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**State of Mississippi
Department of Corrections**

Independent Auditor's Reports and
Financial Statements of Funds Selected for Audit
June 30, 2017



State of Mississippi
Department of Corrections
June 30, 2017

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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 (Selected Funds of MDOC), which are comprised of a balance sheet as of June 30, 2017, 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 the Selected Funds of MDOC as of June 30, 2017, 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 the Selected Funds of MDOC as of June 30, 2017, 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.

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 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 opinions on the financial statements are 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 February 8, 2018, on our consideration of the Selected Funds 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 the Selected Funds of MDOC's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
February 8, 2018

State of Mississippi
Department of Corrections
Balance Sheets of Funds Selected for Audit
June 30, 2017

	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	\$ 7,934,557	\$ 1,465,501	\$ -	\$ 37,020	\$ 2,339,911	\$ 824,839	\$ 34,390
Cash with fiscal agent	3,590	-	-	-	-	-	-
Due from other funds	1,412,813	5,694	263,573	-	-	238,669	-
Accounts receivable	143,101	321	-	-	2,539	-	-
Inventories	3,664,683	-	-	-	-	-	-
Total assets	\$ 13,158,744	\$ 1,471,516	\$ 263,573	\$ 37,020	\$ 2,342,450	\$ 1,063,508	\$ 34,390
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 3,716,569	\$ 10,081,706	\$ -	\$ -	\$ -	\$ 57,100	\$ -
Cash payments in excess of available balance	674,588	-	-	-	-	-	-
Accrued wages payable	4,311,072	10,609	-	-	-	-	-
Due to other funds	258,926	263,573	-	-	-	-	34,390
Due to local governments	196,997	-	3,393,117	3,174,268	2,291,421	-	-
Total liabilities	9,158,152	10,355,888	3,393,117	3,174,268	2,291,421	57,100	34,390
Fund Balances (Deficit)							
Nonspendable							
Inventories	3,664,683	-	-	-	-	-	-
Restricted for							
Law, justice and public safety	6,718,317	-	-	-	-	1,233,852	-
Committed to							
Law, justice and public safety	-	723,670	-	37,020	78,976	-	-
Unassigned	(6,382,408)	(9,608,042)	(3,129,544)	(3,174,268)	(27,947)	(227,444)	-
Total fund balances (deficit)	4,000,592	(8,884,372)	(3,129,544)	(3,137,248)	51,029	1,006,408	-
Total liabilities and fund balances	\$ 13,158,744	\$ 1,471,516	\$ 263,573	\$ 37,020	\$ 2,342,450	\$ 1,063,508	\$ 34,390

State of Mississippi
Department of Corrections
Statements of Revenues, Expenditures and Changes in Fund Balances of Funds Selected for Audit
Year Ended June 30, 2017

	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	\$ 138,898,827	\$ 66,029,905	\$ 61,035,278	\$ 39,035,521	\$ 6,641,454	\$ -	\$ -
Federal grants	237,363	-	-	-	-	-	-
Sales of supplies	1,494,521	184,276	-	-	7,670	-	-
Area supervision fees	-	-	-	-	-	-	12,732,281
Commissions	-	-	-	-	-	1,007,945	-
Other income	2,734	-	-	-	-	-	-
Total revenues	140,633,445	66,214,181	61,035,278	39,035,521	6,649,124	1,007,945	12,732,281
Expenditures							
Current							
Salaries	108,264,285	275,972	-	-	-	-	-
Travel	541,512	-	-	-	-	5,622	-
Contractuals	39,144,781	69,113,626	43,889,794	39,130,940	6,659,242	525,573	417
Commodities	8,345,845	-	-	-	-	360,447	-
Debt service							
Principal	1,635,817	-	7,035,872	-	-	-	-
Interest and other charges	243,072	-	10,010,080	-	-	-	-
Bond Issuance Cost	-	-	240,029	-	-	-	-
Capital outlay	2,518,972	-	-	-	-	-	-
Subsidies	202,410	-	-	-	-	-	-
Total expenditures	160,896,694	69,389,598	61,175,775	39,130,940	6,659,242	891,642	417
Excess of Revenues Over (Under) Expenditures	(20,263,249)	(3,175,417)	(140,497)	(95,419)	(10,118)	116,303	12,731,864
Other Financing Sources (Uses)							
Transfers in (out), net	10,688,825	-	-	-	-	(1,557,145)	(12,731,864)
Proceeds from issuance of debt	-	-	108,255,000	-	-	-	-
Premium on issuance of debt	-	-	15,542,295	-	-	-	-
Payment to bond refunding escrow agent	-	-	(122,328,701)	-	-	-	-
	10,688,825	-	1,468,594	-	-	(1,557,145)	(12,731,864)
Net Change in Fund Balances	(9,574,424)	(3,175,417)	1,328,097	(95,419)	(10,118)	(1,440,842)	-
Fund Balances (Deficit), Beginning of Year	13,575,016	(5,708,955)	(4,457,641)	(3,041,829)	61,147	2,447,250	-
Fund Balances (Deficit), End of Year	\$ 4,000,592	\$ (8,884,372)	\$ (3,129,544)	\$ (3,137,248)	\$ 51,029	\$ 1,006,408	\$ -

