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MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
AUDIT REPORT
JUNE 30, 2016

MISSISSIPPI DEVELOPMENT BANK
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 Development Bank
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying basic financial statements of Mississippi Development Bank, a component unit of the State of Mississippi, which comprise the statements of net position as of June 30, 2016 and 2015, 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 financial statements referred to above present fairly, in all material respects, the respective net position of Mississippi Development Bank, as of June 30, 2016 and 2015, 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 19, 2016, on our consideration of Mississippi Development Bank'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 Development Bank's internal control over financial reporting and compliance.

Collin Barr & Hambrey, LLP

September 19, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSISSIPPI DEVELOPMENT BANK

A Component Unit of the State of Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Mississippi Development Bank's (the "Bank") audit report presents our discussion and analysis of the Bank's financial performance during the fiscal years that ended on June 30, 2016 and 2015. Please read it in conjunction with the Bank's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Bank was established as a separate body corporate and politic of the State of Mississippi (the "State") for the public purposes set forth under the provisions of Sections 31-25-1 *et seq.*, Mississippi Code of 1972, as amended (the "Act"). The purpose of the Bank is to foster and promote, in accordance with the Act, the provision of adequate markets and facilities for the borrowing of funds for public purposes by governmental units. To provide funds to accomplish this purpose, the Bank is granted under the Act the power to borrow money and issue its bonds in such principal amounts as it shall deem necessary. The Bank is not liable on any of the bonds issued by the Bank. All such indebtedness is considered conduit debt and therefore is not recorded on the Bank's financial statements.

The Bank is an independent public body and the powers conferred upon the Bank are vested in the Board of Directors of the Bank ("Board") and in no other state agency (House Bill 781, 2001 Regular Session). The Bank 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 Bank 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 Bank 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 DEVELOPMENT BANK

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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 \$15,259 during the year ended June 30, 2016 as compared to a decrease of \$199,735 in 2015 and a decrease of \$141,781 in 2014.

Operating revenues consist of bond issuer fees and other income. Fees earned by the Bank totaled \$179,000, \$179,240 and \$224,000 for the years ended June 30, 2016, 2015 and 2014, respectively. Fees earned depend upon the level of participation in the various finance programs provided through the Bank. The level of participation by governmental units varies from year to year and is affected by various economic factors.

Operating expenses totaled \$391,446 in 2016 as compared to \$426,954 in 2015. Operating expenses were \$443,855 for 2014. The Bank's office facilities and administrative support are provided by the Mississippi Business Finance Corporation ("MBFC"), a related party. Administrative fees charged by MBFC for these services totaled \$300,000 in 2016, 2015 and 2014.

Nonoperating revenue for fiscal years 2016, 2015 and 2014 includes net earnings on investments. The net earnings for fiscal years 2016, 2015 and 2014 totaled \$70,205, \$47,979, and \$78,074 respectively. The differences between years are primarily due to fluctuations in the amounts available for investment and in the yield on the Bank's investments, including adjustments to market value in each respective year.

MISSISSIPPI DEVELOPMENT BANK

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MANAGEMENT'S DISCUSSION AND ANALYSIS

During 2016, 2015 and 2014, the Bank recorded nonoperating revenue of \$257,500, \$300,000 and \$300,000, respectively, related to payments received in connection with a purchase-in-lieu of redemption process provided for in the Capital Projects and Equipment Acquisition Program documents. Special obligation bonds were issued by the Bank in 2001 to fund this loan program. The program administrator was able to take advantage of current market conditions by reducing the size of the program, while at the same time realizing cash out of the transaction. Program bonds were purchased by the program administrator for less than the par amount of the bonds, and the purchased bonds were cancelled. Purchases-in-lieu will be used by this program when sufficient funds from loan principal repayments are available, when bonds are available for purchase and when the economics of the deal will produce cash.

Nonoperating expenses consist of an income allocation to MBFC. These expenses totaled \$100,000 in the year ended 2016 and \$300,000 for the years ended June 30, 2015 and 2014. The amount of any income allocation is determined by the Board of Directors of MDB.

