useful life of 3-5 years for each asset. Depreciation expense for the years ended June 30, 2014 and 2013 was \$7,060 and \$14,887, respectively.

Income Taxes

The Corporation is exempt from income taxes under Internal Revenue Code Section 501(c)(4) and similar state statutes.

Contributed Net Assets

The Mississippi Economic Development Corporation and the Small Businessman's Loan Committee were abolished in 1983, and their assets, liabilities, powers, duties and authority were transferred to MBFC. Net assets totaling approximately \$4,995,000 were contributed to MBFC in that year.

Recently-Issued Accounting Standards

In June 2012, the Governmental Accounting Standards Board issued Statement 68 that establishes accounting and financial reporting standards that require government employers that are members of cost-sharing defined benefit pension plans to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. This statement also requires more extensive note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This statement is effective for fiscal years beginning after June 15, 2014 and should be implemented retroactively as an adjustment of all prior periods presented.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 2 - Cash, Cash Equivalents and Investments

The collateral for public entities' deposits in financial institutions is held 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 entity's 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 insurance corporations.

The Corporation considers certificates of deposit to be cash equivalents if they have a maturity of three months or less when acquired. Certificates of deposit with maturities in excess of three months are considered investments.

Custodial credit risk is the risk that in the event of the failure of a financial institution, the Corporation will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Corporation does not have a formal policy for custodial credit risk. The Mississippi State Treasurer manages that risk on behalf of the Corporation. The carrying amount of the Corporation's deposits with financial institutions was \$1,151,422 for 2014 and \$1,075,239 for 2013. The bank balance was \$865,977 for 2014 and \$1,093,581 for 2013. At June 30, 2014 and 2013, none of the bank balances were exposed to custodial credit risk.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation has a policy regarding investment maturity. Investments should be primarily with maturities of five years or less. United States government and agency obligations and guaranteed investment contracts may be considered for maturities greater than five years. Investments with maturities of greater than five years require approval by the Corporation's investment committee.

MISSISSIPPI BUSINESS FINANCE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 2 - Cash, Cash Equivalents and Investments (Continued)

Investments made by the Corporation that are included on the statements of net position are summarized below as of June 30, 2014 and 2013.

Investment Type	2014 at Fair Value	Investment Maturities (in years)		
		Less than 1	1-5	5-10
Government agency bonds	\$ 3,329,152	\$ 1,043,082	\$ 1,321,286	\$ 964,784
Certificates of deposit	246,448	246,448	-	-
Corporate bonds	2,024,193	1,018,876	884,462	120,855
Municipal bonds	2,576,569	185,242	1,797,349	593,978
Mortgage-backed securities	4,499,600	523,794	2,409,040	1,566,766
	12,675,962	\$ 3,017,442	\$ 6,412,137	\$ 3,246,383
Investment in State of Mississippi Treasury Pool	2,012,019			
Total at June 30, 2014	\$ 14,687,981			

Investment Type	2013 at Fair Value	Investment Maturities (in years)		
		Less than 1	1-5	5-10
Government agency bonds	\$ 3,492,722	\$ 830,068	\$ 1,048,345	\$ 1,614,309
Certificates of deposit	496,343	250,000	246,343	-
Corporate bonds	2,034,889	-	1,666,068	368,821
Municipal bonds	2,393,110	592,768	1,401,609	398,733
Mortgage-backed securities	4,663,158	524,980	2,993,947	1,144,231
	13,080,222	\$ 2,197,816	\$ 7,356,312	\$ 3,526,094
Investment in State of Mississippi Treasury Pool	1,994,248			
Total at June 30, 2013	\$ 15,074,470			

All investments are carried at fair value for 2014 and 2013.