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2017

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, 6456700000 – Capital Expense Fund, 2255800000 – Parchman General Fund, 2255900000 – Central Mississippi Correctional Facility General Fund, 2256000000 – South Mississippi Correctional Institute, 2256100000 – Community Corrections General Fund, and 2256200000 – Central Office General 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. During 2017, the private prison at Walnut Grove Correction Facility was closed. The closure of this prison will not impact MDOC's requirement to make debt service payments.
- 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** (Funds 8809100000 and 3356100000) is used to account for revenues and other sources received by MDOC through phone, canteen and vending

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commissions, and related expenditures to provide for certain benefits for the inmates. In 2017, phone commissions were phased out by law. Also, beginning in March 2016, Canteen commission were deposited directly in the Inmate Welfare Fund from the third-party canteen vendor. As these payments were required to be remitted to MDOC through the Mississippi Office of the State Treasurer, the canteen commissions are reported as transfers in the accompanying statements of revenues, expenditures and changes in fund balances.

- G. The Area Supervision Fee Fund** (Fund 8810500000) is used to account for supervision fees paid by parolees and probationers and their subsequent remittance to other designated state treasury funds.

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.

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Notes to Financial Statements of Funds Selected for Audit
June 30, 2017

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 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 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, 2017, 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 was recorded at June 30, 2017.

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Notes to Financial Statements of Funds Selected for Audit
June 30, 2017

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 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, 2017.
- ***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, 2017, 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.

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Department of Corrections**

Notes to Financial Statements of Funds Selected for Audit

June 30, 2017

Note 2: Cash and Other Deposits

Custodial risk is the risk that in the event of bank failure, a government's deposits may not be returned. The fund's deposit policy for protection of custodial risk is handled under a statewide collateral program. The collateral for public entities' deposits in financial institutions is held by the depository bank in the name of the State Treasurer under a program established by the 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 by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Note 3: Defined Benefit Pension Plan

MDOC participates in the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments (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 2017, 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.

Note 4: Interfund Receivables, Payables and Transfers

Interfund receivables and payables at June 30, 2017, are as follows:

	Interfund Receivables	Interfund Payables
Support Budget Authority Fund		
General Support Fund		
Central Office General Fund	\$ 401,940	\$ -

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2017

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Support Contingency Fund		
State of Mississippi	\$ 1,350,088	\$ -
Inmate Welfare Fund	-	238,669
General Support Grant Fund	-	88,290
Parole Board	-	375
Training Revolving Fund	-	1,702
Medical Fund	-	3,000
Medical Contingency Fund	-	2,694
Community Corrections General Fund	-	4,660
Central Office General Fund	-	2,036
	<u>1,350,088</u>	<u>341,426</u>
Community Corrections Fund		
Area Supervision Fee Fund	<u>31,374</u>	<u>-</u>
General Support Grant Fund		
General Support Contingency Fund	88,290	-
State of Mississippi	<u>17,201</u>	<u>-</u>
	<u>105,491</u>	<u>-</u>
Parchman General Fund		
Central Office General Fund	<u>10,938</u>	<u>200,229</u>
Central Mississippi Correctional Facility General Fund		
Central Office General Fund	<u>669,900</u>	<u>1,082,718</u>
South Mississippi Correctional Institution General Fund		
Central Office General Fund	<u>-</u>	<u>182,887</u>
Community Corrections General Fund		
General Support Contingency Fund	4,660	-
State of Mississippi	<u>-</u>	<u>208</u>
	<u>4,660</u>	<u>208</u>

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Notes to Financial Statements of Funds Selected for Audit
June 30, 2017

