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**MISSISSIPPI BUSINESS FINANCE CORPORATION**

**A Component Unit of the State of Mississippi**

**AUDIT REPORT**

**JUNE 30, 2015**

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

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**COLLINS, BARR & HEMBREE, 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 statement of net position as of June 30, 2015, and the related statement of revenues, expenses and changes in net position and statement of cash flows for the year then ended and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

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

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

### **Opinion**

In our opinion, the 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, 2015, and the respective changes in net position, and cash flows thereof for the year 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, the Schedule of the Corporation's Proportionate Share of the Net Pension Liability, and the Schedule of the Corporation's Contributions on pages 5 through 9, 28, and 29, respectively, 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 October 7, 2015, 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.

*Collin, Barr & Hembree, LLP*

October 7, 2015

## 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 year that ended on June 30, 2015. 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

A Component Unit of the State of Mississippi

## 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 for 2015 increased \$87,227 as compared to an increase of \$339,112 in 2014. 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. In addition, the net position previously reported as of June 30, 2014 has been restated to reflect the implementation of Governmental Accounting Standards Board (GASB) Statement 68, which requires the Corporation to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing defined benefit pension plan. The increase in net position and other balances for 2014 discussed in this section have not been restated to reflect the implementation of this standard.

Operating revenues consist of program fees and administrative fees. Program fees earned by the Corporation decreased to \$281,120 in 2015 from \$483,876 in 2014. 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 in 2015 and 2014.

Operating expenses totaled \$880,962 in 2015 compared to \$890,561 in 2014.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonoperating revenue for fiscal years 2015 and 2014 consists of net earnings on investments and an income allocation from MDB. The net earnings on investments for fiscal years 2015 and 2014 totaled \$266,236 and \$345,797, 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 2015 and 2014. The amount of any income allocation is determined annually by the Board of Directors of MDB.

Nonoperating expenses consist of funding to the Mississippi Development Authority ("MDA"). These expenses totaled \$229,167 in the year ended June 30, 2015. The expense for the year ended 2014 was \$250,000. The amounts paid to MDA are approved annually by MBFC's Board of Directors.

CHANGES IN NET POSITION

	For the Year Ended June 30,	
	2015	2014
Operating revenues	\$ 631,120	\$ 833,876
Operating expenses	880,962	890,561
Operating loss	(249,842)	(56,685)
Nonoperating revenues (expenses)	337,069	395,797
Change in net position	87,227	339,112
Net position, beginning of year, as previously reported	16,450,470	16,111,358
Prior period adjustment	(907,609)	-
Net position, beginning of year, as restated	15,542,861	16,111,358
Net position, end of year	\$ 15,630,088	\$ 16,450,470

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Position

Cash and cash equivalents, investments and interest receivable for fiscal years 2015 and 2014 represent approximately 99% and 96% of total assets, respectively. Noncurrent liabilities, deferred outflows of resources and deferred inflows of resources have increased due to the implementation of GASB Statement 68 which requires MBFC to record their proportionate share of the collective net pension liability for the cost-sharing defined benefit pension plan of which they are a member. Prior year amounts were not restated to reflect the implementation of GASB Statement 68.

NET POSITION

	As of June 30,	
	2015	2014
Current assets	\$ 16,608,189	\$ 16,548,390
Noncurrent assets	14,754	21,125
Total assets	16,622,943	16,569,515
Deferred outflows of resources	74,851	-
Current liabilities	59,501	59,045
Noncurrent liabilities	909,672	60,000
Total liabilities	969,173	119,045
Deferred inflows of resources	98,533	-
Net position:		
Invested in capital assets	14,754	21,125
Unrestricted	15,615,334	16,429,345
Total net position	\$ 15,630,088	\$ 16,450,470

## BASIC FINANCIAL STATEMENTS

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

STATEMENT OF NET POSITION

June 30, 2015

ASSETS

Current assets:

Cash and cash equivalents	\$ 997,344
Investments	15,540,720
Accounts receivable	10,000
Accrued interest	<u>60,125</u>
Total current assets	16,608,189

Capital assets:

Property and equipment, net	<u>14,754</u>
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Total assets	16,622,943
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows - pensions	<u>74,851</u>
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Total assets and deferred outflows of resources	<u>16,697,794</u>
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LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	<u>59,501</u>
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Total current liabilities	59,501
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Noncurrent liabilities:

Allowance for guaranty losses	60,000
Net pension liability	<u>849,672</u>

Total liabilities	969,173
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows - pensions	<u>98,533</u>
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Total liabilities and deferred inflows of resources	<u>1,067,706</u>
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NET POSITION

