Mississippi Prison Industries Corporation
(A Component Unit of the State of Mississippi)

FINANCIAL STATEMENTS

June 30, 2018

CRI CARR RIGGS & INGRAM
CPAs and Advisors
CRIcpa.com

Mississippi Prison Industries Corporation
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mississippi Prison Industries Corporation
Jackson, Mississippi

Report on the 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 statement of net position as of June 30, 2018, and the related statements of revenue and expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Prison Industries Corporation as of June 30, 2018, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements referred to above are intended to present only the financial position and results of operations of the Mississippi Prison Industries Corporation, an agency of the State of Mississippi. The statements are not intended to present the financial position and results of operations of the State of Mississippi, of which the Mississippi Prison Industries Corporation is a part.

As discussed in Note 1 and 12 to the financial statements, the Mississippi Prison Industries Corporation adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* As a result, net position as of July 1, 2017, has been restated for the cumulative effect of the change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the supplementary information on pages 31 through 36, 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 a report dated February 8, 2019, 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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
February 8, 2019

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, 2018. 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 for inclusion in the State's Comprehensive Annual Financial Report (CAFR). Please read it in conjunction with the Corporation's financial statements, which begin on page 8.

Financial Highlights

- The Corporation's assets exceeded its liabilities by $1,150,062 (net position) at June 30, 2018. This compares to the previous year when assets exceeded liabilities by $3,284,500.
- Total sales decreased $3,591,259 from prior year. The change in net position for 2018 was a decrease of $1,935,969 which was $195,094 more than the decrease in net position of $1,740,875 in the prior year.
- Additions to property and equipment were $293,500 for the fiscal year ended June 30, 2018.

These additions are composed of:

Building improvements	$	29,754
Machinery and equipment		259,510
Software		4,236
Total	$	293,500

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

June 30, 2018	
Assets	
Current assets	$ 2,315,740
Property and equipment, net	4,569,740
Total assets	6,885,480
Deferred Outflows	985,418
	$ 7,870,898
Liabilities	
Current liabilities	$ 1,616,886
Net pension liability	4,541,844
Net other postemployment benefit liability	221,486
Capital lease obligations, long-term	229,701
Total liabilities	6,609,917
Deferred Inflows	110,929
Net Position	
Investment in capital assets	4,569,750
Unrestricted deficit	(3,419,688)
Total net position	1,150,062
	$ 7,870,908

Statements of Revenues and Expenses and Changes in Net Position

Year ended June 30, 2018	
Sales	$ 7,047,905
Operating expenses	8,950,837
Income (loss) before other revenue and expenses	(1,902,932)
Other revenue and (expenses), net	(33,037)
Changes in net position	(1,935,969)
Net position, beginning of year, as previously reported	3,284,500
Cumulative effect of change in accounting principle	(198,469)
Net position, beginning of year, as restated	3,086,031
Net position, end of year	$ 1,150,062

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.

Sales and Operating Expense

A major customer of the Corporation is the Mississippi Department of Corrections (MDOC). Sales to MDOC were $3,234,365 for the fiscal year ended 2018.

Overall Financial Operations

Overall financial operations and net position continued to deteriorate during the year. The Corporation incurred a net loss of $1,935,969 for the year ended June 30, 2018 compared to a net loss of $1,740,875 for the year ended June 30, 2017.

Economic Factors

The Corporation must rely on continued growth from private sector partnerships and product diversification during fiscal year 2018. 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.

Mississippi Prison Industries Corporation
Statement of Net Position

June 30, 2018	
Assets	
Current Assets	
Cash	$ 316,157
Accounts receivable	531,117
Inventories	1,401,321
Prepaid expenses	52,657
Deposits	14,488
Total current assets	2,315,740
Property and Equipment	
Land	404,193
Buildings and improvements	5,364,916
Machinery and equipment	4,953,905
Software	152,228
Total property and equipment	10,875,242
Less accumulated depreciation	(6,305,492)
Total property and equipment, net	4,569,750
Total assets	6,885,490
Deferred Outflows of Resources	
Deferred pension outflows	948,102
Deferred other postemployment benefits outflows	37,316
Total deferred outflows of resources	985,418
Liabilities	
Current Liabilities	
Accounts payable	$ 1,309,225
Accrued expenses	94,994
Unearned income	3,453
Current maturities of capital lease obligations	100,422
Other postemployment benefits liability, current portion	9,000
Accrued leave	99,792
Total current liabilities	1,616,886
Long-term Liabilities	
Net pension liability	4,541,844
Net other postemployment benefits liability, non-current	221,486
Capital lease obligations, less current maturities	229,701
Total long-term liabilities	4,993,031
Total liabilities	6,609,917
Deferred Inflows of Resources	
Deferred pension inflows	99,193
Deferred other postemployment inflows	11,736
Total deferred inflows of resources	110,929
Net Position	
Investment in capital assets	4,569,750
Unrestricted (deficit)	(3,419,688)
Total net position	$ 1,150,062

The accompanying notes are an integral part of these financial statements.