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Central Office General Fund		
General Support Fund	\$ -	\$ 401,940
General Support Contingency Fund	2,036	-
Parchman General Fund	200,229	10,938
Central Mississippi Correctional Facility General Fund	1,082,718	669,900
South Mississippi Correctional Institution General Fund	182,887	-
State of Mississippi	<u>3,212</u>	<u>1,340</u>
	1,471,082	1,084,118
Eliminations	<u>(2,632,660)</u>	<u>(2,632,660)</u>
Total Support Budget Authority Fund	<u><u>\$ 1,412,813</u></u>	<u><u>\$ 258,926</u></u>
Medical Budget Authority Fund		
Medical Fund		
General Support Contingency Fund	\$ 3,000	\$ -
Private Prison Fund	<u>-</u>	<u>263,573</u>
	<u>3,000</u>	<u>263,573</u>
Medical Contingency Fund		
General Support Contingency Fund	<u>2,694</u>	<u>-</u>
Total Medical Budget Authority Fund	<u><u>\$ 5,694</u></u>	<u><u>\$ 263,573</u></u>
Private Prison Budget Authority Fund		
Private Prison Fund		
Medical Fund	<u><u>\$ 263,573</u></u>	<u><u>\$ -</u></u>

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June 30, 2017

	Interfund Receivables	Interfund Payables
Inmate Welfare Fund		
General Support Contingency Fund	<u>\$ 238,669</u>	<u>\$ -</u>
Area Supervision Fee Fund		
Community Corrections Fund	\$ -	\$ 31,374
Training Revolving Fund	-	1,719
Crime Victims Compensation Fund	<u>-</u>	<u>1,297</u>
	<u>\$ -</u>	<u>\$ 34,390</u>

Interfund transfers for the year ended June 30, 2017, are as follows:

	Interfund Transfers Out	Interfund Transfers In
Support Budget Authority Fund		
General Support Fund		
State of Mississippi	<u>\$ 44</u>	<u>\$ 370,102</u>
General Support Contingency Fund		
Inmate Welfare Fund	238,669	-
State of Mississippi	<u>1,500,000</u>	<u>2,261,696</u>
	<u>\$ 1,738,669</u>	<u>\$ 2,261,696</u>

**State of Mississippi
Department of Corrections**

**Notes to Financial Statements of Funds Selected for Audit
June 30, 2017**

	Interfund Transfers Out	Interfund Transfers In
Community Corrections Fund		
Area Supervision Fee Fund	\$ -	\$ 11,655,194
State of Mississippi	<u>1,018,746</u>	<u>-</u>
	<u>1,018,746</u>	<u>11,655,194</u>
Central Mississippi Correctional Facility General Fund		
State of Mississippi	<u>280,156</u>	<u>-</u>
Central Office General Fund		
State of Mississippi	<u>560,552</u>	<u>-</u>
Total Support Budget Authority Fund	<u><u>\$ 3,598,167</u></u>	<u><u>\$ 14,286,992</u></u>
Inmate Welfare Fund		
General Support Contingency Fund	\$ -	\$ 238,669
State of Mississippi	6,693,716	4,897,902
Eliminations	<u>3,455,195</u>	<u>3,455,195</u>
Total Inmate Welfare Fund	<u><u>\$ 3,238,521</u></u>	<u><u>\$ 1,681,376</u></u>
Area Supervision Fee Fund		
Community Corrections Fund	\$ 11,655,194	\$ -
Crime Victims Compensation Fund	598,150	-
Training Revolving Fund	<u>478,520</u>	<u>-</u>
Total Area Supervision Fee Fund	<u><u>\$ 12,731,864</u></u>	<u><u>\$ -</u></u>

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Notes to Financial Statements of Funds Selected for Audit
June 30, 2017

Note 5: 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.

Note 6: Bond Proceeds

During 2017, MDOC issued \$108,255,000 of special obligation bonds at a premium of \$15,542,295. 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, 2017