MISSISSIPPI BUSINESS FINANCE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 2 - Cash, Cash Equivalents and Investments (Continued)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Corporation's investments in debt securities at June 30, 2014 and 2013 are summarized by Standard & Poor's credit quality rating as follows:

<u>S&P Rating</u>	<u>2014</u>	<u>2013</u>
AA+	\$ 5,018,668	\$ 5,140,272
AA	634,670	205,360
AA-	515,605	524,350
A+	512,918	524,960
A	755,198	762,043
A-	350,526	343,848
BBB+	87,018	118,662
B	40,218	-
CCC	-	48,419
Not rated - investment grade (1)	495,351	1,049,561
Not rated	<u>690,190</u>	<u>373,682</u>
Total	<u>\$ 9,100,362</u>	<u>\$ 9,091,157</u>

(1) Investment grade rated by agency other than Standard & Poor.

The Corporation's investments in government agency bonds and certificates of deposit are not considered to have credit risk and are not included in the disclosure of credit quality. The Corporation's investment policy requires investments in obligations of insurance firms or other corporations be rated "AA", or its equivalent, or better by recognized rating companies at the time of purchase.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Corporation, and are held by either the counterparty or the counterparty's trust department or agent but not in the Corporation's name. The Corporation did not have any investment securities at June 30, 2014 and 2013 that were exposed to custodial credit risk.

Excluding government agency bonds, investments in mutual funds and other pooled investments, the Corporation had no investments in any one issuer that represent five percent or more of total investments at June 30, 2014 and 2013.

MISSISSIPPI BUSINESS FINANCE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 3 – Capital Assets

The changes in capital assets for the years ended June 30, 2014 and 2013 are summarized as follows:

	July 1, 2013 Beginning Balance	Increases	Decreases	June 30, 2014 Ending Balance
Capital assets-				
Property & Equipment	\$ 66,642	\$ -	\$ -	\$ 66,642
Accumulated Depreciation-				
Property & Equipment	(38,457)	(7,060)	-	(45,517)
Capital assets, net	<u>\$ 28,185</u>	<u>\$ (7,060)</u>	<u>\$ -</u>	<u>\$ 21,125</u>
	July 1, 2012 Beginning Balance	Increases	Decreases	June 30, 2013 Ending Balance
Capital assets-				
Property & Equipment	\$ 86,142	\$ -	\$ (19,500)	\$ 66,642
Accumulated Depreciation-				
Property & Equipment	(29,743)	(14,887)	6,173	(38,457)
Capital assets, net	<u>\$ 56,399</u>	<u>\$ (14,887)</u>	<u>\$ (13,327)</u>	<u>\$ 28,185</u>

Note 4 - Guaranty Loans

MBFC serves as guarantor on loans made to small businesses by financial institutions under the Small Businessman's Loan Assistance Act of 1972. The Corporation's potential risk related to the loans is up to 75% of any loss realized upon default of a loan, after consideration of collateral. The total loans outstanding under this program were \$789,004 for 2014 and \$1,137,207 for 2013.

MBFC evaluates all guaranty loans periodically and provides an allowance for losses on guaranteed loans that may default based upon existing defaulted or delinquent loans and an estimated percentage of outstanding loan guarantees. The allowance for guaranty losses at June 30, 2014 and 2013 was \$60,000.

MISSISSIPPI BUSINESS FINANCE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 5 - Industrial Revenue and General Obligation Bonds

MBFC is authorized to issue industrial revenue bonds pursuant to state statutes. Bonds are sold on behalf of businesses within the state under the Industrial Development Revenue Bond Program to finance the acquisition or improvement of real property, machinery and equipment. The bonds are secured by an irrevocable, direct-pay letter of credit or other credit enhancement acceptable to MBFC. Since MBFC has no primary obligation under the bonds, the amount of bonds outstanding is not included in the Corporation's financial statements.

