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**State of Mississippi
Department of Corrections**

Independent Auditor's Reports and
Financial Statements of Funds Selected for Audit
June 30, 2016



State of Mississippi
Department of Corrections
June 30, 2016

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Independent Auditor's Report

Commissioner Pelicia Hall
State of Mississippi, Department of Corrections
Jackson, Mississippi

Report on the Financial Statements of Selected Funds

We have audited the accompanying financial statements of the Support Budget Authority Fund, the Medical Budget Authority Fund, the Private Prison Budget Authority Fund, the Regional Prison Budget Authority Fund, the Local Budget Authority Fund, the Inmate Welfare Fund, and the Area Supervision Fee Fund of the State of Mississippi, Department of Corrections (MDOC), which are comprised of a balance sheet as of June 30, 2016, and a statement of revenues, expenditures and changes in fund balances 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 opinions 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 audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Support Budget Authority Fund, the Medical Budget Authority Fund, the Private Prison Budget Authority Fund, the Regional Prison Budget Authority Fund, the Local Budget Authority Fund, the Inmate Welfare Fund, and the Area Supervision Fee Fund of MDOC as of June 30, 2016, and the respective changes in their financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 1*, the financial statements present only the Support Budget Authority Fund, the Medical Budget Authority Fund, the Private Prison Budget Authority Fund, the Regional Prison Budget Authority Fund, the Local Budget Authority Fund, the Inmate Welfare Fund and the Area Supervision Fee Fund representing funds selected for audit by the State of Mississippi, Office of the State Auditor and do not purport to, and do not present fairly the financial position of MDOC as of June 30, 2016, or the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in *Note 2* to the financial statements, the 2015 financial statements position of the Support Budget Authority Fund, the Medical Budget Authority Fund, the Private Prison Budget Authority Fund, the Regional Prison Budget Authority Fund and the Local Budget Authority Fund have been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

Other Matter

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements of the funds selected for audit by the State of Mississippi, Office of the State Auditor. The combining statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial

statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2017, on our consideration of MDOC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDOC's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
March 17, 2017

State of Mississippi
Department of Corrections
Balance Sheets of Funds Selected for Audit
June 30, 2016

	Governmental Fund Type						
	Support Budget Authority Fund	Medical Budget Authority Fund	Private Prison Budget Authority Fund	Regional Prison Budget Authority Fund	Local Budget Authority Fund	Inmate Welfare Fund	Area Supervision Fee Fund
Assets							
Cash	\$ 17,806,301	\$ 4,731,661	\$ -	\$ 37,020	\$ 2,962,673	\$ 2,207,462	\$ 25,264
Cash with fiscal agent	3,573	-	-	-	-	-	-
Due from other funds	1,093,651	34,219	263,573	-	1,150	119,953	-
Accounts receivable	55,000	-	-	-	-	309,884	-
Inventories	3,688,009	-	-	-	-	-	-
Total assets	<u>\$ 22,646,534</u>	<u>\$ 4,765,880</u>	<u>\$ 263,573</u>	<u>\$ 37,020</u>	<u>\$ 2,963,823</u>	<u>\$ 2,637,299</u>	<u>\$ 25,264</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 4,158,471	\$ 9,845,556	\$ 4,642,162	\$ -	\$ 65	\$ 114,282	\$ -
Accrued wages payable	4,115,924	10,610	-	-	-	10,025	-
Due to other funds	487,562	465,027	-	-	-	65,742	25,264
Due to local governments	312,338	153,642	79,052	3,078,849	2,902,611	-	-
Total liabilities	<u>9,074,295</u>	<u>10,474,835</u>	<u>4,721,214</u>	<u>3,078,849</u>	<u>2,902,676</u>	<u>190,049</u>	<u>25,264</u>
Fund Balances (Deficit)							
Nonspendable							
Inventories	3,688,009	-	-	-	-	-	-
Restricted for							
Law, justice and public safety	11,888,698	-	-	-	-	2,447,250	-
Committed to							
Law, justice and public safety	-	539,394	-	37,020	71,306	-	-
Unassigned	(2,004,468)	(6,248,349)	(4,457,641)	(3,078,849)	(10,159)	-	-
Total fund balances (deficit)	<u>13,572,239</u>	<u>(5,708,955)</u>	<u>(4,457,641)</u>	<u>(3,041,829)</u>	<u>61,147</u>	<u>2,447,250</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 22,646,534</u>	<u>\$ 4,765,880</u>	<u>\$ 263,573</u>	<u>\$ 37,020</u>	<u>\$ 2,963,823</u>	<u>\$ 2,637,299</u>	<u>\$ 25,264</u>

State of Mississippi
Department of Corrections
Statements of Revenues, Expenditures and Changes in Fund Balances of Funds Selected for Audit
Year Ended June 30, 2016

	Governmental Fund Type						
	Support Budget Authority Fund	Medical Budget Authority Fund	Private Prison Budget Authority Fund	Regional Prison Budget Authority Fund	Local Budget Authority Fund	Inmate Welfare Fund	Area Supervision Fee Fund
Revenues							
State appropriation/allotment	\$ 143,968,861	\$ 63,908,437	\$ 72,349,729	\$ 42,100,951	\$ 7,570,438	\$ -	\$ -
Federal grants	142,120	-	-	-	-	-	-
Sales of supplies	2,229,415	148,757	-	-	31,045	-	-
Phone commissions	-	-	-	-	-	1,319,949	-
Vending commissions	-	-	-	-	-	38,151	-
Western Union commissions	-	-	-	-	-	47,774	-
Area supervision fees	-	-	-	-	-	-	13,908,709
Canteen revenues	-	-	-	-	-	958,161	-
Other income	195	-	-	-	-	84,952	-
Total revenues	146,340,591	64,057,194	72,349,729	42,100,951	7,601,483	2,448,987	13,908,709
Expenditures							
Current							
Salaries	113,605,851	225,187	-	-	-	481,413	-
Travel	447,110	-	-	-	-	7,851	-
Contractuals	38,262,284	66,869,645	56,449,113	41,517,564	7,547,358	308,744	742
Commodities	9,990,327	-	-	-	-	223,990	-
Debt service							
Principal	1,585,118	-	6,000,000	-	-	-	-
Interest and other charges	292,468	-	10,046,332	-	-	-	-
Capital outlay	1,791,864	-	-	-	-	-	-
Total expenditures	166,290,980	67,790,349	72,495,445	41,517,564	7,547,358	1,381,545	742
Excess of Revenues Over (Under) Expenditures	(19,950,389)	(3,733,155)	(145,716)	583,387	54,125	1,067,442	13,907,967
Other Financing Sources (Uses)							
Transfers in (out), net	13,276,100	-	-	37,020	(1,760)	117,760	(13,907,967)
Net Change in Fund Balances	(6,674,289)	(3,733,155)	(145,716)	620,407	52,365	1,185,202	-
Fund Balances (Deficit), Beginning of Year, as Previously Reported	27,154,238	1,883,087	526,482	(1,129,104)	47,500	1,262,048	-
Adjustment applicable to prior years	(6,907,710)	(3,858,887)	(4,838,407)	(2,533,132)	(38,718)	-	-
Fund Balances (Deficit), Beginning of Year, as Restated	20,246,528	(1,975,800)	(4,311,925)	(3,662,236)	8,782	1,262,048	-
Fund Balances (Deficit), End of Year	\$ 13,572,239	\$ (5,708,955)	\$ (4,457,641)	\$ (3,041,829)	\$ 61,147	\$ 2,447,250	\$ -