	Governmental Fund Type											
	2255100000	3355100000	3356600000	5355100000	6456700000	2255800000	2255900000	2256000000	2256100000	2256200000		
	General Support Fund	General Support Contingency Fund	Community Corrections Fund	General Support Grant Fund	Capital Expense Fund	Parchman General Fund	Central MS Corr. Fac. General Fund	South MS Corr. Inst. General Fund	Community Corrections General Fund	Central Office General Fund	Eliminations	Total
Assets												
Cash	\$ 408,150	\$ 2,011,074	\$ 2,333,042	\$ 61,870	\$ -	\$ 542,435	\$ 1,923,688	\$ 654,298	\$ -	\$ -	\$ -	\$ 7,934,557
Cash with fiscal agent	-	3,590	-	-	-	-	-	-	-	-	-	3,590
Due from other funds	401,940	1,350,088	31,374	105,491	-	10,938	669,900	-	4,660	1,471,082	(2,632,660)	1,412,813
Accounts receivable	-	143,101	-	-	-	-	-	-	-	-	-	143,101
Inventories	3,664,683	-	-	-	-	-	-	-	-	-	-	3,664,683
Total assets	\$ 4,474,773	\$ 3,507,853	\$ 2,364,416	\$ 167,361	\$ -	\$ 553,373	\$ 2,593,588	\$ 654,298	\$ 4,660	\$ 1,471,082	\$ (2,632,660)	\$ 13,158,744
Liabilities and Fund Balances												
Liabilities												
Accounts payable	\$ 195,555	\$ 22,858	\$ 179,030	\$ -	\$ -	\$ 173,678	\$ 122,360	\$ 386,067	\$ 128,803	\$ 2,508,218	\$ -	\$ 3,716,569
Cash payments in excess of available balance	-	-	-	-	-	-	-	-	639,707	34,881	-	674,588
Accrued wages payable	3,933,640	377,432	-	-	-	-	-	-	-	-	-	4,311,072
Due to other funds	-	341,426	-	-	-	200,229	1,082,718	182,887	208	1,084,118	(2,632,660)	258,926
Due to local governments	5,446	-	-	-	-	-	-	53,887	56,723	80,941	-	196,997
Total liabilities	4,134,641	741,716	179,030	-	-	373,907	1,205,078	622,841	825,441	3,708,158	(2,632,660)	9,158,152
Fund Balances (Deficit)												
Nonspendable												
Inventories	3,664,683	-	-	-	-	-	-	-	-	-	-	3,664,683
Restricted for												
Law, justice and public safety	-	2,766,137	2,185,386	167,361	-	179,466	1,388,510	31,457	-	-	-	6,718,317
Unassigned	(3,324,551)	-	-	-	-	-	-	-	(820,781)	(2,237,076)	-	(6,382,408)
Total fund balances (deficit)	340,132	2,766,137	2,185,386	167,361	-	179,466	1,388,510	31,457	(820,781)	(2,237,076)	-	4,000,592
Total liabilities and fund balances	\$ 4,474,773	\$ 3,507,853	\$ 2,364,416	\$ 167,361	\$ -	\$ 553,373	\$ 2,593,588	\$ 654,298	\$ 4,660	\$ 1,471,082	\$ (2,632,660)	\$ 13,158,744

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, 2017

	Governmental Fund Type										Total
	2255100000	3355100000	3356600000	5355100000	6456700000	2255800000	2255900000	2256000000	2256100000	2256200000	
	General Support Fund	General Support Contingency Fund	Community Corrections Fund	General Support Grant Fund	Capital Expense Fund	Parchman General Fund	Central MS Corr. Fac. General Fund	South MS Corr. Inst. General Fund	Community Corrections General Fund	Central Office General Fund	
Revenues											
State appropriation/allotment	\$ (1,631,986)	\$ -	\$ -	\$ -	\$ -	\$ 30,541,691	\$ 28,682,882	\$ 17,824,718	\$ 15,877,062	\$ 47,604,460	\$ 138,898,827
Federal grants	-	164,199	-	73,164	-	-	-	-	-	-	237,363
Sales of supplies	-	1,494,521	-	-	-	-	-	-	-	-	1,494,521
Other income	1,718	1,016	-	-	-	-	-	-	-	-	2,734
Total revenues	(1,630,268)	1,659,736	-	73,164	-	30,541,691	28,682,882	17,824,718	15,877,062	47,604,460	140,633,445
Expenditures											
Current											
Salaries	140,209	2,903,726	13,991,821	12,568	-	26,332,079	23,809,491	14,886,974	13,316,668	12,870,749	108,264,285
Travel	(576)	15,330	8,661	465	-	43,040	38,606	42,172	223,717	170,097	541,512
Contractuals	29,588	18,312	2,044,351	1,502	-	2,048,619	1,362,961	1,389,663	2,290,530	29,959,255	39,144,781
Commodities	(504,982)	385,460	713	-	-	1,763,865	1,570,699	1,084,235	534,440	3,511,415	8,345,845
Debt service											
Principal	348,518	-	-	-	-	-	-	-	-	1,287,299	1,635,817
Interest and other charges	21,584	-	-	-	-	-	-	-	-	221,488	243,072
Capital outlay	48,858	79,342	-	-	-	174,622	232,796	390,725	332,688	1,259,941	2,518,972
Subsidies	-	159,427	-	40,511	-	-	-	-	-	2,472	202,410
Total expenditures	83,199	3,561,597	16,045,546	55,046	-	30,362,225	27,014,553	17,793,769	16,698,043	49,282,716	160,896,694
Excess of Revenues Over (Under) Expenditures	(1,713,467)	(1,901,861)	(16,045,546)	18,118	-	179,466	1,668,329	30,949	(820,981)	(1,678,256)	(20,263,249)
Other Financing Sources (Uses)											
Transfers in (out), net	370,058	523,027	10,636,448	-	-	-	(280,156)	-	-	(560,552)	10,688,825
Net Change in Fund Balances	(1,343,409)	(1,378,834)	(5,409,098)	18,118	-	179,466	1,388,173	30,949	(820,981)	(2,238,808)	(9,574,424)
Fund Balances (Deficit), Beginning of Year	1,683,541	4,144,971	7,594,484	149,243	-	-	337	508	200	1,732	13,575,016
Fund Balances (Deficit), End of Year	\$ 340,132	\$ 2,766,137	\$ 2,185,386	\$ 167,361	\$ -	\$ 179,466	\$ 1,388,510	\$ 31,457	\$ (820,781)	\$ (2,237,076)	\$ 4,000,592

