MISSISSIPPI PRISON INDUSTRIES CORPORATION
(A Component Unit of the State of Mississippi)

AUDITED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

CONTENTS

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Management's Discussion and Analysis
June 30, 2017

INTRODUCTION

This section of the Mississippi Prison Industries Corporation (the Corporation) financial report presents our analysis of the Corporation's financial performance during the fiscal year ended June 30, 2017. The Corporation is a component unit of the State of Mississippi, and its financial data will be treated as a proprietary fund by the State of Mississippi's Audit Department for inclusion in the State's CAFR (Comprehensive Annual Financial Report). Please read it in conjunction with the Corporation's financial statements, which begin on page 4.

Financial Highlights

- The Corporation's assets exceeded its liabilities by $3,284,500 (net position) at June 30, 2017. This compares to the previous year when assets exceeded liabilities by $5,025,375.

- Total sales increased $4,421,407 from prior year. The change in net position for 2017 was a decrease of $1,740,875 which was $108,537 less than the decrease in net position of $1,849,412 in the prior year.

- Additions to property and equipment were $1,239,496 for the fiscal year ended June 30, 2017.

These additions are composed of:

Building improvements	$	439,823
Machinery and equipment		776,352
Software		23,321
	$	1,239,496

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Corporation's basic financial statements. The basic financial statements include: the statements of net position, statements of revenues and expenses and changes in net position, statements of cash flows and notes to financial statements.

The accompanying notes to financial statements provide information essential to a full understanding of the statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information as required by GASB Statement 68.

Financial Analysis of the Corporation as a Whole

The following tables provide a summary of the Corporation's net position and changes in net position:

Statements of Net Position

	2017	2016
Assets		
Current Assets	$ 3,863,207	$ 4,703,959
Property and Equipment, net	4,897,417	4,210,876
Total Assets	8,760,624	8,914,835
Deferred Pension Outflows	1,088,150	436,962
	$ 9,848,774	$ 9,351,797
Liabilities		
Current Liabilities	$ 2,203,762	$ 827,428
Net Pension Liability	4,201,973	3,190,227
Capital Lease Obligations, Long-term	147,373	195,924
Total Liabilities	6,553,108	4,213,579
Deferred Pension Inflows	11,166	112,843
Net Position		
Investment in Capital Assets	4,897,417	4,210,876
Unrestricted (Deficit)	(1,612,917)	814,499
Total Net Position	3,284,500	5,025,375
	$ 9,848,774	$ 9,351,797

Statements of Revenues and Expenses and Changes in Net Position

	2017	2016
Sales	$ 10,639,164	$ 6,217,757
Operating expenses	12,283,583	7,807,391
Income (loss) before other revenue and expenses	(1,644,419)	(1,589,634)
Other revenue and (expenses), net	(96,456)	(259,778)
Changes in net position	(1,740,875)	(1,849,412)
Net position, beginning of year	5,025,375	6,874,787
Net position, end of year	$ 3,284,500	$ 5,025,375

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated service lives of the respective assets, ranging from three to forty years.

There has been a steady increase in additions to facilities and machinery and equipment, over the years. Additional facilities and equipment are required to keep up with the increased sales capabilities. The Corporation has been positioned to penetrate new market segments and production due to its continued diversification into new product lines.

Capital Leases

The Corporation acquired equipment by entering into two capital leases during the year ended June 30, 2016. The total cost of the equipment was $254,222. The leases are to be paid over a period of five years at an imputed interest rate of 6% per annum.

Sales and Operating Expense

A major customer of the Corporation is Mississippi Department of Corrections (MDOC). In addition to MDOC the Corporation has developed a sales relationship with Vero Blue to build fish tanks. Total sales have increased for the fiscal year 2017, mainly due to sales to Vero Blue in the amount of $4,762,031.

Overall Financial Operations

Overall financial operations and net position continued to deteriorate during the year. The Corporation incurred a net loss of $1,740,875 for the year ended June 30, 2017 compared to a net loss of $1,849,412 for the year ended June 30, 2016. The Corporation is transitioning into new product lines, and the cost to do so has been significant during 2017 and 2016.

Economic Factors

The Corporation must rely on continued growth from private sector partnerships and product diversification during fiscal year 2017. The Corporation will continue to face obstacles in its goal to sustain growth in a fragile economy faced with state government spending cuts.