Mississippi Prison Industries Corporation
Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018	
Sales	$ 7,047,905
Operating Expenses	
Cost of sales	3,898,312
Salaries and benefits	1,804,396
Contractual services	742,657
Commodities	452,575
Pension expense	813,871
Depreciation	608,586
Bad debts	42,069
Travel	70,278
Freight	43,374
Repairs and maintenance	182,340
Equipment rental	190,852
Utilities	101,527
Total operating expenses	8,950,837
Income (loss) before other revenue and expenses	(1,902,932)
Other Revenue and Expenses	
Interest income, net of credit card fees	265
Interest expense	(29,057)
Gain (loss) on disposal of assets	(4,196)
Other income	(49)
Total other revenues and expenses	(33,037)
Change in Net Position	(1,935,969)
Net Position:	
Net position, beginning of year, as previously reported	3,284,500
Cumulative effect of change in accounting principle (Note 1)	(198,469)
Net position - beginning of year, as restated	3,086,031
Net position - end of year	$ 1,150,062

The accompanying notes are an integral part of these financial statements.

Year ended June 30, 2018	
Cash Flows From Operating Activities	
Cash received from customers	$ 8,131,092
Cash paid to suppliers of goods and services	(6,134,409)
Cash paid to employees for services	(1,821,996)
Cash paid to retirement plan	(239,488)
Net cash used in operating activities	(64,801)
Cash Flows From Noncapital Financing Activities	
Other non-operating revenues and expenses	(49)
Net cash used in noncapital financial activities	(49)
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(293,500)
Payments on capital lease obligations	105,150
Proceeds from sale of assets	8,385
Net cash used in capital and related financing activities	(179,965)
Cash Flows From Investing Activities	
Interest received	265
Net cash provided by investing activities	265
Net decrease in cash and cash equivalents	(244,550)
Cash and cash equivalents at beginning of year	560,707
Cash and cash equivalents end of year	$ 316,157

The accompanying notes are an integral part of these financial statements.

Mississippi Prison Industries Corporation
Supporting Schedule to Statement of Cash Flows

Year ended June 30, 2018

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Loss before other revenue and expenses	$ (1,902,932)
Adjustments to reconcile loss before other revenue and expenses to net cash used in operating activities:	
Depreciation expense	608,586
Pension expense	813,871
OPEB expense	16,263
Changes in assets and liabilities:	
Accounts receivable	1,121,803
Inventories	175,001
Prepaid expenses	6,113
Accounts payable	(525,788)
Unearned income	3,453
Accrued expenses	(125,420)
Deferred outflow - contributions made to pension after measurement date	(245,925)
Deferred outflow - contributions made to OPEB after measurement date	(9,826)
Total adjustments	1,838,131
Net Cash Used In Operating Activities	$ (64,801)

The accompanying notes are an integral part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and began its operations February 1, 1991. MPIA, Inc. applied for and received tax-exempt status under Section 50 I (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 is treated as a proprietary fund by the State of Mississippi for inclusion in the State's Comprehensive Annual Financial Report (CAFR). 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.

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.

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.

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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable are presented net of an allowance for estimated uncollectible accounts. The Corporation analyzes historical collection activity to identify trends for each of its major payor sources of revenues, reviews outstanding accounts, and considers economic conditions in order to evaluate collectability and estimate appropriate allowances for uncollectible accounts and third-party contractual adjustments. On a continuing basis, management analyzes delinquent receivables and writes them off against the allowance when deemed uncollectible. No interest is charged on accounts receivable balances.

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) prescribe 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, 2018 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 2014 and later.

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.

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.

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 $43,374 for the year ended June 30, 2018. Freight billed to customers is considered sales revenue.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and postemployment benefit outflows, including contributions to these plans subsequent to the measurement date of the actuarial valuations related to the plans. Additionally, the Corporation has deferred outflows relating to other postemployment benefits other than pensions resulting from changes in proportion and differences between the employer's contributions and the proportionate share of contributions, which is being amortized over the average remaining service lives of participants.