Note: Negative figures above represent accruals made in one fund and setteled in a separate fund.

State of Mississippi
Department of Corrections
Combining Balance Sheet of Medical Budget Authority Fund
June 30, 2017

	Governmental Fund Type			Total
	2255400000	3355300000	6455A00000	
	Medical Fund	Medical Contingency Fund	Medical Capital Expense Fund	
Assets				
Cash	\$ 744,846	\$ 720,655	\$ -	\$ 1,465,501
Due from other funds	3,000	2,694	-	5,694
Accounts receivable	-	321	-	321
Total assets	\$ 747,846	\$ 723,670	\$ -	\$ 1,471,516
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 10,081,706	\$ -	\$ -	\$ 10,081,706
Accrued wages payable	10,609	-	-	10,609
Due to other funds	263,573	-	-	263,573
Total liabilities	10,355,888	-	-	10,355,888
Fund Balances (Deficit)				
Committed to				
Law, justice and public safety	-	723,670	-	723,670
Unassigned	(9,608,042)	-	-	(9,608,042)
Total fund balances (deficit)	(9,608,042)	723,670	-	(8,884,372)
Total liabilities and fund balances	\$ 747,846	\$ 723,670	\$ -	\$ 1,471,516

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, 2017

	Governmental Fund Type			Total
	2255400000	3355300000	6455A00000	
	Medical Fund	Medical Contingency Fund	Medical Capital Expense Fund	
Revenues				
State appropriation/allotment	\$ 66,029,905	\$ -	\$ -	\$ 66,029,905
Sales of supplies	-	184,276	-	184,276
Total revenues	66,029,905	184,276	-	66,214,181
Expenditures				
Current				
Salaries	275,972	-	-	275,972
Contractuals	69,113,626	-	-	69,113,626
Total expenditures	69,389,598	-	-	69,389,598
Net Change in Fund Balances	(3,359,693)	184,276	-	(3,175,417)
Fund Balances (Deficit), Beginning of Year	(6,248,349)	539,394	-	(5,708,955)
Fund Balances (Deficit), End of Year	\$ (9,608,042)	\$ 723,670	\$ -	\$ (8,884,372)

State of Mississippi
Department of Corrections
Combining Balance Sheet of Private Prison Budget Authority Fund
June 30, 2017

	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			
Due to local governments	\$ 3,393,117	\$ -	\$ 3,393,117
Total liabilities	3,393,117	-	3,393,117
Fund Balances (Deficit)			
Unassigned	(3,129,544)	-	(3,129,544)
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, 2017

	Governmental Fund Type		
	2255500000	3356400000	
	Private Prison Fund	Private Prison Contingency Fund	Total
Revenues			
State appropriation/allotment	\$ 61,035,278	\$ -	\$ 61,035,278
Total revenues	61,035,278	-	61,035,278
Expenditures			
Current			
Contractuals	43,889,794	-	43,889,794
Debt service			
Principal	7,035,872	-	7,035,872
Interest and other charges	10,010,080	-	10,010,080
Bond issuance cost	240,029	-	240,029
Total expenditures	61,175,775	-	61,175,775
Excess of Revenues Over (Under) Expenditures	(140,497)	-	(140,497)
Other Financing Sources (Uses)			
Proceeds from issuance of debt	108,255,000	-	108,255,000
Premium on issuance of debt	15,542,295	-	15,542,295
Payment to bond refunding escrow agent	(122,328,701)	-	(122,328,701)
	1,468,594	-	1,468,594
Net Change in Fund Balances	1,328,097	-	1,328,097
Fund Balances (Deficit), Beginning of Year	(4,457,641)	-	(4,457,641)
Fund Balances (Deficit), End of Year	\$ (3,129,544)	\$ -	\$ (3,129,544)