See Notes to Financial Statements of Funds Selected for Audit

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Notes to Financial Statements of Funds Selected for Audit

June 30, 2016

Note 1: Significant Accounting Policies

Background Information

The State of Mississippi, Department of Corrections (MDOC), an agency of the State of Mississippi, follows fund accounting with respect to its governmental type funds. Multiple individual funds combine to create budget authority funds for MDOC. The following budget authority funds represent funds selected for audit by the State of Mississippi, Office of the State Auditor (collectively, Selected Funds), and the accompanying presentation does not purport to present the financial position and changes in financial position of MDOC.

- A. The Support Budget Authority Fund** (Funds 2255100000 – General Support Fund, 3355100000 – General Support Contingency Fund, 3356600000 – Community Corrections Fund, 5355100000 – General Support Grant Fund, and 6456700000 – Capital Expense Fund) is used to account for the general operations of MDOC. The Community Corrections Fund is used to supervise parolees.
- B. The Medical Budget Authority Fund** (Funds 2254400000 – Medical Fund, 3355300000 – Medical Contingency Fund, and 6455A00000 – Medical Capital Expense Fund) is used to account for expenditures related to yearly health care contracts, specialty health care needs and security for hospitalized inmates.
- C. The Private Prison Budget Authority Fund** (Funds 2255500000 – Private Prison Fund and 3356400000 – Private Prison Contingency Fund) is used to account for the expenditures paid to private prison entities for the management of the four (4) private prisons.
- D. The Regional Prison Budget Authority Fund** (Funds 2255600000 – Regional Prison Fund, 3356200000 – Regional Prison Contingency Fund and 6455B00000 – Regional Prison Capital Expense Fund) is used to account for the expenditures related to managing and maintaining the fifteen (15) regional facilities.
- E. The Local Budget Authority Fund** (Funds 2255700000 – Local Confinement Fund, 3355700000 – Confiscated Funds and 6455C00000 – Local Confinement Capital Expense Fund) is used to account for the expenditures related to housing inmates in local county jail facilities.
- F. The Inmate Welfare Fund** (Fund 8809100000) is used to account for revenues and other sources received by MDOC through phone and vending commissions, as well as canteen revenues and related expenditures to provide for certain benefits for the inmates.
- G. The Area Supervision Fee Fund** (Fund 8810200000) is used to account for supervision fees paid by parolees and probationers and their subsequent remittance to other designated state treasury funds.

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Basis of Presentation

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

Account Classifications

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

Fund Accounting

The financial activities of the Selected Funds are recorded in individual funds and account groups used to report financial position and changes in financial position. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Basis of Accounting/Measurement Focus

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and other changes in fund balances during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenues from phone commissions in the Inmate Welfare Fund is recognized in the month the commission is earned. Revenues from area supervision fees in the Area Supervision Fee Fund are

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recognized when they are received. Other revenues in the various funds are generally recognized when the revenues are received or appropriated by the State of Mississippi Legislature.

Appropriations/Allotment Balance

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

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits at financial institutions. All short-term, highly liquid investments that are readily convertible to cash (generally with a maturity of three months or less) are considered cash equivalents. At June 30, 2016, there were no cash equivalents.

Cash with fiscal agent includes cash on hand at lending institutions for use under master lease agreements.

Interfund Receivables/Payables

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

Accounts Receivable

Accounts receivable are reported net of allowances for uncollectible accounts, where applicable. No allowance for uncollectible accounts is recorded at June 30, 2016.

Inventories

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

Fund Balances – Governmental Funds

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

- ***Nonspendable*** – Amounts that are not in a spendable form or are required to be maintained intact, such as inventories.
- ***Restricted*** – Amounts that can be spent only for the specific purposes stipulated by external resource providers constitutionally or through enabling legislation. Restrictions

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may be changed or lifted only with the consent of resource providers. Fund balances under the Inmate Welfare Fund, the Area Supervision Fee Fund and the Community Corrections Fund are restricted by enabling legislation under Sections 47-5-158, 47-5-1013 and 47-7-49, Miss. Code Ann. (1972), respectively.

- **Committed** – Amounts that can be used only for the specific purposes determined by a formal action of the State of Mississippi Legislature.
- **Assigned** – Amounts intended to be used by the government for specific purposes. In governmental funds other than the General Fund, assigned fund balances represent the amount that is not restricted or committed. This indicates resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. MDOC had no assigned fund balances at June 30, 2016.
- **Unassigned** – The residual classification for the General Fund and includes all amounts not contained in the other classifications. The unassigned classification is also used to report a deficit balance, resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

Deficit Fund Balances – As of June 30, 2016, certain funds of MDOC were in a deficit net position. The deficit net position in each fund will be funded by either an interfund transfer from a fund with positive net position or future appropriations.

Note 2: Restatement of Prior Years' Financial Statements

In prior years, MDOC recognized contract payments for private prisons, regional prisons and medical contracts one month in arrears due to the timing of the contract invoices. During 2016, MDOC determined that appropriate GAAP was to record these contract payments on the modified accrual basis and recognize the expenditures at the time liabilities are incurred, which is the time the contract services are rendered. This change decreased 2015 change in fund balance by the amounts listed as *Liability Adjustment* in the table below. All adjustments applicable to 2015 and prior have been included in the restated 2016 beginning fund balance.

Additionally in 2015, the amount recorded by MDOC for appropriations was incorrect. This change decreased 2015 change in net assets and beginning fund balance by the amounts listed as

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Appropriations Adjustment in the table below. All adjustments applicable to 2015 have been included in the restated 2016 beginning fund balance.