Invested in capital assets	14,754
Unrestricted	<u>15,615,334</u>

Total net position	<u>\$ 15,630,088</u>
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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  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Year Ended June 30, 2015

OPERATING REVENUES:	
Program fees	\$ 281,120
Administrative fees	<u>350,000</u>
Total operating revenues	<u>631,120</u>
OPERATING EXPENSES:	
Salaries and benefits	491,032
Contractual services	213,059
Depreciation	12,659
Other	<u>164,212</u>
Total operating expenses	<u>880,962</u>
Operating loss	<u>(249,842)</u>
NONOPERATING REVENUES (EXPENSES):	
Net earnings on investments	266,236
Income allocation - related party	300,000
Nonoperating expenses (MDA funding)	<u>(229,167)</u>
Total nonoperating revenues (expenses)	<u>337,069</u>
Change in net position	<u>87,227</u>
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	16,450,470
PRIOR PERIOD ADJUSTMENT	<u>(907,609)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>15,542,861</u>
NET POSITION, END OF YEAR	<u>\$ 15,630,088</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

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 271,120
Administrative fees received from related parties	350,000
Cash payments to employees for services	(525,287)
Cash payments to suppliers for goods and services	(376,815)
Net cash used by operating activities	<u>(280,982)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Income allocation from related party	300,000
Funding paid to Mississippi Development Authority	(229,167)
Repayments from related party	650,000
Net cash provided by noncapital financing activities	<u>720,833</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	281,575
Proceeds from sale of investments	3,299,177
Purchases of investments	(4,168,393)
Purchases of capital assets	(6,288)
Net cash used by investing activities	<u>(593,929)</u>

Net decrease in cash and cash equivalents	(154,078)
Cash and cash equivalents, beginning of year	<u>1,151,422</u>
Cash and cash equivalents, end of year	<u>\$ 997,344</u>

Reconciliation of operating loss to

net cash used by operating activities:	
Operating loss	\$ (249,842)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	12,659
(Increase) decrease in accounts receivable	(10,000)
(Increase) decrease in deferred outflows - pensions	(12,544)
Increase (decrease) in deferred inflows - pensions	98,533
Increase (decrease) in net pension liability	(120,244)
Increase (decrease) in accounts payable	456
Net cash used by operating activities	<u>\$ (280,982)</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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

### 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 1<sup>st</sup> to June 30<sup>th</sup> 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, 2015.

# MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

### 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 year ended June 30, 2015 was \$12,659.

#### 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.

### 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.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

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 \$997,344 for 2015 and the bank balance was \$1,000,544. At June 30, 2015, 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

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

Investments made by the Corporation that are included on the statement of net position are summarized below as of June 30, 2015.

Investment Type	2015 at Fair Value	Less than 1	Investment Maturities (in years)	
			1-5	5-10
Government agency bonds	\$ 4,401,374	\$ 479,796	\$ 2,704,400	\$ 1,217,178
Certificates of deposit	646,802	245,735	401,067	-
Corporate bonds	1,197,204	350,141	847,063	-
Municipal bonds	2,735,762	601,273	1,750,487	384,002
Mortgage-backed securities	4,529,481	204,447	3,358,669	966,365
	13,510,623	\$ 1,881,392	\$ 9,061,686	\$ 2,567,545
Investment in State of Mississippi Treasury Pool	2,030,097			
Total at June 30, 2015	\$ 15,540,720			

All investments are carried at fair value as of June 30, 2015.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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, 2015 are summarized by Standard & Poor's credit quality rating as follows:

<u>S&amp;P Rating</u>	<u>2015</u>
AA+	\$ 5,268,011
AA	1,253,267
AA-	501,150
A+	69,684
A-	350,141
B	35,020
Not rated - investment grade (1)	423,738
Not rated	<u>561,436</u>
Total	<u>\$ 8,462,447</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, 2015 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, 2015.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 3 – Capital Assets

The changes in capital assets for the year ended June 30, 2015 are summarized as follows:

	July 1, 2014 Beginning Balance	Increases	Decreases	June 30, 2015 Ending Balance
Capital assets-				
Property & Equipment	\$ 66,642	\$ 6,288	\$ (13,826)	\$ 59,104
Accumulated Depreciation-				
Property & Equipment	(45,517)	(12,659)	13,826	(44,350)
Capital assets, net	<u>\$ 21,125</u>	<u>\$ (6,371)</u>	<u>\$ -</u>	<u>\$ 14,754</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 \$631,643 as of June 30, 2015.