MBFC administers the Small Enterprise Development Program (SED loans) for the State of Mississippi. In that capacity, MBFC is authorized by state statutes to request the State Bond Commission to issue general obligation bonds not exceeding the aggregate sum of \$140,000,000 outstanding at any one time. Bond proceeds are loaned to manufacturing or processing companies within the state to finance the cost of fixed assets, including land, buildings, machinery and new equipment. The bonds are secured by an irrevocable, direct-pay letter of credit or other credit enhancement acceptable to MBFC. SED loans outstanding at June 30, 2014 totaled approximately \$12,715,000. Since MBFC has no primary obligation under the bonds, the amount of bonds outstanding is not included in the Corporation's financial statements.

Note 6 – Related Parties

Mississippi Development Bank ("MDB") is a statewide authority created primarily to provide financing assistance to governmental debt borrowers. By statute, the Board of MBFC serves as the Board of Directors of MDB. Also, the officers of MBFC serve as officers of MDB in accordance with MDB by-laws.

MBFC CDE, Inc. is a not-for-profit corporation certified by the U.S. Treasury as a community development entity. The organization uses its new markets tax credit allocation to support real estate development projects and operating businesses located in low income communities. The Board of MBFC serves as the Advisory Board of MBFC CDE, Inc.

MBFC provides office facilities and administrative support to MDB and MBFC CDE, Inc., both of which are related parties. Administrative fees earned for the years ended June 30, 2014 and 2013 totaled \$350,000.

MBFC recorded an income allocation received from MDB during the year ended June 30, 2014 and 2013, in the amount of \$300,000. The amount of any income allocation is determined by the Board of Directors of MDB and is recorded by MBFC as a nonoperating revenue.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 6 – Related Parties (Continued)

During the year ended June 30, 2014, MBFC made a short term loan to MDB in the amount of \$800,000. As of June 30, 2014, the balance was \$650,000. The remaining amount was repaid by MDB in August 2014.

Note 7 – Mississippi Development Authority Funding

MBFC provided funding of \$250,000 to the Mississippi Development Authority ("MDA") in 2014 and 2013, respectively. The amounts paid to MDA are approved annually by MBFC's Board and are recorded as nonoperating expenses.

Note 8 – Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation carries commercial insurance for these risks. There have been no settled claims resulting from these insured risks in any of the past three fiscal years.

Note 9 - Defined Benefit Pension Plan

Plan Description. The Corporation contributes to the Public Employees' Retirement System of Mississippi ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9.0% of their annual covered salary and the Corporation is required to contribute at an actuarially determined rate. The current rate is 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The Corporation's contributions to PERS for the fiscal years ending June 30, 2014, 2013 and 2012 were approximately \$62,000, \$62,000, and \$55,000, respectively, and equaled the required contributions for each year.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 10 – Subsequent Events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes to the financial statements. Management evaluated the activity of the Corporation through September 12, 2014, (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

INTERNAL CONTROL AND COMPLIANCE REPORT



COLLINS & BARR, LTD.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S 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

To the Board of Directors
Mississippi Business Finance Corporation
Jackson, Mississippi

We have audited, in accordance with the 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 basic financial statements of the Mississippi Business Finance Corporation (the "Corporation"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's financial statements, and have issued our report thereon dated September 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 entity'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 and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Collins & Barr, LTD.

September 12, 2014



COLLINS & BARR, LTD.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

To the Board of Directors
Mississippi Business Finance Corporation

We have audited the financial statements of Mississippi Business Finance Corporation (the "Corporation") for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 18, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the fair value of investments is based on market quotes as of the balance sheet date. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 12, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Collins & Son, LTD.

September 12, 2014

Client: **5303 - Mississippi Business Finance Corporation**
 Engagement: **5303 - Mississippi Business Finance Corporation - Audit Binder**
 Trial Balance: **TB**
 Workpaper: **3700.10 - Passed Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Passed Journal Entries JE # 3		5310.02		
To decrease allowance for loan loss.				
2020	Allowance for guaranty losses		49,000.00	
3000	Fund equity			49,000.00
Total			<u><u>49,000.00</u></u>	<u><u>49,000.00</u></u>