Contacting Management

This financial report is designed to provide readers with a general overview of the Corporation's finances. If you have any questions about this report, or need additional financial information, contact the Mississippi Prison Industries Corporation administrative office at 663 North State Street, Jackson, Mississippi 39202.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mississippi Prison Industries Corporation
Jackson, Mississippi

Report on Financial Statements

We have audited the accompanying financial statements of Mississippi Prison Industries Corporation (a nonprofit corporation and component unit of the State of Mississippi), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenue and expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Prison Industries Corporation as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 3 and the supplementary information on pages 23 through 25, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017, on our consideration of Mississippi Prison Industries Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mississippi Prison Industries Corporation's internal control over financial reporting and compliance.

Grantham Poole PLLC

Ridgeland, Mississippi
September 26, 2017

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Statements of Net Position
June 30, 2017 and 2016

ASSETS

	2017	2016
Current Assets		
Cash	$ 560,707	$ 2,794,379
Accounts receivable	1,652,920	342,879
Inventories	1,576,322	1,526,964
Prepaid Expenses	58,770	25,249
Deposits	14,488	14,488
Total Current Assets	3,863,207	4,703,959
Property and Equipment		
Land	404,193	404,193
Buildings and improvements	5,335,162	4,864,239
Machinery and equipment	4,709,803	3,951,551
Software	147,992	124,671
Construction in progress	-	31,099
Total Property and Equipment	10,597,150	9,375,753
Less accumulated depreciation	(5,699,733)	(5,164,877)
Total Property and Equipment, net	4,897,417	4,210,876
Deferred Outflows of Resources		
Deferred pension outflows	1,088,150	436,962
Total Assets	$ 9,848,774	$ 9,351,797

LIABILITIES AND NET POSITION

	2017	2016
Current Liabilities		
Accounts payable	$ 1,835,013	$ 618,456
Accrued expenses	202,814	44,779
Unearned income	-	17,065
Current maturities of capital lease obligations	48,543	45,723
Accrued leave	117,392	101,405
Total Current Liabilities	2,203,762	827,428
Long-term Liabilities		
Net pension liability	4,201,973	3,190,227
Capital lease obligations, less current maturities	147,373	195,924
Total Long-term Liabilities	4,349,346	3,386,151
Deferred Inflows of Resources		
Deferred pension inflows	11,166	112,843
Net Position		
Investment in capital assets	4,897,417	4,210,876
Unrestricted (Deficit)	(1,612,917)	814,499
Total Net Position	3,284,500	5,025,375
Total Liabilities and Net Position	$ 9,848,774	$ 9,351,797

See accompanying notes to financial statements.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Statements of Revenues and Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Sales	$ 10,639,164	$ 6,217,757
Operating Expenses		
Cost of sales	6,531,534	3,617,148
Salaries and benefits	1,995,699	1,573,590
Contractual services	1,732,349	1,104,559
Commodities	815,354	625,648
Pension expense	496,819	224,396
Depreciation	518,475	375,853
Bad debts	5,871	-
Travel	187,482	286,198
Total Operating Expenses	12,283,583	7,807,391
Income (Loss) Before Other Revenue and Expenses	(1,644,419)	(1,589,634)
Other Revenue and Expenses		
Interest income, net of credit card fees	872	2,046
Interest expense	(11,285)	(4,281)
Gain (loss) on disposal of assets	2,690	(773)
Other income	4,062	-
Offender placement program (net of expenses)	(92,795)	(256,770)
Total Other Revenues and Expenses	(96,456)	(259,778)
Change in Net Position	(1,740,875)	(1,849,412)
Net Position, Beginning of Year	5,025,375	6,874,787
Net Position, End of Year	$ 3,284,500	$ 5,025,375