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 and postemployment benefit inflows. The Corporation has deferred pension inflows resulting from (i) changes in actuarial assumptions which are being amortized over the average expected remaining service lives of participants and (ii) the difference between estimated and actual return on pension plan investment, which is being amortized over a five year period using the straight-line method. Additionally, the Corporation has deferred inflows relating to other postemployment benefits other than pensions resulting from changes in actuarial assumptions which is being amortized over the average expected remaining service lives of participants.

Pensions

The Corporation participates in the Public Employees' Retirement System of Mississippi (PERS) plan, a multiple-employer cost sharing defined benefit pension plan. For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS plan and additions to/deductions from the plan's net position have been determined on the same basis as they are reported by PERS. The financial statements of PERS are prepared using the economic resources measurement focus and accrual basis of accounting. Member and employer contributions are recognized as revenue when due pursuant to legal requirements; investment income is recognized when earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Other expenses are recognized when incurred. Investments are reported at fair value. Financial statements are prepared in accordance with GASB requirements. Under these requirements, PERS is considered a component unit of the State of Mississippi for financial reporting purposes and, as such, the financial statements issued by PERS are included in the State of Mississippi's Comprehensive Annual Financial Report. PERS is administered by a 10-member Board of Trustees that includes the State Treasurer, one gubernatorial appointee who is a member of PERS, two state employees, two PERS retirees, and one representative each from public schools and community

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

colleges, state universities, municipalities, and counties. With the exception of the State Treasurer and the gubernatorial appointee, all members are elected to staggered six-year terms by the constituents they represent. The Board of Trustees is responsible for the general administration and proper operation of PERS.

Other Postemployment Benefits

The Corporation offers retiree health and life insurance benefits through the State of Mississippi State and School Employees' Life and Health Insurance Plan. This plan provides for other postemployment benefits (OPEB) as a multiple-employer defined benefit OPEB plan. The fiduciary net position of this plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources; OPEB expense; and information about assets, liabilities and additions to/deductions from this plan's fiduciary net position. Benefit payments are recognized when due and are payable in accordance with the benefit terms.

Cumulative Effect of Change in Accounting Principle

Effective for fiscal year 2018, the Corporation adopted GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This represented a change in accounting principle and the cumulative effect of the change was presented as a restatement to beginning net position for the impact of the net OPEB liability as of July 1, 2017 of $207,538 less deferred outflows of resources related to OPEB for contributions made to the OPEB plan subsequent to the measurement date of the beginning net OPEB liability, which was $9,069.

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

Accounts receivable consisted of the following:

June 30, 2018	
AL Department of Corrections	$ 109,750
Global Polymers	51,548
MS Department of Corrections	41,581
Ethicon, Inc.	40,501
Vero Blue	33,600
University of Southern Mississippi	32,466
MTC Wilkinson County Correctional Facility	20,302
Tornado Shelters Of Jackson	17,500
S & N Airoflo, Inc.	13,229
Leake County Correctional Facility	12,898
Other accounts receivable	157,742
Total	$ 531,117

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:

June 30, 2018	**Raw Materials**	**In Process/ Finished Goods**	**Total**
Textile Shop	527,638	55,290	582,928
Fish Tanks	100,187	-	100,187
CMCF Metal Fab	11,005	-	11,005
Office Furniture	-	6,194	6,194
Metal Fabrication	120,467	27,416	147,883
SMCF Garment Shop	191,072	6,980	198,052
CMCF Print Shop	16,034	10,176	26,210
Distribution Center	144,836	184,026	328,862
Totals	1,111,239	290,082	1,401,321

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

Year ended June 30, 2018	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 404,193	$ -	$ -	$ 404,193
Total capital assets not being depreciated	404,193	-	-	404,193
Depreciable capital assets:				
Buildings	593,282	-	-	593,282
Building improvements	4,741,880	29,754	-	4,771,634
Machinery and equipment	4,709,803	259,510	(15,408)	4,953,905
Software	147,992	4,236	-	152,228
Total depreciable assets	10,192,957	293,500	(15,408)	10,471,049
Less accumulated depreciation for:				
Buildings	222,905	14,832	-	237,737
Building improvements	2,165,765	158,685	-	2,324,450
Machinery and equipment	3,193,923	415,471	(2,827)	3,606,567
Software	117,140	19,598	-	136,738
Total accumulated depreciation	5,699,733	608,586	(2,827)	6,305,492
Total depreciable assets, net	4,493,224	(315,086)	(12,581)	4,165,557
Total capital assets, net	$ 4,897,417	$ (315,086)	$ (12,581)	$ 4,569,750

NOTE 6: 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, 2018, 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. Accruing leave-time beyond that point is not required.