Changes in Net Position

	For the Year Ended June 30,	
	2016	2015
Operating revenues	\$ 179,000	\$ 179,240
Operating expenses	<u>391,446</u>	<u>426,954</u>
Operating loss	(212,446)	(247,714)
Nonoperating revenues (expenses)	<u>227,705</u>	<u>47,979</u>
Change in net position	15,259	(199,735)
Net position, beginning of year	<u>4,967,819</u>	<u>5,167,554</u>
Net position, end of year	<u>\$ 4,983,078</u>	<u>\$ 4,967,819</u>

MISSISSIPPI DEVELOPMENT BANK

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Position

Cash and cash equivalents, investments and interest receivable for fiscal years 2016, 2015 and 2014 represent approximately 62%, 60%, and 52% of total assets, respectively.

Noncurrent assets decreased from \$1,991,283 at June 30, 2015, to \$1,894,512 at June 30, 2016. During 2014, the Bank made deposits into various trust accounts to establish Debt Service Reserve Funds for ten prior bond issues in order to meet the maximum debt service coverage requirements of Standard & Poor's Ratings Services and maintain an "A" rating on those prior bond issues. The amount on deposit is recorded as a restricted asset and totaled \$1,892,524 at June 30, 2016 and \$1,989,988 at June 30, 2015.

Current liabilities consisted of a short term loan balance in the amount of \$650,000 at June 30, 2014. This amount was repaid by the Bank in fiscal year 2015. There were no current liabilities recorded in 2016 and 2015.

Net position of the Bank totaled \$4,983,078 at June 30, 2016 as compared to \$4,967,819 at June 30, 2015 and \$5,167,554 at June 30, 2014.

Net Position

	As of June 30,	
	2016	2015
Current assets	\$ 3,088,566	\$ 2,976,536
Noncurrent assets	1,894,512	1,991,283
Total assets	4,983,078	4,967,819
Liabilities	-	-
Net position:		
Invested in capital assets	1,988	1,295
Restricted for debt service reserve funds	1,892,524	1,989,988
Unrestricted	3,088,566	2,976,536
Total net position	\$ 4,983,078	\$ 4,967,819

BASIC FINANCIAL STATEMENTS

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 485,006	\$ 469,284
Investments	2,592,705	2,498,624
Receivables	<u>10,855</u>	<u>8,628</u>
Total current assets	<u>3,088,566</u>	<u>2,976,536</u>
Noncurrent assets:		
Restricted assets - debt service reserve funds	1,892,524	1,989,988
Capital assets:		
Property and equipment, net	<u>1,988</u>	<u>1,295</u>
Total noncurrent assets	<u>1,894,512</u>	<u>1,991,283</u>
Total assets	<u>4,983,078</u>	<u>4,967,819</u>
LIABILITIES	<u>-</u>	<u>-</u>
NET POSITION		
Invested in capital assets	1,988	1,295
Restricted for debt service reserve funds	1,892,524	1,989,988
Unrestricted	<u>3,088,566</u>	<u>2,976,536</u>
Total net position	<u>\$ 4,983,078</u>	<u>\$ 4,967,819</u>

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

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Issuer fees	<u>\$ 179,000</u>	<u>\$ 179,240</u>
Total operating revenues	<u>179,000</u>	<u>179,240</u>
OPERATING EXPENSES:		
Administrative fees	300,000	300,000
Contractual services	80,174	109,126
Depreciation	1,988	2,368
Other	<u>9,284</u>	<u>15,460</u>
Total operating expenses	<u>391,446</u>	<u>426,954</u>
Operating loss	<u>(212,446)</u>	<u>(247,714)</u>
NONOPERATING REVENUES (EXPENSES):		
Net earnings on investments	70,205	47,979
Gain on cancellation of program bonds	257,500	300,000
Income allocation - related party	<u>(100,000)</u>	<u>(300,000)</u>
Total nonoperating revenues (expenses)	<u>227,705</u>	<u>47,979</u>
Change in net position	15,259	(199,735)
NET POSITION, BEGINNING OF YEAR	<u>4,967,819</u>	<u>5,167,554</u>
NET POSITION, END OF YEAR	<u><u>\$ 4,983,078</u></u>	<u><u>\$ 4,967,819</u></u>