	Appropriations Adjustment	Liability Adjustment
Support Budget Authority Fund		
General Support Fund	\$ 2,726,536	\$ -
General Support Contingency Fund	4,130,249	-
General Support Grant Fund	50,925	-
	<u>\$ 6,907,710</u>	<u>\$ -</u>
Medical Budget Authority Fund		
Medical Fund	\$ 4,680	\$ 3,611,664
Medical Contingency Fund	242,543	-
	<u>\$ 247,223</u>	<u>\$ 3,611,664</u>
Private Prison Budget Authority Fund		
Private Prison Fund	<u>\$ 262,909</u>	<u>\$ 4,575,498</u>
Regional Prison Budget Authority Fund		
Regional Prison Fund	<u>\$ 33,111</u>	<u>\$ 2,500,021</u>
Local Budget Authority Fund		
Confiscated Funds	<u>\$ 38,718</u>	<u>\$ -</u>

Note 3: Cash and Other Deposits

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

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Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Note 4: Defined Benefit Pension Plan

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

During fiscal year 2016, PERS members were required to contribute 9% of their annual covered salary, and MDOC is required to contribute at an actuarially determined rate, which was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. MDOC's contributions are made at the agency level; therefore, information is not available on contributions by specific funds.

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Notes to Financial Statements of Funds Selected for Audit
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Note 5: Interfund Receivables, Payables and Transfers

Interfund receivables and payables at June 30, 2016, are as follows:

	Interfund Receivables	Interfund Payables
Support Budget Authority Fund		
General Support Fund		
State of Mississippi	\$ -	\$ 52,248
General Support Contingency Fund		
State of Mississippi	949,287	202,210
Restitution Fund	49,234	-
Recycle Program	-	7,565
Victims Info Notification System	-	2,805
Medical Contingency Fund	-	34,219
Prison Agricultural Fund	-	187,365
Inmate Welfare Fund	56,559	-
Confiscated Funds	-	1,150
	<u>1,055,080</u>	<u>435,314</u>
Community Corrections Fund		
Area Supervision Fee Fund	<u>22,990</u>	<u>-</u>
General Support Grant Fund		
State of Mississippi	<u>15,581</u>	<u>-</u>
Total Support Budget Authority Fund	<u><u>\$ 1,093,651</u></u>	<u><u>\$ 487,562</u></u>

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	Interfund Receivables	Interfund Payables
Medical Budget Authority Fund		
Medical Fund		
State of Mississippi	\$ -	\$ 201,454
Private Prison Fund	-	263,573
	-	465,027
Medical Contingency Fund		
General Support Contingency Fund	34,219	-
Total Medical Budget Authority Fund	\$ 34,219	\$ 465,027
Private Prison Budget Authority Fund		
Private Prison Fund		
Medical Fund	\$ 263,573	\$ -
Local Budget Authority Fund		
Confiscated Funds		
General Support Contingency Fund	\$ 1,150	\$ -

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	Interfund Receivables	Interfund Payables
Inmate Welfare Fund		
Canteen Fund	\$ 119,953	\$ -
General Support Contingency Fund	-	56,559
Prison Agricultural Enterprises Fund	-	9,183
	<u>\$ 119,953</u>	<u>\$ 65,742</u>
Area Supervision Fee Fund		
Community Corrections Fund	\$ -	\$ 22,990
Training Revolving Fund	-	1,011
Crime Victims Compensation Fund	-	1,263
	<u>\$ -</u>	<u>\$ 25,264</u>

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	Interfund Transfers Out	Interfund Transfers In
Support Budget Authority Fund		
General Support Fund		
General Support Contingency Fund	\$ 678,436	\$ 3,957,778
Prison Agricultural Enterprises Fund	71,375	-
State of Mississippi	1,791,316	-
	<u>2,541,127</u>	<u>3,957,778</u>
General Support Contingency Fund		
General Support Fund	3,957,778	678,436
Regional Prison Contingency Fund	37,020	-
Restitution Fund	-	49,234
Inmate Welfare Fund	-	56,559
State of Mississippi	-	2,337,403
	<u>3,994,798</u>	<u>3,121,632</u>
Community Corrections Fund		
Area Supervision Fee Fund	-	12,732,615
	<u>-</u>	<u>12,732,615</u>
Total Support Budget Authority Fund	<u>\$ 6,535,925</u>	<u>\$ 19,812,025</u>
Local Budget Authority Fund		
Local Confinement Capital Expense Fund		
State of Mississippi	\$ 1,760	\$ -
	<u>\$ 1,760</u>	<u>\$ -</u>
Regional Prison Budget Authority Fund		
Regional Prison Contingency Fund		
General Support Contingency Fund	\$ -	\$ 37,020
	<u>\$ -</u>	<u>\$ 37,020</u>

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Interfund transfers for the year ended June 30, 2016, are as follows:

	Interfund Transfers Out	Interfund Transfers In
Inmate Welfare Fund		
Prison Agricultural Enterprises Fund	\$ 461,983	\$ -
General Support Contingency Fund	56,559	-
Telecommunications Equipment Fund	273,429	-
Employee Cafeteria Fund	-	64,229
Canteen Fund	-	845,502
	<u>\$ 791,971</u>	<u>\$ 909,731</u>
Area Supervision Fee Fund		
Community Corrections Fund	\$ 12,732,615	\$ -
Crime Victims Compensation Fund	652,973	-
Training Revolving Fund	522,379	-
	<u>\$ 13,907,967</u>	<u>\$ -</u>

Note 6: Contingencies

General Litigation

MDOC is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets and statements of revenues, expenditures and changes in fund balances of MDOC. Additionally, under the current financial resources measurement focus and the modified accrual basis of accounting, no contingent liability would be recorded.

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Note 7: Subsequent Events

Subsequent to June 30, 2016, MDOC announced the planned closure of Walnut Grove Correctional Facility, a private prison, in fiscal year 2017. The contract payments for this facility for 2016 and previous years were paid from the Private Prison Budget Authority Fund. The closure of this prison will not impact MDOC's requirement to make future debt service payments.

Subsequent to June 30, 2016, MDOC issued \$108,255,000 of special obligation bonds. Approximately \$122,392,000 of the bond proceeds and bond issue premium proceeds will be deposited into an escrow account for the advance repayment of a portion of the outstanding bonds attributable to the Private Prison Fund. The bonds bear interest at fixed rates between 1.098% and 5.000%, with maturity dates between fiscal year 2017 and fiscal year 2028.