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Cash received from customers	$ 9,306,187	$ 6,589,991
Cash paid to suppliers of goods and services	(7,975,006)	(5,423,629)
Cash paid to employees for services	(1,979,713)	(1,566,727)
Cash paid to retirement plan	(276,057)	(236,908)
Net Cash Used in Operating Activities	(924,589)	(637,273)
Cash Flows From Non-Capital Financing Activities		
Other non-operating revenues and expenses	(16,132)	(218,251)
Net Cash Used in Non-Capital Financing Activities	(16,132)	(218,251)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,239,497)	(604,167)
Payments on capital lease obligations	(57,016)	(16,856)
Proceeds from sale of assets	2,690	-
Net Cash Used in Capital and Related Financing Activities	(1,293,823)	(621,023)
Cash Flow From Investing Activities		
Interest received	872	2,046
Net Cash Provided by Investing Activities	872	2,046
Net Increase (Decrease) in Cash and Cash Equivalents	(2,233,672)	(1,474,501)
Cash and Cash Equivalents, Beginning of Year	2,794,379	4,268,880
Cash and Cash Equivalents, End of Year	$ 560,707	$ 2,794,379
Noncash Capital and Related Financing Activities		
Acquisition and construction of capital assets	$ -	$ 858,387
Less assets acquired by entering into capital leases	-	254,220
Cash paid to acquire and construct capital assets	$ -	$ 604,167

See accompanying notes to financial statements.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Supporting Schedules to Statement of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Income (Loss) before other revenue and expenses	$ (1,644,419)	$ (1,589,634)
Adjustments to reconcile income (loss) before other revenue and expenses to net cash provided by (used in) operating activities		
Depreciation	518,475	375,853
Pension payment included in offender placement program	(38,120)	(32,801)
Changes in assets and liabilities:		
(Increase) Decrease in		
Accounts receivable	(1,310,041)	411,393
Inventories	(49,358)	(350,609)
Prepaid expenses	(33,521)	6,553
Deferred pension outflows	(651,188)	(208,431)
Increase (Decrease) in		
Accounts payable	1,216,557	611,435
Unearned income	(17,065)	(39,159)
Accrued expenses	174,022	(50,593)
Deferred pension inflows	(101,677)	(206,629)
Net pension liability	1,011,746	435,349
Total adjustments	719,830	952,361
Net Cash Provided by (Used In) Operating Activities	$ (924,589)	$ (637,273)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Mississippi Prison Industries Act of 1990 (the Act) provided for the formation of a not-for-profit Corporation "to lease and manage the prison industry programs of the Mississippi Correctional Industries" and to also "create any additional programs as it deems fit." MPIA, Inc. was formed on May 29, 1990. Although the Act authorized the corporation to be formed "within 60 days of April 4, 1990", the lease agreement transferring the facilities, equipment, and net assets was not signed until January 4, 1991, and was not effective until January 31, 1991.

MPIA, Inc. began its operations February 1, 1991. MPIA, Inc. applied for and received tax-exempt status under Section 501(c)(3) of the Internal Revenue Code in a letter dated May 21, 1991. On July 18, 1991, the Board of Directors voted to change the corporate name to Magnolia State Enterprises, Inc.

On July 20, 1995, the Board of Directors voted to change the corporate name to Mississippi Prison Industries Corporation (the Corporation).

While the Corporation is a separate not-for-profit corporation, it is a component unit of the State of Mississippi, and its financial data will be treated as a proprietary fund by the State of Mississippi's Audit Department for inclusion in the State's CAFR (Comprehensive Annual Financial Report.)

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income (loss) is necessary and useful for sound financial administration.

(b) Nature of Operations

The Corporation is engaged in a variety of production activities. The three principal divisions are the textile division, which manufactures inmate uniforms, other articles of clothing, and other cloth related items; the printing division, which produces various state forms, periodicals, and manuals, and; the private sector service division, which provides service work for manufacturers. Credit is granted to customers in the normal course of business. Sales are made throughout the nation in accordance with Federal and State regulations.

(c) Basis of Accounting

The Corporation utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred.

(d) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers highly liquid investments purchased with maturities of three months or less to be cash equivalents.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated service lives of the respective assets, ranging from three to forty years.

(f) Bad Debts

Bad debts are accounted for using the direct write-off method. Expense is recognized only when a specific amount is determined to be uncollectible. The effects of using the direct write-off method approximate those of the allowance method.

(g) Tax-Exempt Status

Mississippi Prison Industries Corporation is exempt from Federal income taxes under Section 501 (c)(3), of the Internal Revenue Code and similar provisions of the laws of the State of Mississippi.

Accounting principles generally accepted in the United States of America (GAAP) prescribes a recognition threshold and measurement attribute for tax positions taken or expected to be taken on a tax return. Management believes it has no material uncertain tax positions or any related penalties and interest to accrue for the years ended June 30, 2017 or 2016 and accordingly, there is no liability for unrecognized tax benefits.

The Corporation files IRS form 990 annually with the Federal Government and is still open to examination by taxing authorities for fiscal year 2013 and later.