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

MISSISSIPPI DEVELOPMENT BANK
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STATEMENTS OF CASH FLOWS

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 179,000	\$ 179,240
Administrative fees paid to related party	(300,000)	(300,000)
Cash payments to suppliers for goods and services	(89,458)	(124,586)
Refunds received from debt service reserve funds	97,464	813,978
Net cash provided (used) by operating activities	<u>(112,994)</u>	<u>568,632</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from cancellation of program bonds	257,500	300,000
Income allocation paid to related party	(100,000)	(300,000)
Repayments to related party	-	(650,000)
Net cash provided (used) by noncapital financing activities	<u>157,500</u>	<u>(650,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net earnings on investments	45,331	115,859
Proceeds from sale of investments	791,033	621,520
Purchases of investments	(862,467)	(791,491)
Purchases of capital assets	(2,681)	-
Net cash provided (used) by investing activities	<u>(28,784)</u>	<u>(54,112)</u>
Net increase (decrease) in cash and cash equivalents	15,722	(135,480)
Cash and cash equivalents, beginning of year	<u>469,284</u>	<u>604,764</u>
Cash and cash equivalents, end of year	<u><u>\$ 485,006</u></u>	<u><u>\$ 469,284</u></u>
Reconciliation of operating loss to		
net cash provided (used) by operating activities:		
Operating loss	\$ (212,446)	\$ (247,714)
Adjustments to reconcile operating loss		
to net cash provided (used) by operating activities:		
Depreciation	1,988	2,368
(Increase) decrease in restricted assets	97,464	813,978
Net cash provided (used) by operating activities	<u><u>\$ (112,994)</u></u>	<u><u>\$ 568,632</u></u>

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

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1 - Summary of Significant Accounting Policies

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

Organization

The Mississippi Development Bank was established as a separate body corporate and politic of the State of Mississippi (the "State") for the public purposes set forth under the provisions of Sections 31-25-1 *et seq.*, Mississippi Code of 1972, as amended (the "Act"). The purpose of the Bank is to foster and promote, in accordance with the Act, the provision of adequate markets and facilities for the borrowing of funds for public purposes by governmental units. To provide funds to accomplish this purpose the Bank is granted under the Act the power to borrow money and issue its bonds in such principal amounts as it shall deem necessary. The Bank is not liable on any of the bonds issued by the Bank. Therefore, all such indebtedness is considered conduit debt as further discussed in Note 7.

The Bank is not an agency of the State. The Bank operates independently and is separate from the State in its corporate and sovereign capacity and has no taxing power. The Bank has been determined to be a component unit of the State. In the event of dissolution, all rights and properties shall pass to and be vested in the State.

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 lives of 3-5 years for each asset. Depreciation expense for the years ended June 30, 2016 and 2015 was \$1,988 and \$2,368 respectively.

Revenue Recognition

All revenue of the Bank is derived from bond issuance fees and earnings on investments. Bond issuance fees related to the Bank's programs are recognized when bonds are sold. Revenue transactions are classified as operating revenue if those transactions constitute the Bank's principal ongoing operations.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

Operating Expenses

Bond issuance costs are paid by the local governmental units from bond proceeds. The Bank's office facilities and administrative support are provided by Mississippi Business Finance Corporation ("MBFC"), a related party (see Note 6). Expense transactions are classified as operating expenses if those transactions constitute the Bank's principal ongoing operations.

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 Federal Deposit Insurance Corporation.