Supplementary Information

State of Mississippi
Department of Corrections
Combining Balance Sheet of Support Budget Authority Fund
June 30, 2016

	Governmental Fund Type					Total
	2255100000	3355100000	3356600000	5355100000	6456700000	
	General Support Fund	General Support Contingency Fund	Community Corrections Fund	General Support Grant Fund	Capital Expense Fund	
Assets						
Cash	\$ 5,485,279	\$ 4,192,396	\$ 7,994,964	\$ 133,662	\$ -	\$ 17,806,301
Cash with fiscal agent	-	3,573	-	-	-	3,573
Due from other funds	-	1,055,080	22,990	15,581	-	1,093,651
Accounts receivable	-	55,000	-	-	-	55,000
Inventories	3,688,009	-	-	-	-	3,688,009
Total assets	\$ 9,173,288	\$ 5,306,049	\$ 8,017,954	\$ 149,243	\$ -	\$ 22,646,534
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 3,332,663	\$ 624,904	\$ 200,904	\$ -	\$ -	\$ 4,158,471
Accrued wages payable	3,792,498	100,860	222,566	-	-	4,115,924
Due to other funds	52,248	435,314	-	-	-	487,562
Due to local governments	312,338	-	-	-	-	312,338
Total liabilities	7,489,747	1,161,078	423,470	-	-	9,074,295
Fund Balances (Deficit)						
Nonspendable						
Inventories	3,688,009	-	-	-	-	3,688,009
Restricted for						
Law, justice and public safety	-	4,144,971	7,594,484	149,243	-	11,888,698
Unassigned	(2,004,468)	-	-	-	-	(2,004,468)
Total fund balances	1,683,541	4,144,971	7,594,484	149,243	-	13,572,239
Total liabilities and fund balances	\$ 9,173,288	\$ 5,306,049	\$ 8,017,954	\$ 149,243	\$ -	\$ 22,646,534

State of Mississippi
Department of Corrections
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances of Support Budget Authority Fund
Year Ended June 30, 2016

	Governmental Fund Type					Total
	2255100000	3355100000	3356600000	5355100000	6456700000	
	General Support Fund	General Support Contingency Fund	Community Corrections Fund	General Support Grant Fund	Capital Expense Fund	
Revenues						
State appropriation/allotment	\$ 143,968,861	\$ -	\$ -	\$ -	\$ -	\$ 143,968,861
Federal grant revenue	-	72,920	-	69,200	-	142,120
Sales of supplies	-	2,229,415	-	-	-	2,229,415
Other income	553	(358)	-	-	-	195
Total revenues	143,969,414	2,301,977	-	69,200	-	146,340,591
Expenditures						
Current						
Salaries	102,338,479	2,575,914	8,691,458	-	-	113,605,851
Travel	412,989	12,065	20,988	1,068	-	447,110
Contractuals	25,810,238	319,848	1,710,430	1,715	10,420,053	38,262,284
Commodities	9,649,615	77,503	263,209	-	-	9,990,327
Debt service						
Principal	-	1,585,118	-	-	-	1,585,118
Interest and other charges	-	292,468	-	-	-	292,468
Capital outlay	1,563,947	227,917	-	-	-	1,791,864
Subsidies	315,958	-	-	-	-	315,958
Total expenditures	140,091,226	5,090,833	10,686,085	2,783	10,420,053	166,290,980
Excess of Revenues Over (Under) Expenditures	3,878,188	(2,788,856)	(10,686,085)	66,417	(10,420,053)	(19,950,389)
Other Financing Sources (Uses)						
Transfers in (out), net	1,416,651	(873,166)	12,732,615	-	-	13,276,100
Net Change in Fund Balances	5,294,839	(3,662,022)	2,046,530	66,417	(10,420,053)	(6,674,289)
Fund Balances (Deficit), Beginning of Year, as Previously Reported	(884,762)	11,937,242	5,547,954	133,751	10,420,053	27,154,238
Adjustment applicable to prior years	(2,726,536)	(4,130,249)	-	(50,925)	-	(6,907,710)
Fund Balances (Deficit), Beginning of Year, as Restated	(3,611,298)	7,806,993	5,547,954	82,826	10,420,053	20,246,528
Fund Balances (Deficit), End of Year	\$ 1,683,541	\$ 4,144,971	\$ 7,594,484	\$ 149,243	\$ -	\$ 13,572,239

State of Mississippi
Department of Corrections
Combining Balance Sheet of Medical Budget Authority Fund
June 30, 2016

	Governmental Fund Type			Total
	2255400000	3355300000	6455A00000	
	Medical Fund	Medical Contingency Fund	Medical Capital Expense Fund	
Assets				
Cash	\$ 4,226,486	\$ 505,175	\$ -	\$ 4,731,661
Due from other funds	-	34,219	-	34,219
Total assets	\$ 4,226,486	\$ 539,394	\$ -	\$ 4,765,880
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 9,845,556	\$ -	\$ -	\$ 9,845,556
Accrued wages payable	10,610	-	-	10,610
Due to other funds	465,027	-	-	465,027
Due to local governments	153,642	-	-	153,642
Total liabilities	10,474,835	-	-	10,474,835
Fund Balances (Deficit)				
Committed to				
Law, justice and public safety	-	539,394	-	539,394
Unassigned	(6,248,349)	-	-	(6,248,349)
Total fund balances (deficit)	(6,248,349)	539,394	-	(5,708,955)
Total liabilities and fund balances	\$ 4,226,486	\$ 539,394	\$ -	\$ 4,765,880

State of Mississippi
Department of Corrections
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances of Medical Budget Authority Fund
Year Ended June 30, 2016

	Governmental Fund Type			Total
	2255400000	3355300000	6455A00000	
	Medical Fund	Medical Contingency Fund	Medical Capital Expense Fund	
Revenues				
State appropriation/allotment	\$ 63,908,437	\$ -	\$ -	\$ 63,908,437
Sales of supplies	-	148,757	-	148,757
Total revenues	63,908,437	148,757	-	64,057,194
Expenditures				
Current				
Salaries	225,187	-	-	225,187
Contractuals	65,095,573	-	1,774,072	66,869,645
Subsidies	695,517	-	-	695,517
Total expenditures	66,016,277	-	1,774,072	67,790,349
Net Change in Fund Balances	(2,107,840)	148,757	(1,774,072)	(3,733,155)
Fund Balances (Deficit), Beginning of Year, as Previously Reported	(524,165)	633,180	1,774,072	1,883,087
Adjustment applicable to prior years	(3,616,344)	(242,543)	-	(3,858,887)
Fund Balances (Deficit), Beginning of Year, as Restated	(4,140,509)	390,637	1,774,072	(1,975,800)
Fund Balances (Deficit), End of Year	\$ (6,248,349)	\$ 539,394	\$ -	\$ (5,708,955)