(h) Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(i) Fair Value of Financial Instruments

GAAP requires disclosure of an estimate of fair value of certain financial instruments. The Corporation's significant financial instruments are cash, accounts receivable, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

(j) Shipping and Handling Costs

Shipping and handling costs are included in contractual services in the statement of revenues and expenses and changes in net position in the amount of $58,866 and $35,041 for the years ended June 30, 2017 and 2016, respectively. Freight billed to customers is considered sales revenue.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and therefore will not be recognized as an outflow of resources (expense/ expenditure) until then. The deferred outflows included in these financial statements are deferred pension outflows.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows included in these financial statements are deferred pension inflows.

See Note 14 for further details.

NOTE 2 BANK DEPOSITS

Collateral for Public Entity Deposits in Treasury – Approved financial institutions are secured under a program established by the Mississippi State Legislature and governed by Section 27-105.5 Miss. Code Ann. (1972). Under this program, an entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of a 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 Depository Insurance Corporation (FDIC). All deposits with financial institutions must be collateralized in an amount to 105 percent of uninsured deposits. All Corporation funds are in public entity accounts.

NOTE 3 ACCOUNTS RECEIVABLE

As of June 30, 2017 and 2016, accounts receivable consisted of the following:

	2017	2016
MS Department of Corrections	$ 197	$ 117,280
East Mississippi Community College	963	13,552
S & N Airflow	13,684	40,406
MS Department of Wildlife	3,340	-
MS Department of Rehabilitation	831	16,964
Vero Blue	1,238,325	-
Louisiana Prison Enterprises	62,038	-
Ethicon, Inc.	49,240	-
Factory on Main LLC	32,429	-
Harrison County Correctional	29,174	-
Other Accounts Receivable	222,699	154,677
	$ 1,652,920	$ 342,879

NOTE 4 INVENTORIES

Inventories of raw materials, work in process and finished goods are valued at the lower of cost or market using the first-in, first-out method, and consist of the following:

	Raw Materials	In Process/ Finished Goods	2017 Total	2016 Total
Textile Shop	$ 378,009	$ 106,499	$ 484,508	$ 756,098
Fish Tanks	221,003	101,500	322,503	-
CMCF Metal Fab	-	16,946	16,946	-
Office Furniture	6,177	17	6,194	6,057
Metal Fabrication	121,795	79,073	200,868	272,066
SMCF Garment Shop	-	10,423	10,423	181,397
CMCF Print Shop	20,747	35,362	56,109	45,750
Distribution Center	-	478,771	478,771	265,596
	$ 747,731	$ 828,591	$ 1,576,322	$ 1,526,964

NOTE 5 PENSION PLAN

Plan Description

The Corporation contributes to the Public Employees Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling (601)359-3589 or 1-800-444-PERS.

Funding policy

PERS members are required to contribute 9.00% of their annual covered salary and the Corporation is required to contribute at an actuarially determined rate. The actuarially determined rate during fiscal years 2017 and 2016 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. The Corporation's contributions to PERS for the years ended June 30, 2017 and 2016 was $276,057 and $236,908, respectively, which is equal to the required contributions for fiscal years 2017 and 2016.

NOTE 6 CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2017 was as follows:

	Beginning	Increases	Decreases	Ending
Land	$ 404,193	$ -	$ -	$ 404,193
Construction in progress	31,099	-	(31,099)	-
Total capital assets not being depreciated	435,292	-	(31,099)	404,193
Depreciable capital assets:				
Buildings	593,282	-	-	593,282
Building improvements	4,270,957	470,923	-	4,741,880
Machinery and equipment	3,951,551	776,352	(18,100)	4,709,803
Software	124,671	23,321	-	147,992
Total depreciable assets	8,940,461	1,270,596	(18,100)	10,192,957
Less accumulated depreciation for:				
Buildings	208,073	14,832	-	222,905
Building improvements	2,013,866	151,899	-	2,165,765
Machinery and equipment	2,845,224	366,799	(18,100)	3,193,923
Software	97,714	19,426	-	117,140
Total accumulated depreciation	5,164,877	552,956	(18,100)	5,699,733
Total depreciable assets, net	3,775,584	717,640	-	4,493,224
Total capital assets, net	$4,210,876	$ 717,640	$ (31,099)	$ 4,897,417

Capital Asset activity for the year ended June 30, 2016 was as follows:

	Beginning	Increases	Decreases	Ending
Land	$ 404,193	$ -	$ -	$ 404,193
Construction in progress	-	31,099	-	31,099
Total capital assets not being depreciated	404,193	31,099	-	435,292
Depreciable capital assets:				
Buildings	593,282	-	-	593,282
Building improvements	4,250,102	20,855	-	4,270,957
Machinery and equipment	3,265,430	773,783	(87,662)	3,951,551
Software	92,021	32,650	-	124,671
Total depreciable assets	8,200,835	827,288	(87,662)	8,940,461
Less accumulated depreciation for:				
Buildings	193,241	14,832	-	208,073
Building improvements	1,889,222	124,644	-	2,013,866
Machinery and equipment	2,705,078	227,035	(86,889)	2,845,224
Software	82,656	15,058	-	97,714
Total accumulated depreciation	4,870,197	381,569	(86,889)	5,164,877
Total depreciable assets, net	3,330,638	445,719	(773)	3,775,584
Total capital assets, net	$3,734,831	$ 476,818	$ (773)	$ 4,210,876

NOTE 7 ACCRUED LEAVE

An accrual for the amount of leave earned but not taken since the Corporation's inception has been made as of June 30, 2017 and 2016, in accordance with the policy and procedures manual adopted by the board.

State law requires up to 30 days of each employee's accrued leave be recognized as a liability by the various State entities. Accruing leave-time beyond that point is not required.

NOTE 8 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

2017	Beginning Balance	Increases	Decreases	Ending Balance
Net pension liability	$ 3,190,227	$ 1,287,803	$ (276,057)	$ 4,201,973
Capital lease obligations	241,647	-	(22,594)	219,053
Current maturities	(45,723)	-	(2,820)	(48,543)
Capital lease obligations, less current maturities	195,924			170,510
Total Long-term liabilities	$ 3,386,151			$ 4,372,483
2016				
Net pension liability	$ 2,754,878	$ 463,826	$ (28,477)	$ 3,190,227
Capital lease obligations	-	254,222	(12,575)	241,647
Current maturities	-	-	-	(45,723)
Capital lease obligations, less current maturities	-			195,924
Total Long-term liabilities	$ 2,754,878			$ 3,386,151

NOTE 9 NET POSITION

In accordance with the provisions of the Mississippi Prison Industries Act of 1990, the Mississippi Department of Corrections (MDOC) contributed assets of $1,097,530 of Mississippi Correctional Industries to the nonprofit corporation MPIA, Inc., on the effective date of the transfer.

NOTE 10 ECONOMIC DEPENDENCY

During 2017, the Corporation had two major customers that comprised approximately 72.3% of its annual sales, compared to 2016 when one major customer comprised approximately 63.0% of its annual sales. The loss of these customers could have a significant effect on the income of the Corporation. The sales to each are as follows:

	2017 Amount	% of Sales	2016 Amount	% of Sales
Customer #1	$ 4,762,031	44.8%	$ -	0.0%
Customer #2	2,926,745	27.5%	3,915,025	63.0%
	$ 7,688,776	72.3%	$ 3,915,025	63.0%

NOTE 11 CAPITAL LEASES

The Corporation has capital leases for certain equipment with terms of 5 years and an imputed interest rate of 6% per annum. These leases meet the criteria for capital leases and accordingly have been recorded as such.

Property and equipment include the following amounts for the capitalized leases:

Equipment cost	$	254,222
Less accumulated depreciation		(46,696)
Total	$	207,526

Future minimum lease payments under all capital leases are as follows:

Years Ending June 30		2017 Amount		2016 Amount
2017	$	-	$	58,980
2018		58,980		58,980
2019		58,980		58,980
2020		58,980		58,980
2021		42,113		42,113
Total minimum lease payments		219,053		278,033
Less amounts representing interest		(23,137)		(36,386)
		195,916		241,647
Less current installments of obligations under capital leases		(48,543)		(45,723)
Long-term obligation under capital leases	$	147,373	$	195,924

NOTE 12 OPERATING LEASE AGREEMENT

The Corporation has leased certain property and equipment, except for those items purchased or constructed since February 1, 1991, from the MDOC under the terms outlined in the lease agreement. Based on an amendment as of January 3, 2016, the lease was extended six years to January 3, 2021. If the lease expires or is terminated all of the assets of the Corporation covered by the subject lease are transferred by statute to the Mississippi Department of Corrections.