State of Mississippi
Department of Corrections
Combining Balance Sheet of Regional Prison Budget Authority Fund
June 30, 2017

	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	\$ 3,174,268	\$ -	\$ -	\$ 3,174,268
Total liabilities	3,174,268	-	-	3,174,268
Fund Balances (Deficit)				
Committed to				
Law, justice and public safety	-	37,020	-	37,020
Unassigned	(3,174,268)	-	-	(3,174,268)
Total fund balances (deficit)	(3,174,268)	37,020	-	(3,137,248)
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, 2017

	Governmental Fund Type			Total
	2255600000	3356200000	6455B00000	
	Regional Prison Fund	Regional Prison Contingency Fund	Regional Prison Capital Expense Fund	
Revenues				
State appropriation/allotment	\$ 39,035,521	\$ -	\$ -	\$ 39,035,521
Total revenues	39,035,521	-	-	39,035,521
Expenditures				
Current				
Contractuals	39,130,940	-	-	39,130,940
Total expenditures	39,130,940	-	-	39,130,940
Net Change in Fund Balances	(95,419)	-	-	(95,419)
Fund Balances (Deficit), Beginning of Year	(3,078,849)	37,020	-	(3,041,829)
Fund Balances (Deficit), End of Year	\$ (3,174,268)	\$ 37,020	\$ -	\$ (3,137,248)

State of Mississippi
Department of Corrections
Combining Balance Sheet of Local Budget Authority Fund
June 30, 2017

	Governmental Fund Type				
	2255700000	6455C00000	3355700000		
	Local Confinement Fund	Local Confinement Capital Expense Fund	Confiscated Funds		Total
Assets					
Cash	\$ 2,263,474	\$ -	\$ 76,437	\$	2,339,911
Accounts receivable	-	-	2,539		2,539
Total assets	\$ 2,263,474	\$ -	\$ 78,976	\$	2,342,450
Liabilities and Fund Balances					
Liabilities					
Due to local governments	\$ 2,291,421	\$ -	\$ -	\$	2,291,421
Total liabilities	2,291,421	-	-		2,291,421
Fund Balances (Deficit)					
Committed to					
Law, justice and public safety	-	-	78,976		78,976
Unassigned	(27,947)	-	-		(27,947)
Total fund balances (deficit)	(27,947)	-	78,976		51,029
Total liabilities and fund balances	\$ 2,263,474	\$ -	\$ 78,976	\$	2,342,450

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, 2017

	Governmental Fund Type			
	2255700000	6455C00000	3355700000	Total
	Local			
	Local	Local		
Confinement	Confinement	Confiscated		
	Fund	Fund	Funds	
Revenues				
State appropriation/allotment	\$ 6,641,454	\$ -	\$ -	\$ 6,641,454
Sales of supplies	-	-	7,670	7,670
Total revenues	6,641,454	-	7,670	6,649,124
Expenditures				
Current				
Contractuals	6,659,242	-	-	6,659,242
Total expenditures	6,659,242	-	-	6,659,242
Net Change in Fund Balances	(17,788)	-	7,670	(10,118)
Fund Balances (Deficit), Beginning of Year	(10,159)	-	71,306	61,147
Fund Balances (Deficit), End of Year	\$ (27,947)	\$ -	\$ 78,976	\$ 51,029

State of Mississippi
Department of Corrections
Combining Balance Sheet of Inmate Welfare Fund
Year Ended June 30, 2017

	Governmental Fund Type				
	8809100000	3356100000			
	Inmate Welfare Fund	Inmate Welfare Fund	Eliminations		Fund
Assets					
Cash	\$ -	\$ 824,839	\$ -	\$	824,839
Due from other funds	-	448,317	(209,648)		238,669
Total assets	\$ -	\$ 1,273,156	\$ (209,648)	\$	1,063,508
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 17,796	\$ 39,304	\$ -	\$	57,100
Due to other funds	209,648	-	(209,648)		-
Total liabilities	227,444	39,304	(209,648)		57,100
Fund Balances					
Restricted for					
Law, justice and public safety	-	1,233,852	-		1,233,852
Unassigned	(227,444)	-	-		(227,444)
Total fund balances (deficit)	(227,444)	1,233,852	-		1,006,408
Total liabilities and fund balances	\$ -	\$ 1,273,156	\$ (209,648)	\$	1,063,508

State of Mississippi
Department of Corrections
Combining Statement of Revenues Expenditures and Changes in
Fund Balances of Inmate Welfare Fund
Year Ended June 30, 2017