The Bank 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 Bank will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Bank does not have a deposit policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. The carrying amount of the Bank's deposits with financial institutions was \$485,006 for 2016 and \$469,284 for 2015. The bank balance was \$485,006 for 2016 and \$470,064 for 2015. At June 30, 2016 and 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.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bank 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 Bank's investment committee.

The Bank categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Bank has the following recurring fair value measurements as of June 30, 2016:

- Government agency bonds, municipal obligations, corporate bonds, and mortgage-backed securities of \$2,592,705 are valued using quoted market prices (Level 1 inputs).

Investments made by the Bank that are included on the statements of net position are summarized below as of June 30, 2016 and 2015.

Investment Type	2016 at Fair Value	Investment Maturities (in years)		
		Less than 1	1-5	5-10
Government agency bonds	\$ 892,715	\$ 500,723	\$ 187,281	\$ 204,711
Municipal obligations	526,099	250,589	215,705	59,805
Corporate bonds	440,796	-	440,796	-
Mortgage-backed securities	733,095	31,982	629,577	71,536
Total	<u>\$ 2,592,705</u>	<u>\$ 783,294</u>	<u>\$ 1,473,359</u>	<u>\$ 336,052</u>

Investment Type	2015 at Fair Value	Investment Maturities (in years)		
		Less than 1	1-5	5-10
Government agency bonds	\$ 622,270	\$ -	\$ 472,213	\$ 150,057
Municipal obligations	451,043	75,092	375,951	-
Corporate bonds	394,331	99,809	294,522	-
Mortgage-backed securities	1,030,980	45,706	799,725	185,549
Total	<u>\$ 2,498,624</u>	<u>\$ 220,607</u>	<u>\$ 1,942,411</u>	<u>\$ 335,606</u>

MISSISSIPPI DEVELOPMENT BANK
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NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 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 Bank's investments in debt securities at June 30, 2016 and 2015 are summarized by Standard & Poor's credit quality rating as follows:

<u>S&P Rating</u>	<u>2016</u>	<u>2015</u>
AA+	\$ 1,088,845	\$ 1,237,604
AA	211,905	50,892
AA-	100,295	103,625
A+	-	87,898
A	85,046	-
Not rated - investment grade (1)	60,280	167,240
Not rated	<u>153,619</u>	<u>229,095</u>
Total	<u>\$ 1,699,990</u>	<u>\$ 1,876,354</u>

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

The Bank'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 Bank'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.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Bank, and are held by either the counterparty or the counterparty's trust department or agent but not in the Bank's name. The Bank does not have any investment securities at June 30, 2016 and 2015 that are exposed to custodial credit risk.

Excluding government agency bonds, certificates of deposit, investments in mutual funds and other pooled investments, the Bank has the following investments in any one issuer that represent five percent or more of total investments at June 30, 2016 and 2015.

<u>Description</u>	<u>2016</u>	<u>2015</u>
FNR 2012-38 VJ, 3.50%, due 02/25/25	\$ 115,916	\$ 124,955
FN AM2712 DUS Bond, 1.54%, due 03/01/18	<u>146,306</u>	<u>150,014</u>
	<u>\$ 262,222</u>	<u>\$ 274,969</u>

Note 3 – Debt Service Reserve Funds Requirement

During the year ended June 30, 2014, Standard & Poor's Rating Services ("S&P") advised the State and the Bank that the amount of debt service reserve requirements must be equal to the maximum annual debt service for each series of prior bonds to maintain a rating of "A". The Bank used its own funds to cause each of the debt service reserve funds to meet the S&P requirement and maintain S&P's "A" rating on each series of bonds. These restricted assets for the years ended June 30, 2016 and 2015 totaled \$1,892,524 and \$1,989,988, respectively.