The Corporation maintains equipment under operating leases. Future minimum rental payments required under the leases are as follows:

Year Ending June 30		Amount
2018	$	46,048
2019		36,766
2020		35,796
2021		25,003
2022		3,504
Total	$	147,117

NOTE 12 OPERATING LEASE AGREEMENT (CONTINUED)

Total rental expense included in contractual services in the statements of revenues and expenses and changes in net position, was $155,605 and $84,927 for the years ended June 30, 2017 and 2016, respectively.

NOTE 13 OFFENDER PLACEMENT PROGRAM

The Corporation receives funding from MDOC. The funding is for the Offender Placement Program and Transition Placement Training Center targeted for inmates and ex-offenders with the MDOC. The purpose is to provide job training, human skills development, job placement and other supportive services to the ex-inmates and their families. The Corporation is reimbursed for eligible expenses under the contract. For the year ended June 30, 2017, the Corporation received $107,180 from MDOC.

Transactions for the Program for year ended June 30, 2017 and 2016 were as follows:

	2017	2016
MDOC Reimbursements	$ 107,180	$ 284,052
Program Expenses	(199,975)	(540,822)
Net Expenses Over Revenue as Reflected on the Statement of Revenues and Expenses and Changes in Net Position	$ (92,795)	$ (256,770)

Beginning in the second quarter of 2011, the Corporation took on the responsibility of handling restitution offenders. This program was discontinued in 2017.

NOTE 14 PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2017 and 2016, the Corporation reported a liability of $4,201,973 and $3,190,227, respectively, for its proportionate share of the net collective pension liability. The net pension liability was measured at June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Corporation's proportion of the net pension liability was based on a projection of the Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all participating state entities, actuarially determined. At June 30, 2017, the Corporation's proportion was .023524% which was based on the measurement date at June 30, 2016. This was an increase of .002886% from its proportionate share used to calculate the June 30, 2016 net pension liability, which was based on the measurement date at June 30, 2015.

NOTE 14 PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

For the years ended June 30, 2017 and 2016, the Corporation recognized pension expense of $534,939 and $257,197, respectively, included in the statements of revenues and expenses and changes in net position as follows:

	2017	2016
Pension expense	$ 496,819	$ 224,396
Offender placement program expenses	38,120	32,801
	$ 534,939	$ 257,197

At June 30, 2017, the Corporation recognized 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	$ 758,252	$ -
Net difference between projected and actual earnings on pension plan investments	-	11,166
The Corporation's contributions subsequent to the measurement date	276,057	-
Change in assumptions:		
Changes in proportionate and differences between District contributions and proportionate share of contributions - net of amortization	53,841	-
Total	$ 1,088,150	$ 11,166

The amount of $276,057 reported as deferred outflows of resources related to pensions resulting from the Corporation's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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
2018	$ 297,149
2019	249,074
2020	171,693
2021	83,011

NOTE 14 PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

At June 30, 2016, the Corporation recognized 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	$ 351,439	$ -
Net difference between projected and actual earnings on pension plan investments	-	112,843
The Corporation's contributions subsequent to the measurement date	236,908	-
Change in assumptions:		
Changes in proportionate and differences between District contributions and proportionate share of contributions - net of amortization	(151,385)	-
Total	$ 436,962	$ 112,843

The amount of $236,908 reported as deferred outflows of resources related to pensions resulting from the Corporation's contributions subsequent to the measurement date was 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 as a reduction of pension expense as follows:

Year Ending June 30	Amount
2017	$ 35,082
2018	26,770
2019	(21,305)
2020	46,664

Actuarial Assumptions

The total pension liability at June 30, 2017 and June 30, 2016 was determined by an actuarial valuation as of June 30, 2016 and June 30, 2015, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	4.25% to 19.5% including inflation
Investment rate of return	7.75%, net of pension investment expense, including Inflation

The assumed rate of interest credited to employee contributions was changed from 3.5% to 2.0%.

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016 set forward for one year for males.

The actuarial assumptions used in the June 30, 2016 valuation were based upon the results of the actuarial experience study for the period July 2010 to June 30, 2014. The experience report is dated May 4, 2015.