NOTE 7: LONG-TERM LIABILITIES

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

Year ended June 30, 2018	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Net pension liability	$ 4,201,973	$ 822,125	$ (482,254)	$ 4,541,844	$ -
Net OPEB liability	-	253,350	(22,864)	230,486	9,000
Capital lease obligations	195,916	215,768	(81,561)	330,123	100,422
Total	$ 4,397,889	$ 1,291,243	$ (586,679)	5,102,453	$ 109,422
Due within one year				(109,422)	
Total long-term liabilities				$ 4,993,031	

NOTE 8: ECONOMIC CONCENTRATIONS

During 2018, the Corporation had one major customer that comprised approximately 45.9% of its annual sales. At June 30, 2018, the Corporation had one major customer that comprised approximately 20.7% of its receivables.

NOTE 9: 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:

June 30, 2018	
Equipment cost	$ 469,990
Less accumulated depreciation	(99,497)
Total	$ 370,493

NOTE 9: CAPITAL LEASES (Continued)

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

As of June 30, 2018	
2018	$ 127,162
2019	127,162
2020	110,305
2021	17,046
Total minimum lease payments	381,675
Less amounts representing interest	(51,552)
	330,123
Less current installments of obligations under capital leases	(100,422)
Long-term obligation under capital leases	$ 229,701

NOTE 10: OPERATING LEASE AGREEMENT

The Corporation has leased certain property and equipment, except for those items purchased or constructed since February 1, 1991, from the Mississippi Department of Corrections (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 MDOC.

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

June 30,	
2019	$ 45,192
2020	41,664
2021	35,136
2022	11,820
Total	$ 133,812

Total rental expense included in the statements of revenues and expenses and changes in net position, was $241,990 for the year ended June 30, 2018.

NOTE 11: PENSION PLAN

Plan Description

The Public Employees Retirement System of Mississippi (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 at www.pers.ms.gov or 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 year 2018 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 year ended June 30, 2018 was $245,924, which is equal to the required contribution for fiscal year 2018.

Employer contribution rates consist of an amount for service cost (the amount estimated for benefits earned by the current members during the year) and an amount for amortization of the unfunded actuarial accrued liability. For determining employer contribution rates, the actuary evaluates the assets of the plans based on a five-year smoothed expected return with 20 percent of a year's excess or shortfall of expected return recognized each year for five years. Contribution rates are determined using the entry age actuarial cost method and include provisions for an annual 3.0 percent cost-of-living increase calculated according to terms of the plan. Subsequent to year end, the PERS Board voted to increase the amount of employer contributions from worker salaries for the pension fund from 15.75% to 17.4%, beginning July 1, 2019.

Benefits Provided

Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employee who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less.

NOTE 11: PENSION PLAN (Continued)

Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary.

A cost-of-living adjustment payment is made to eligible retirees and beneficiaries equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter.

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

For the year ended June 30, 2018, the Corporation recognized $813,871 of pension expense. At June 30, 2018, the Corporation reported a liability of $4,541,844 for its proportionate share of the net collective pension liability. The collective net pension liability was measured at June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The Corporation's proportion of the net pension liability was based on a projection of the Corporation's share of contributions to the pension plan relative to the projected contributions of all participating state employers. At June 30, 2018, the Corporation's proportion was 0.02732%, which was based on the measurement date at June 30, 2017.

At June 30, 2018, the Corporation recognized deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 65,252	$ 33,140
Net difference between projected and actual earnings on pension plan investments	-	58,314
Employer contributions subsequent to the measurement date	245,924	-
Changes in actuarial assumptions	100,948	7,739
Changes in proportion and differences between employer contributions and proportionate share of contributions net of amortization	535,978	-
Total	$ 948,102	$ 99,193

NOTE 11: PENSION PLAN (Continued)

The amount of $245,924 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

June 30,	
2019	$ 340,165
2020	272,780
2021	39,979
2022	(49,939)

Actuarial Assumptions

The total pension liability at June 30, 2018 was determined by an actuarial valuation as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Projected average salary increases, including inflation	3.25% - 18.50%
Investment rate of return, net of plan investment expenses, including inflation	7.75%

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022 with rates set forward one year for males with adjustments.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

NOTE 11: PENSION PLAN (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:

Investment Asset Class	Target Allocation	Long-Term Expected Rate of Return
U. S. broad	27.00%	4.60%
International equity	18.00%	4.50%
Emerging markets equity	4.00%	4.75%
Global	12.00%	4.75%
Fixed income	18.00%	75.00%
Real estate	10.00%	3.50%
Private equity	8.00%	5.10%
Emerging debt	2.00%	2.25%
Cash	1.00%	0.00%
Total	100.00%	