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, 2015 was \$60,000.

# MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

### 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, 2015 totaled approximately \$8,680,000. 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 year ended June 30, 2015 totaled \$350,000.

MBFC recorded an income allocation received from MDB during the year ended June 30, 2015 in the amount of \$300,000. The amount of any income allocation is determined annually 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, 2015

### 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 during the year ended June 20, 2015.

### Note 7 – Mississippi Development Authority Funding

MBFC provided funding of \$229,167 to the Mississippi Development Authority ("MDA") for the year ended June 30, 2015. 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

#### **General Information about the 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. Plan provisions and the Board of Trustees' authority to determine contribution rates 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, Mississippi 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits Provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring.

# MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

### Note 9 – Defined Benefit Pension Plan (Continued)

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 2.0 percent 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 2.5 percent 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. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost of Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired plan member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

**Funding Policy.** PERS members are required to contribute 9.00% 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, 2015, 2014 and 2013 were approximately \$65,000, \$62,000, and \$62,000, respectively, and equaled the required contributions for each year.

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

At June 30, 2015, the Corporation reported a liability of \$849,672 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Corporation's proportion of the net pension liability was based on a projection of the Corporation's long term share of contributions to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, the Corporation's proportion was 0.007 percent.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2015, the Corporation recognized pension expense of \$36,418. At June 30, 2015 the Corporation deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,748	-
Net difference between projected and actual earnings on pension plan investments	-	\$ 98,533
MBFC's contributions subsequent to the measurement date	<u>65,103</u>	<u>-</u>
	<u>\$ 74,851</u>	<u>\$ 98,533</u>

\$65,103 reported as deferred outflows of resources related to pensions resulting from the Corporation's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (21,127)
2017	(21,127)
2018	(21,898)
2019	<u>(24,633)</u>
	<u>\$ (88,785)</u>

Actuarial Assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary Increase	4.25-19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

MISSISSIPPI BUSINESS FINANCE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015, 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 to June 30, 2012. The experience report is dated June 12, 2013.

The long term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
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)
Total	<u>100 %</u>	

Discount Rate. The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. 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. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MISSISSIPPI BUSINESS FINANCE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 9 – Defined Benefit Pension Plan (Continued)

Sensitivity of the Corporation's proportionate share of the net pension liability to changes in the discount rate. The following presents the Corporation's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Corporation's proportionate share of the net pension liability	\$ 1,158,356	\$ 849,672	\$ 592,183

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Note 10 – Prior Period Adjustment

The corporation implemented Governmental Accounting Standards Board Statement 68 during the year ended June 30, 2015, which 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. The resulting restatement of net position at June 30, 2014 is computed as follows:

Net pension liability (measurement date)	\$ 969,916
Deferred outflows - contributions made during fiscal year 2014	<u>(62,307)</u>
Total change in net position	<u>\$ 907,609</u>

MISSISSIPPI BUSINESS FINANCE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 11 – 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 October 7, 2015, (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.

**REQUIRED SUPPLEMENTARY INFORMATION**

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

SCHEDULE OF THE CORPORATION'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY

	<u>2015</u>	<u>2014</u>
Corporation's proportion of the net pension liability	0.007%	0.007%
Corporation's proportionate share of the net pension liability	\$ 849,672	\$ 969,916
Corporation's covered-employee payroll	\$ 413,352	\$ 395,602
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	205.56%	245.17%
Plan fiduciary net position as a percentage of the total pension liability	67.21%	61.02%

Notes:

The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in the fiscal year ended June 30, 2015, and, until a full 10-year trend is compiled, the Corporation has only presented information for the years in which information is available.

MISSISSIPPI BUSINESS FINANCE CORPORATION

A Component Unit of the State of Mississippi

SCHEDULE OF THE CORPORATION'S CONTRIBUTIONS

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 65,103	\$ 62,307
Contributions in relation to the contractually required contribution	<u>(65,103)</u>	<u>(62,307)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Corporation's covered-employee payroll	<u>\$ 413,352</u>	<u>\$ 395,602</u>
Contributions as a percentage of covered-employee payroll	<u>15.75%</u>	<u>15.75%</u>

Notes:

The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in the fiscal year ended June 30, 2015, and, until a full 10-year trend is compiled, the Corporation has only presented information for the years in which information is available.

## INTERNAL CONTROL AND COMPLIANCE REPORT



**COLLINS, BARR & HEMBREE, 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, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's financial statements, and have issued our report thereon dated October 7, 2015.

**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.

*Collin, Barr & Hembree, LLP.*

October 7, 2015