State of Mississippi
Department of Corrections
Combining Balance Sheet of Private Prison Budget Authority Fund
June 30, 2016

	Governmental Fund Type		Total
	2255500000	3356400000	
	Private Prison Fund	Private Prison Contingency Fund	
Assets			
Due from other funds	\$ 263,573	\$ -	\$ 263,573
Total assets	\$ 263,573	\$ -	\$ 263,573
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 4,642,162	\$ -	\$ 4,642,162
Due to local governments	79,052	-	79,052
Total liabilities	4,721,214	-	4,721,214
Fund Balances (Deficit)			
Unassigned	(4,457,641)	-	(4,457,641)
Total liabilities and fund balances	\$ 263,573	\$ -	\$ 263,573

State of Mississippi
Department of Corrections
Combining Statement of Revenues Expenditures and Changes in
Fund Balances of Private Prison Budget Authority Fund
Year Ended June 30, 2016

	Governmental Fund Type		Total
	2255500000	3356400000	
	Private Prison Fund	Private Prison Contingency Fund	
Revenues			
State appropriation/allotment	\$ 72,349,729	\$ -	\$ 72,349,729
Total revenues	72,349,729	-	72,349,729
Expenditures			
Current			
Contractuals	56,449,113	-	56,449,113
Debt service			
Principal	6,000,000	-	6,000,000
Interest and other charges	10,046,332	-	10,046,332
Total expenditures	72,495,445	-	72,495,445
Net Change in Fund Balances	(145,716)	-	(145,716)
Fund Balances (Deficit), Beginning of Year, as Previously Reported	526,482	-	526,482
Adjustment applicable to prior years	(4,838,407)	-	(4,838,407)
Fund Balances (Deficit), Beginning of Year, as Restated	(4,311,925)	-	(4,311,925)
Fund Balances (Deficit), End of Year	\$ (4,457,641)	\$ -	\$ (4,457,641)

State of Mississippi
Department of Corrections
Combining Balance Sheet of Regional Prison Budget Authority Fund
June 30, 2016

	Governmental Fund Type			Total
	2255600000	3356200000	6455B00000	
	Regional Prison Fund	Regional Prison Contingency Fund	Regional Prison Capital Expense Fund	
Assets				
Cash	\$ -	\$ 37,020	\$ -	\$ 37,020
Total assets	\$ -	\$ 37,020	\$ -	\$ 37,020
Liabilities and Fund Balances				
Liabilities				
Due to local governments	\$ 3,078,849	\$ -	\$ -	\$ 3,078,849
Total liabilities	3,078,849	-	-	3,078,849
Fund Balances (Deficit)				
Committed to				
Law, justice and public safety	-	37,020	-	37,020
Unassigned	(3,078,849)	-	-	(3,078,849)
Total fund balances (deficit)	(3,078,849)	37,020	-	(3,041,829)
Total liabilities and fund balances	\$ -	\$ 37,020	\$ -	\$ 37,020

State of Mississippi
Department of Corrections
Combining Statement of Revenues Expenditures and Changes in
Fund Balances of Regional Prison Budget Authority Fund
Year Ended June 30, 2016

	Governmental Fund Type			Total
	2255600000	3356200000	6455B00000	
	Regional Prison Fund	Regional Prison Contingency Fund	Regional Prison Capital Expense Fund	
Revenues				
State appropriation/allotment	\$ 42,100,951	\$ -	\$ -	\$ 42,100,951
Expenditures				
Current				
Contractuals	41,478,130	-	39,434	41,517,564
Other Financing Sources (Uses)				
Transfers out	-	37,020	-	37,020
Net Change in Fund Balances	622,821	37,020	(39,434)	620,407
Fund Balances (Deficit), Beginning of Year, as Previously Reported	(1,168,538)	-	39,434	(1,129,104)
Adjustment applicable to prior years	(2,533,132)	-	-	(2,533,132)
Fund Balances (Deficit), Beginning of Year, as Restated	(3,701,670)	-	39,434	(3,662,236)
Fund Balances (Deficit), End of Year	\$ (3,078,849)	\$ 37,020	\$ -	\$ (3,041,829)

State of Mississippi
Department of Corrections
Combining Balance Sheet of Local Budget Authority Fund
June 30, 2016

	Governmental Fund Type			
	2255700000	6455C00000	3355700000	
	Local			
	Local Confinement Fund	Local Confinement Capital Expense Fund	Confiscated Funds	Total
Assets				
Cash	\$ 2,892,517	\$ -	\$ 70,156	\$ 2,962,673
Due from other funds	-	-	1,150	1,150
Total assets	\$ 2,892,517	\$ -	\$ 71,306	\$ 2,963,823
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 65	\$ -	\$ -	\$ 65
Due to local governments	2,902,611	-	-	2,902,611
Total liabilities	2,902,676	-	-	2,902,676
Fund Balances (Deficit)				
Committed to				
Law, justice and public safety	-	-	71,306	71,306
Unassigned	(10,159)	-	-	(10,159)
Total fund balances (deficit)	(10,159)	-	71,306	61,147
Total liabilities and fund balances	\$ 2,892,517	\$ -	\$ 71,306	\$ 2,963,823

State of Mississippi
Department of Corrections
Combining Statement of Revenues Expenditures and Changes in
Fund Balances of Local Budget Authority Fund
Year Ended June 30, 2016

	Governmental Fund Type			
	2255700000	6455C00000	3355700000	Total
	Local Confinement Fund	Local Confinement Capital Expense Fund	Confiscated Funds	
Revenues				
State appropriation/allotment	\$ 7,570,438	\$ -	\$ -	\$ 7,570,438
Sales of supplies	-	-	31,045	31,045
Total revenues	7,570,438	-	31,045	7,601,483
Expenditures				
Current				
Contractuals	7,541,248	6,110	-	7,547,358
Other Financing Sources (Uses)				
Transfers	-	(1,760)	-	(1,760)
Net Change in Fund Balances	29,190	(7,870)	31,045	52,365
Fund Balances (Deficit), Beginning of Year, as Previously Reported	(39,349)	7,870	78,979	47,500
Adjustment applicable to prior years	-	-	(38,718)	(38,718)
Fund Balances (Deficit), Beginning of Year, as Restated	(39,349)	7,870	40,261	8,782
Fund Balances (Deficit), End of Year	\$ (10,159)	\$ -	\$ 71,306	\$ 61,147

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

Commissioner Pelicia Hall
State of Mississippi, Department of Corrections
Jackson, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the funds selected for audit consisting of the Support Budget Authority Fund, the Medical Budget Authority Fund, the Private Prison Budget Authority Fund, the Regional Prison Budget Authority Fund, the Local Budget Authority Fund, the Inmate Welfare Fund and the Area Supervision Fee Fund of the State of Mississippi, Department of Corrections (MDOC), which are comprised of a balance sheet as of June 30, 2016, and a statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2017, which contained *Emphasis of Matter* paragraphs regarding the entity reflected in the financial statements and a correction of a misstatement and *Other Matter* paragraphs regarding the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MDOC's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2016-022 and 2016-023 to be material weaknesses.