MISSISSIPPI DEVELOPMENT BANK

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 4 – Capital Assets

The changes in capital assets for the years ended June 30, 2016 and 2015 are summarized as follows:

	July 1, 2015 Beginning Balance	Increases	Decreases	June 30, 2016 Ending Balance
Capital assets- Property & Equipment	\$ 67,583	\$ 2,681	\$ -	\$ 70,264
Accumulated Depreciation- Property & Equipment	(66,288)	(1,988)	-	(68,276)
Capital assets, net	<u>\$ 1,295</u>	<u>\$ 693</u>	<u>\$ -</u>	<u>\$ 1,988</u>
	July 1, 2014 Beginning Balance	Increases	Decreases	June 30, 2015 Ending Balance
Capital assets- Property & Equipment	\$ 82,148	\$ -	\$ (14,565)	\$ 67,583
Accumulated Depreciation- Property & Equipment	(78,485)	(2,368)	14,565	(66,288)
Capital assets, net	<u>\$ 3,663</u>	<u>\$ (2,368)</u>	<u>\$ -</u>	<u>\$ 1,295</u>

Note 5 – Cancellation of Program Bonds

The Bank issued special obligation bonds in March 2001 to fund a loan program known as the Capital Projects and Equipment Acquisition Program ("2001 Pool Program"). This program is and has been used to fund public projects for qualified governmental entities. During the year, the program administrator was able to take advantage of current market conditions by reducing the size of the program through a purchase-in-lieu of redemption process provided for in the 2001 Pool Program documents, while at the same time realizing cash out of the transaction. The Bank received \$257,500 and \$300,000 during the years ended June 30, 2016 and 2015, respectively, for purchase-in-lieu transactions completed.

MISSISSIPPI DEVELOPMENT BANK

A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 5 – Cancellation of Program Bonds (Continued)

Program bonds were purchased by the program administrator for less than the par amount of the bonds, and the purchased bonds were cancelled. Funds for a purchase-in-lieu transaction come from the recycling account established within the 2001 Pool Program. New loans through the 2001 Pool Program are also funded through the recycling account. The recycling account is funded through principal repayment of loans. Purchases-in-lieu are done 1) when funds are available in the recycling account, 2) when bonds are available for purchase, and 3) when the economics of the deal will produce cash.

Note 6 – Related Party

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. MBFC is a component unit of the State. MBFC's members are appointed by various state elected officials. MBFC's Board of Directors are elected by its members. By statute, the Board of Directors of MBFC serve as the Board of Directors of the Bank. Also, the officers of MBFC serve as officers of the Bank in accordance with the Bank's by-laws.

The Bank's office facilities and administrative support are provided by MBFC. Administrative fees charged annually by MBFC for 2016 and 2015 were \$300,000.

MDB provided an annual income allocation of \$100,000 to MBFC for 2016 and \$300,000 for 2015. The amount of income allocation is determined annually by the Board of Directors of MDB.

Note 7 – Conduit Debt Transactions

The Bank assists governmental units through programs of providing loans under loan agreements between such governmental units and the Bank. The Bank issues special obligation bonds in order to provide funds for making loans to the governmental units. Although the special obligation bonds bear the name of the Bank, the Bank is not responsible for the payment of the bonds. The bonds are secured only by the payments agreed to be paid by the governmental units under the terms of the loan agreements.

The outstanding balance of special obligation bonds issued by the Bank was approximately \$2.90 billion at June 30, 2016 and approximately \$3.11 billion at June 30, 2015. The faith, credit and taxing power of the State and the Bank are not pledged to the payment of such bonds. However, a debt service reserve fund pursuant to Mississippi Code Annotated Section 31-25-105 has been authorized on approximately \$595 million of the bonds outstanding as of June 30, 2016.

MISSISSIPPI DEVELOPMENT BANK
A Component Unit of the State of Mississippi

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 8 – Risk Management

The Bank is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Bank 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 – Subsequent Events

Events that occur after the statement of net position 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 statement of net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date require disclosure in the accompanying notes to the financial statements. Management evaluated the activity of the Bank through September 19, 2016, (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 & 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 Development Bank
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 Development Bank (the "Bank"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Bank's financial statements, and have issued our report thereon dated September 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank'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 Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank'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 Bank'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 & Hembree, LLP

September 19, 2016