	Governmental Fund Type		Eliminations	Fund
	8809100000	3356100000		
	Inmate Welfare Fund	Inmate Welfare Fund		
Revenues				
Commissions	\$ 1,007,945	\$ -	\$ -	\$ 1,007,945
Total revenues	1,007,945	-	-	1,007,945
Expenditures				
Travel	-	5,622	-	5,622
Contractuals	227,444	298,129	-	525,573
Commodities	-	360,447	-	360,447
Total expenditures	227,444	664,198	-	891,642
Excess of Revenues Over (Under) Expenditures	780,501	(664,198)	-	116,303
Other Financing Sources (Uses)				
Transfers in (out), net	(3,455,195)	1,898,050	-	(1,557,145)
Net Change in Fund Balances	(2,674,694)	1,233,852	-	(1,440,842)
Fund Balances, Beginning of Year	2,447,250	-	-	2,447,250
Fund Balances (Deficit), End of Year	\$ (227,444)	\$ 1,233,852	\$ -	\$ 1,006,408

**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 (the Selected Funds of MDOC), which are comprised of a balance sheet as of June 30, 2017, 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 February 8, 2018, which contained *Emphasis of Matter* paragraph regarding the entity reflected in the financial statements and *Other Matters* paragraphs regarding the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

Management of the Selected Funds of MDOC is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered the Selected Funds of 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 opinions on the effectiveness of the Selected Funds of MDOC's internal control. Accordingly, we do not express an opinion on the effectiveness of the Selected Funds 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 the Selected Funds 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 audits 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 Selected Funds of 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to the Selected Funds of MDOC's management in a separate letter dated February 8, 2018.

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

BKD, LLP

Jackson, Mississippi
February 8, 2018

State of Mississippi
Department of Corrections

Independent Auditor's Reports and
Schedule of Analysis of Changes in Accrued Compensated Absences,
Capital Lease Obligations and Bonds and Notes Payable, Net
June 30, 2017



State of Mississippi
Department of Corrections
June 30, 2017

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Independent Auditor's Report

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

Report on the Schedule of Analysis of Changes in Accrued Compensated Absences, Capital Lease Obligations and Bonds and Notes Payable, Net

We have audited the accompanying schedule of analysis of changes in accrued compensated absences, capital lease obligations and bonds and notes payable, net (the Schedule) of the State of Mississippi, Department of Corrections (MDOC) as of and for the year ended June 30, 2017, and the related notes to the Schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule 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 a schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule 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 Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, 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 Schedule 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 Schedule.

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 schedule of analysis of changes in accrued compensated absences, capital lease obligations and bonds and notes payable, net, referred to above presents fairly, in all material respects, the balance of and the changes in long-term obligations of MDOC as of and for the year ended June 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018, 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
February 8, 2018

State of Mississippi
Department of Corrections
Schedule of Analysis of Changes in Accrued Compensated Absences,
Capital Lease Obligations and Bonds and Notes Payable, Net
Year Ended June 30, 2017

Governmental Activities Liability Category	Balance as of July 1, 2017	Additions	Deletions	Balance as of June 30, 2017
Accrued compensated absences	\$ 13,505,690	\$ 11,433,389	\$ 11,763,258	\$ 13,175,821
Capital lease obligations	1,227,057	-	651,071	575,986
Bonds and notes payable, net	<u>209,894,352</u>	<u>123,797,295</u>	<u>119,343,530</u>	<u>214,348,117</u>
	<u>\$ 224,627,099</u>	<u>\$ 135,230,684</u>	<u>\$ 131,757,859</u>	<u>\$ 228,099,924</u>

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in
Accrued Compensated Absences, Capital Lease Obligations
and Bonds and Notes Payable, Net
June 30, 2017

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 operations. The schedule of analysis of changes in accrued compensated absences, capital lease obligations and bonds and notes payable, net (the Schedule) of MDOC was selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying presentation does not purport to present the financial position and changes in financial position of MDOC.

Basis of Presentation

The accompanying Schedule has 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 Schedule conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting*, as issued by the Government Finance Officers Association.