Compliance and Other Matters

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

We also noted certain matters that we reported to MDOC's management in a separate letter dated March 17, 2017.

MDOC's Response to Findings

MDOC's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Management's responses were not subjected to the auditing procedures applied in the audits of the financial statements and schedule and, accordingly, we express no opinion on them.

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 MDOC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDOC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
March 17, 2017

State of Mississippi
Department of Corrections
Schedule of Findings and Responses
Year Ended June 30, 2016

Reference Number	Finding
2016-022	<p><i>Criteria or Specific Requirement</i> – Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.</p> <p><i>Condition</i> – In 2015, MDOC recorded appropriations based on the budgeted appropriations for each fund. However, subsequent to the preparation of MDOC’s financial records (GAAP Packages) and subsequent to the issuance of the 2015 audit, the Mississippi Department of Finance & Administration (DFA) determined that actual appropriations should not have been based on budget but on the actual amount of appropriations that would be allocated to each fund. The actual appropriations amount is calculated and provided by the DFA.</p> <p><i>Effect</i> – A restatement of beginning fund balance was required to correct the recorded 2015 appropriations.</p> <p><i>Cause</i> – The timing of the actual appropriations entry, as posted by DFA, was not made until after the submission of MDOC’s GAAP Packages and the issuance of the 2015 audit. The actual appropriations to be applied to MDOC were unknown until that time.</p> <p><i>Recommendation</i> – MDOC should implement a process, whereby DFA provides the actual appropriations amount to MDOC before the closeout of either the GAAP Package process or the issuance of the annual audit.</p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i> – MDOC acknowledges that the actual appropriations allocated to each fund may vary from the budgeted appropriations. MDOC is dependent on DFA to provide this information, and DFA did not do so in 2015. MDOC will ensure, to the extent possible, that DFA provides this information in a timely manner in the future.</p>

State of Mississippi
Department of Corrections
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2016

Reference Number	Finding
2016-023	<p><i>Criteria or Specific Requirement</i> – Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.</p> <p><i>Condition</i> – Historically, MDOC has recognized contract payments for private prisons, regional prisons and medical contracts one month in arrears due to the timing of the contract invoices. During 2016, MDOC determined that appropriate GAAP was to record these contract payments on the modified accrual basis and recognize the expenditures at the time liabilities are incurred, which is the time the contract services are rendered.</p> <p><i>Effect</i> – A restatement of beginning fund balance was required to correct the cutoff of contract payments in the private prison, regional prison and medical fund.</p> <p><i>Cause</i> – MDOC’s designed accounting policies and procedures did not allow for these contract payments to be applied to the appropriate period in accordance with the modified accrual basis of accounting.</p> <p><i>Recommendation</i> – Management should implement a process, whereby invoices for contract payments are recorded in the period in which the services are rendered in accordance with the modified accrual basis of accounting.</p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i> – MDOC will implement a process whereas these contract payments are properly recorded in accordance with the modified accrual basis of accounting.</p>



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State of Mississippi
Department of Corrections
Canteen Fund

Independent Auditor's Reports and Financial Statements
June 30, 2016



State of Mississippi
Department of Corrections
Canteen Fund
June 30, 2016

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Independent Auditor's Report

Commissioner Pelicia Hall
State of Mississippi, Department of Corrections
Jackson, Mississippi

Report on the Financial Statements of Selected Funds

We have audited the accompanying financial statements of the Canteen Fund of the State of Mississippi, Department of Corrections (MDOC), which are comprised of a balance sheet as of June 30, 2016, and the statements of revenues, expenses and changes in net position and 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 financial statements referred to above present fairly, in all material respects, the financial position of the Canteen Fund of MDOC as of June 30, 2016, and the changes in its financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, the financial statements present only the Canteen Fund and do not purport to, and do not present fairly the financial position of MDOC as of June 30, 2016, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the pension information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. 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 financial statements and other knowledge we obtained during our audit of the 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Canteen Fund of MDOC's financial statements. The Schedule of Revenues, Expenses and Changes in Net Position – Enterprise Fund Type – Canteen Fund – By Location (the Schedule), as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2017, on our consideration of MDOC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDOC's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
March 17, 2017

State of Mississippi
Department of Corrections
Canteen Fund
Balance Sheet
Enterprise Fund Type
June 30, 2016

Assets and Deferred Outflows of Resources

Current Assets

Cash	\$ 35,532
Accounts receivable	<u>51,831</u>
Total current assets	<u>87,363</u>

Capital Assets, Net of Accumulated Depreciation	<u>28,553</u>
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Deferred Outflows of Resources - Pensions	<u>125,190</u>
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\$ 241,106

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities

Accounts payable	\$ 861
Due to other funds	119,953
Accrued payroll	<u>383</u>
Total current liabilities	<u>121,197</u>

Net Pension Liability	<u>664,695</u>
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Deferred Inflows of Resources - Pensions	<u>150,386</u>
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Net Position

Net investment in capital assets	28,553
Unrestricted	<u>(723,725)</u>
Total net position	<u>(695,172)</u>

\$ 241,106

State of Mississippi
Department of Corrections
Canteen Fund

Statement of Revenues, Expenses and Changes in Net Position
Enterprise Fund Type
Year Ended June 30, 2016