NOTE 14 PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

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 rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset classes are summarized in the following table:

Asset Class	Target Allocation	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 the plan member contributions will be made at the current contribution rate (9%) and the 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 the 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 Analysis – June 30, 2017

Sensitivity of the Corporation's proportionate share of the net pension liability to changes in the discount rate is presented below. The following presents the Corporation's proportionate share of the net pension liability calculated using a discount rate of 7.75%, as well as what the Corporation's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.75%) or 1% higher (8.75%) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Corporation's proportionate share of the net pension liability	$ 5,387,873	$ 4,210,973	$ 3,218,062

NOTE 14 PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Sensitivity Analysis - June 30, 2016

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Corporation's proportionate share of the net pension liability	$ 4,205,013	$ 3,190,227	$ 2,348,146

Pension Plan Fiduciary Net Position

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

NOTE 15 SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 26, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Schedules of the Corporation's Proportionate Share of the Net Pension Liability - PERS
Last 10 Fiscal Years

	2017	2016	2015
Corporation's proportion percentage of the net pension liability	0.024%	0.021%	0.023%
Corporation's proportionate share (amount) of the net pension liability	$ 4,201,973	$ 3,190,227	$ 2,754,878
Corporation's covered employee payroll	$ 1,753,775	$ 1,545,101	$ 1,434,744
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	239.60%	206.47%	192.01%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%	67.21%

See accompanying notes to required supplementary information.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Schedules of the Corporation's Contributions to the Pension Plan
Last 10 Fiscal Years

	2017	2016	2015
Contractually required contribution	$ 276,057	$ 236,908	$ 218,423
Contributions in relation to the contractually required contribution	(276,057)	(236,908)	(218,423)
	$ -	$ -	$ -
Corporation's covered payroll	$ 1,753,775	$ 1,545,011	$ 1,434,744
Contribution's as a percentage of covered payroll	15.74%	15.33%	15.22%

See accompanying notes to required supplementary information.

PENSION SCHEDULES

Basis of Presentation

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

These schedules are required to provide information for ten years. However, GASB 68 was implemented in fiscal year June 30, 2015, and until a full ten year trend is compiled, the Corporation has only presented information for the years in which it is available.

Changes in Assumptions

In 2015 and later, the expectation of retired life mortality was changed to be the RP-2014 Healthy Annuitant Blue Collar Table projected in 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 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 of inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

In 2016, the assumed rate of interest credited to employee contributions was changed from 3.5% to 2.0%.

Changes in Benefit Provisions

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Mississippi Prison Industries Corporation
Jackson, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mississippi Prison Industries Corporation (a not-for-profit corporation and component unit of the State of Mississippi), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues and 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 September 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mississippi Prison Industries Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mississippi Prison Industries Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Mississippi Prison Industries Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying summary of audit findings that we consider to be material weaknesses. These findings are noted as 2017-1, 2017-2, 2017-3, 2017-4 and 2017-5.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Grantham Poole PLLC

Ridgeland, Mississippi
September 26, 2017

Finding 2017-1 Segregation of Duties

Due to the limited number of accounting personnel working for the Corporation and high turnover of staff during the year ended June 30, 2016, many of the critical accounting duties were combined and assigned to available employees. During the year ended June 30, 2017, the majority of the accounting duties were performed by one individual. Subsequent to June 30, 2017, additional accounting personnel were hired which improved the segregation of duties issue. To the extent possible, duties should be segregated to serve as a check and balance to maintain the best control system possible.

Finding 2017-2 IT Controls

It was noted the accounting software backup including the general ledger system is not regularly backed up. We recommend the Corporation immediately implement a regular backup plan to prevent loss of accounting information.

Finding 2017-3 Source Documents Not Located

During our audit we requested many invoices from vendors that were not located in the office. The Corporation should ensure all source documents, including invoices, are properly filed and easily accessible.

Finding 2017-4 Inventory Receiving Documentation

It was noted during our cut off procedures that there are inconsistencies on how inventory receivers flow from individual departments to the accounting department. The Corporation should implement a consistent manner as to how and when inventory receivers are sent to the accounts payable clerk in the future. This will ensure that accounts payable and inventories are accurately reflected in the general ledger when the inventory items are received.

Finding 2017-5 Travel Documentation

In our sample of travel expenses we discovered instances where documentation of the business purpose was not maintained. We also noted instances where receipts were not attached to the expense reports to substantiate the travel expenditure or the business purpose. All travel expenditures should include detail receipts for airfare, hotel, meals, etc. and the business purpose for the travel.