Bond and Note Premiums/Discounts and Refunding Charges

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

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflow of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

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Notes to Schedule of Analysis of Changes in
Accrued Compensated Absences, Capital Lease Obligations
and Bonds and Notes Payable, Net
June 30, 2017

Accrued Compensated Absences

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

State law also authorizes the accumulation of additional compensated absences through compensatory time when an employee is required to perform his or her duties in excess of the established work cycle or on official state holidays. The established work cycle for exempt employees and certain nonexempt employees is defined as a 40-hour week. For other nonexempt employees, the established work cycle is 160 hours in a 28-day cycle. Based on the number of hours worked and the exempt status of the employee, compensatory time is accumulated as either agency compensatory leave time, Fair Labor Standards Act (FLSA) leave time or holiday leave time. The State's obligation for accumulated unpaid FLSA leave time, up to the maximum of 240 hours or 480 hours depending on established work cycle, is payable in a lump sum upon termination of employment and is reported as "accrued compensated absences" in the accompanying Schedule. The State's obligation for agency compensatory leave time is only recorded to the extent future expected use is probable, as it is not payable in a lump sum upon termination of employment. The reported liability applicable to all funds includes the related fringe benefits that the State, as employer, is required to pay when the accrued compensated absences are liquidated.

Use of Estimates

The preparation of the Schedule 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, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the Schedule and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

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Note 2: Other Accrued Compensated Absences, Capital Lease Obligations and Bonds and Notes Payable, Net

Accrued Compensated Absences

MDOC's total liability for compensated absences at June 30, 2017 is \$13,175,821 for governmental activities and \$43,400 for proprietary activities. The reported liability includes related fringe benefits and is recorded to the extent management expects to be reasonably paid out to employees as either leave time, cash payment upon termination or other payout.

Bonds and Notes Payable

At June 30, 2017, MDOC's outstanding bonds and notes payable as presented in the governmental activities are as follows:

Purpose	Outstanding Amount	Interest Rates	Final Maturity Date	Original Amount
Equipment	\$ 5,274,359	3.10% - 4.15%	April 2023	\$ 8,577,637
Buildings	190,605,000	1.10% - 5.37%	August 2027	208,760,000
	195,879,359			217,337,637
Premiums	18,468,758			25,099,818
Total bonds and notes payable, net	\$ 214,348,117			\$ 242,437,455

Refunding and Defeased Notes

In 2017, MDOC issued bonds (referred to as the 2016ABCD Bonds) as a partial advance refunding on outstanding bonds for private prisons, the net proceeds of the refunding issues were deposited in an irrevocable trust to be used solely for satisfying all future scheduled principal and interest payments on the refunded debt. Accordingly, for financial reporting purposes, the defeased notes and the related trust account are not included in the Schedule. At June 30, 2017, all outstanding notes totaled \$100,580,000 and will be redeemed in full in August 2020.

The 2016ABCD bonds included \$108,255,000 of special obligation bonds plus a premium of \$15,542,295. 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.

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Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources. For the year ended June 30, 2017, \$1,244,412 of amortization was recorded and \$5,737,951 was written-off as a result of the partial refunding, resulting in an ending balance of \$6,809,867 for deferred outflow of resources on debt refundings for the aforementioned 2010 bonds. Additionally during 2017, MDOC incurred an additional loss on refunding of \$2,180,811 as a result of the issuance of the refunding bonds. MDOC partially refunded the 2010 C & D bonds to reduce its total debt service payments over 11 years by \$1,947,774 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new debt) of \$409,749.

At June 30, 2017, future debt service requirements for bonds and notes payable as presented in the governmental activities are as follows:

Year Ending June 30	Principal	Interest
2018	\$ 14,599,252	\$ 8,335,640
2019	15,579,976	7,584,042
2020	16,316,962	6,847,440
2021	16,661,918	6,067,551
2022	17,412,403	5,186,787
2023-2027	94,043,848	14,842,471
2028	21,265,000	88,604
Total debt service	<u>\$ 195,879,359</u>	<u>\$ 48,952,535</u>

Capital Lease Commitments

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

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At June 30, 2017, assets recorded under capital leases are as follows:

	Governmental Activities	Proprietary Activities
Machinery and equipment	\$ 2,846,356	\$ 775,867
Accumulated depreciation	<u>(2,419,011)</u>	<u>(339,321)</u>
	<u><u>\$ 427,345</u></u>	<u><u>\$ 436,546</u></u>

At June 30, 2017, future minimum commitments under capital leases are as follows:

Year Ending June 30	Governmental Activities
2018	\$ 371,092
2019	<u>221,351</u>
	592,443
Less amount representing interest	<u>(16,457)</u>
Present value of minimum lease payments	<u><u>\$ 575,986</u></u>

**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 schedule of analysis of changes in accrued compensated absences, capital lease obligations and bonds and notes payable, net (the Schedule) of the State of Mississippi, Department of Corrections (MDOC) as of and for the year ended June 30, 2017, and have issued our report thereon dated February 8, 2018.

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 Schedule 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 MDOC's Schedule is 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 schedule 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 noted certain matters that we reported to MDOC's management in a separate letter dated February 8, 2018.

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
February 8, 2018