Operating Revenues	
Bagging administration fees	\$ 1,454,109
Third-party vendor sales	3,688,111
	<u>5,142,220</u>
 Cost of Goods Sold	 <u>3,688,111</u>
 Gross Profit	 <u>1,454,109</u>
 Operating Expenses	
Salaries	246,976
Travel	3,091
Contractuals	159,659
Commodities	171,762
	<u>581,488</u>
 Operating Income	 872,621
 Nonoperating Revenues (Expenses)	
Loss on disposal of asset	<u>(1,998)</u>
 Income Before Transfers	 870,623
 Transfers to Other Funds	 <u>(845,502)</u>
 Increase in Net Position	 25,121
 Net Position, Beginning of Year	 <u>(720,293)</u>
 Net Position, End of Year	 <u><u>\$ (695,172)</u></u>

State of Mississippi
Department of Corrections
Canteen Fund
Statement of Cash Flows
Enterprise Fund Type
Year Ended June 30, 2016

Operating Activities

Sales of products	\$ 5,699,170
Payments to suppliers for inventory purchases	(4,852,243)
Payments to employees	(277,089)
Payments for travel, commodities and contractual	<u>(334,512)</u>

Net cash provided by operating activities	<u>235,326</u>
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Noncapital Financing Activities

Operating transfers out	<u>(845,502)</u>
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Net cash used in noncapital financing activities	<u>(845,502)</u>
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Decrease in Cash	(610,176)
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Cash, Beginning of Year	<u>645,708</u>
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Cash, End of Year	<u><u>\$ 35,532</u></u>
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Reconciliation of Operating Income to Net Cash Used in Operating Activities

Operating income	\$ 872,621
Changes in	
Accounts receivable	556,950
Accounts payable	(495,371)
Accrued payroll and accrued payroll taxes	(2,994)
Due to other funds	(668,761)
Net pension liability	<u>(27,119)</u>

Net cash provided by operating activities	<u><u>\$ 235,326</u></u>
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State of Mississippi
Department of Corrections
Canteen Fund
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies

Background Information

The State of Mississippi, Department of Corrections (MDOC), an agency of the State of Mississippi, follows fund accounting with respect to its Canteen Fund and pursuant to applicable state statutes. Funds are received by MDOC on behalf of inmates to provide for certain essential and nonessential items such as toiletries, snacks and personal items and are handled through the Inmate Banking Fund.

Basis of Presentation

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

Revenue Recognition

Revenue and related fees on canteen sales are recognized when sales of products to inmates occur.

Account Classifications

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

Fund Accounting

The financial activities of the Canteen Fund are recorded in individual funds and account groups used to report the financial position and results of operations where applicable. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. The Fund utilizes the following fund category, which is further subdivided into separate “fund types.”

Proprietary Fund Type

- ***Enterprise Fund*** – This fund is used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the State has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

State of Mississippi
Department of Corrections
Canteen Fund
Notes to Financial Statements
June 30, 2016

Basis of Accounting and Measurement Focus

The Proprietary Fund type is reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net position (i.e., fund equity) is segregated into invested in net investment in capital assets and unrestricted components. Proprietary Fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position. The accrual basis of accounting is utilized. Under this method, revenues are recognized when earned, and expenses are recognized at the time liabilities are incurred, regardless of the timing of related cash flows.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

Interfund Receivables and Payables

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

Capital Assets

Capital assets acquired or constructed for proprietary fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the State’s financial statements. Donated capital assets are recorded at their fair market value at the time of donation. Canteen Fund capital assets, excluding land, are depreciated on the straight-line method over the following estimated useful lives of the respective asset, net of salvage value. The following estimated useful lives are being used by MDOC:

Mobile equipment	5 years
Other furniture and equipment	10 years

State of Mississippi
Department of Corrections
Canteen Fund
Notes to Financial Statements
June 30, 2016

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pensions expense, information about the fiduciary net position of the Public Employees' Retirement System of Mississippi (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position of MDOC is classified in two components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and related debt, if any. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets. Unrestricted net position represents the net position available for future operations or transfer to other funds.

Classification of Revenues

MDOC has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as sales and services.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions and other revenue sources that are defined as nonoperating revenues by GASB.

Note 2: Cash and Deposits

Custodial credit risk is the risk that in the event of bank failure, a government's deposits may not be returned. The fund's deposit policy for protection of custodial risk is handled under a statewide collateral program. The collateral for public entities' deposits in financial institutions is held by the depository bank in the name of the State Treasurer under a program established by the State of Mississippi Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entities' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged

State of Mississippi
Department of Corrections
Canteen Fund
Notes to Financial Statements
June 30, 2016

by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Note 3: Capital Assets

The Canteen Fund capital assets activity for the year ended June 30, 2016 follows.

Category	Beginning Balance	Additions	Disposals	Ending Balance
Mobile equipment	\$ 305,151	\$ -	\$ (19,975)	\$ 285,176
Other furniture and equipment	131,676	-	-	131,676
	436,827	-	(19,975)	416,852
Less accumulated depreciation	(406,276)	-	17,977	(388,299)
Net capital assets	<u>\$ 30,551</u>	<u>\$ -</u>	<u>\$ (1,998)</u>	<u>\$ 28,553</u>

Note 4: Transactions With Other Funds

Through February 2016, the Inmate Banking Fund paid the Canteen Fund once a month for all the previous month's sales. Also, the Canteen Fund transferred its profits to the Inmate Welfare Fund at unscheduled times during the year.

Beginning in March 2016, the inmate banking operations were outsourced to the same contractor providing canteen operations, and the resulting gross profits from the canteen are transferred from the operator directly into the Inmate Welfare Fund. Previously, gross profits were deposited into the Canteen Fund and then transferred to the Inmate Welfare Fund.

The following are amounts due to and from each fund, as well as the transfers made for the year.

State of Mississippi
Department of Corrections
Canteen Fund
Notes to Financial Statements
June 30, 2016

Interfund receivables and payables at June 30, 2016, are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Canteen Fund		
Inmate Welfare Fund	\$ -	\$ 119,953

Interfund transfers for the year ended June 30, 2016, are as follows:

	<u>Transfer to Other Funds</u>	<u>Transfer From Other Funds</u>
Canteen Fund		
Inmate Welfare Fund	\$ 845,502	\$ -

Note 5: Claims and Judgments

Risk Financing

The Canteen Fund finances its exposure to risk of loss related to workers' compensation for injuries to its employees through a self-funded plan with MDOC. The plan calls for a third-party administrator and reinsurance coverage to cover claims over a specified amount per occurrence.

The Fund is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which, with the exception of employee dishonesty, the State does not carry commercial insurance to protect against these and other types of risks.

Note 6: Pension Plan

Plan Description

MDOC contributes to PERS, a cost sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments (COLA) 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

State of Mississippi
Department of Corrections
Canteen Fund
Notes to Financial Statements
June 30, 2016

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

Benefits Provided

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

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

Contributions

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

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

State of Mississippi
Department of Corrections
Canteen Fund
Notes to Financial Statements
June 30, 2016

employer contribution rates, the actuary evaluates the assets of the plan based on a five-year smoothed expected return with 20.00% of a year's excess or shortfall of expected return recognized each year for five years. Contribution rates are determined using the entry age actuarial cost method and include provisions for an annual 3.00% cost-of-living increase calculated according to the terms of the respective plan.

Employees are required to contribute 9.00% of their annual pay. The employer's contractually required contribution rate for the year ended June 30, 2016, was 15.75% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, contributions to the pension plan from MDOC were \$50,910.

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

At June 30, 2016, MDOC's Canteen Fund reported a liability of \$664,695 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Canteen Fund's proportion of the net pension liability was based on employer contributions to PERS for the Plan's fiscal year ended June 30, 2015, relative to the total employer contributions of participating employers to PERS. At June 30, 2015, MDOC Canteen Fund's proportion was 0.0043%, which was a decrease of 0.0013% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Canteen Fund recognized pension expense of \$20,816. At June 30, 2016, the Canteen Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 17,019	\$ -
Changes of assumptions or other inputs	57,261	-
Change in proportionate share	-	115,378
Net difference between projected and actual earnings on pension plan investments	-	35,008
Contributions subsequent to the measurement date	50,910	-
	<u>\$ 125,190</u>	<u>\$ 150,386</u>

State of Mississippi
Department of Corrections
Canteen Fund
Notes to Financial Statements
June 30, 2016

At June 30, 2016, MDOC's Canteen Fund reported \$50,910 as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year 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 Ending June 30	Amount
2017	\$ (28,702)
2018	(29,541)
2019	(27,586)
2020	<u>9,723</u>
	<u>\$ (76,106)</u>

Actuarial Assumptions

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

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

Mortality rates were based on the RP-2014 Health Annuitant Blue Collar Table Projected with Scale BB to 2026, set forward two years for males.

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

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

State of Mississippi
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Canteen Fund
Notes to Financial Statements
June 30, 2016

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

Asset Class	Target Allocation Percentage	Long-term Expected Real Rate of Return
U.S. Broad	34.00%	5.20%
International equity	19.00%	5.00%
Emerging markets equity	8.00%	5.45%
Fixed income	20.00%	0.25%
Real assets	10.00%	4.00%
Private equity	8.00%	6.15%
Cash	1.00%	-0.50%
	100.00%	

Discount Rate

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

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

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

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75%)
Proportionate share of the net pension liability	\$ 876,129	\$ 664,695	\$ 489,245

Other Information

State of Mississippi Department of Corrections

Schedule of Revenues, Expenses and Changes in Net Position – Enterprise Fund Type – Canteen Fund – By Location Year Ended June 30, 2016

	Location									
	Central MS Correctional Facility	East MS Correctional Facility	Marshall County Correctional Facility	MS State Penitentiary	South MS Correctional Institute	Wilkinson County Correctional Facility	Walnut Grove Correctional Facility	Community Work Centers	Other	Total
Operating Revenues										
Bagging administration fees	\$ 388,226	\$ 83,313	\$ 138,175	\$ 264,733	\$ 270,744	\$ 83,689	\$ 115,849	\$ 109,380	\$ -	\$ 1,454,109
Third-party vendor sales	-	-	-	-	-	-	-	-	3,688,111	3,688,111
	388,226	83,313	138,175	264,733	270,744	83,689	115,849	109,380	3,688,111	5,142,220
Cost of Goods Sold	-	-	-	-	-	-	-	-	3,688,111	3,688,111
Gross Profit	388,226	83,313	138,175	264,733	270,744	83,689	115,849	109,380	-	1,454,109
Operating Expenses										
Salaries	-	-	-	12,291	-	-	-	-	234,685	246,976
Travel	-	-	-	-	-	-	-	-	3,091	3,091
Contractuals	109,204	32,225	51,318	66,874	74,779	33,424	41,501	29,134	(278,800)	159,659
Commodities	54,164	-	-	55,628	48,065	-	-	-	13,905	171,762
	163,368	32,225	51,318	134,793	122,844	33,424	41,501	29,134	(27,119)	581,488
Operating Income	224,858	51,088	86,857	129,940	147,900	50,265	74,348	80,246	27,119	872,621
Nonoperating Revenues (Expenses)										
Loss on disposal of asset	-	-	-	-	-	-	-	-	(1,998)	(1,998)
Income Before Transfers	224,858	51,088	86,857	129,940	147,900	50,265	74,348	80,246	25,121	870,623
Transfers to Other Funds	(224,858)	(51,088)	(86,857)	(129,940)	(147,900)	(50,265)	(74,348)	(80,246)	-	(845,502)
Increase in Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,121	\$ 25,121

Required Supplementary Information

**State of Mississippi
Department of Corrections
Canteen Fund**

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

	2016	2015
Employer's proportion of the net pension liability	0.0043%	0.0056%
Employer's proportionate share of the net pension liability	\$ 664,695	\$ 679,737
Employer's covered-employee payroll	\$ 267,886	\$ 379,043
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	248.1%	179.3%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	67.21%

Notes to Schedule:

Information above is presented as of the measurement date.

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The information presented in this schedule has been determined as of the measurement date in accordance with GASB 68.

State of Mississippi
Department of Corrections
Canteen Fund
Schedule of the Employer's Contributions

	2016	2015
Statutorily required contribution	\$ 50,910	\$ 42,192
Contributions in relation to the statutorily required contribution	<u>50,910</u>	<u>42,192</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 323,238	\$ 267,886
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

Notes to Schedule:

Information above is presented as of the employer's fiscal year.

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The information presented in this schedule has been determined as of the employer's fiscal year-end in accordance with GASB 68.

Changes of Assumptions:

2015

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate-of-return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

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

Commissioner Pelicia Hall
State of Mississippi, Department of Corrections
Jackson, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Canteen Fund of the State of Mississippi, Department of Corrections (MDOC), which are comprised of a balance sheet as of June 30, 2016, and the statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2017, which contained an *Emphasis of Matter* paragraph regarding the entity reflected in the financial statements and an *Other Matter* paragraph regarding the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

Management of MDOC is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered MDOC's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDOC's internal control. Accordingly, we do not express an opinion on the effectiveness of MDOC'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 MDOC'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, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We also noted certain matters that we reported to MDOC's management in a separate letter dated March 17, 2017.

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 MDOC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
March 17, 2017