Discount Rate

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

NOTE 11: PENSION PLAN (Continued)

Sensitivity Analysis – June 30, 2018

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	$ 5,956,931	$ 4,541,844	$ 3,367,014

Pension Plan Fiduciary Net Position

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

NOTE 12: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The Corporation offers health and life benefits through the State of Mississippi State and School Employees' Life and Health Insurance Plan (the Insurance Plan). The Insurance Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Insurance Plan. The Insurance Plan is self-insured and is financed through premiums collected from employers, employees, retirees and COBRA participants. The Insurance Plan is maintained solely for the benefit of eligible employees, dependents and retirees. A trust was created June 28, 2018 for the OPEB plan and, while no trust was in place for the June 30, 2017 plan year-end, for purposes of comparability for future periods, terminology used herein is based on the plan being a cost-sharing multiple-employer defined benefit OPEB plan (the OPEB Plan).

Benefits Provided

Retiree health benefits offered through the Insurance Plan are available to most State of Mississippi retirees and their eligible dependents. Participants must have participated in the Insurance Plan for at least 4 years, participate in the PERS retirement plan, and must be participating in the Insurance Plan on the day before the effective date of the participant's retirement. The OPEB Plan provides self-funded group health (medical and prescription drug) benefits for eligible retirees and their

NOTE 12: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

dependents. For non-Medicare eligible retirees and their dependents, the OPEB Plan offers two coverage choices as the primary health coverage. For Medicare eligible retirees and their dependents, Medicare is considered the primary coverage and the OPEB Plan becomes secondary coverage. In addition, the OPEB Plan offers fully insured group term life insurance policy for eligible retirees.

Contributions

No contributions towards postemployment benefits are made while in active service. At retirement, contributions vary based on plan election, dependent coverage, Medicare eligibility and date of hire. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Corporation subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The implicit subsidy for the period subsequent to the measurement date as of June 30, 2018 was $9,826 and has been presented as a deferred outflow.

The Board has the sole authority for setting life and health insurance premiums for the Insurance Plan. Per Section 25-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance will have the full cost of such insurance premium deducted monthly from the retiree's state retirement plan check or be direct billed for the cost of the premium if the retirement check is insufficient to pay for the premium. If the Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Insurance Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who were initially employed before January 1, 2006.

For participating retired employees who are under the age for Medicare eligibility and who were initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance.

Pursuant to the authority granted by Mississippi Statute, the Board has the authority to establish and change premium rates for the participants, employers and other contributing entities. An outside consulting actuary advises the Board regarding changes in premium rates. If premium rates are changed, they generally become effective at the beginning of the next calendar year or next fiscal year. Participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to the Insurance Plan. If the assets of the Insurance Plan were to be exhausted, participants would not be responsible for the Insurance Plan's liabilities.

NOTE 12: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Net OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018 the Corporation reported an OPEB liability of $221,486 for its proportionate share of the collective net OPEB liability measured and determined by actuarial valuation at June 30, 2017. The Corporation's proportion of the collective net OPEB liability was determined by comparing the Corporation's average monthly employees participating in the Insurance Plan with the total average employees participating in the plan in the fiscal year for all employers. As of June 30, 2017, the Insurance Plan provided health coverage to 334 employer units. This allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by an employee. If the employer had no employees participating during the fiscal year, their proportionate share will be set to zero and the employer will not be allocated a proportionate share of OPEB amounts.

At June 30, 2017 the Corporation's proportion was 0.02938% (used to determine its collective share of the net OPEB liability as of June 30, 2018) as compared to its proportion measured at July 1, 2017 (date of effective adoption) of 0.02541% or a decrease of 0.00397%.

For the year ended June 30, 2018, the Corporation recognized OPEB expense of $16,263. At June 30, 2018 the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	$ -	$ 11,736
Changes in proportion and differences between employer OPEB benefit payments and proportionate share of OPEB benefit payments	27,490	-
Employer implicit subsidy subsequent to measurement date	9,826	-
Total	$ 37,316	$ 11,736

NOTE 12: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Deferred outflows of resources related to OPEB resulting from the Corporation's implicit rate subsidy contribution or cost subsequent to June 30, 2017 (the measurement date) was $9,826 and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

June 30,	**Amount**
2019	$ 2,764
2020	2,764
2021	2,764
2022	2,764
2023	2,764
Thereafter	1,934

Actuarial Assumptions

The net OPEB liability was determined by an actuarial valuation as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Inflation rate	3.00%
Investment rate of return	N/A
Discount rate	3.56%
Projected salary increases	3.25% - 18.50%
Healthcare cost trend rates	7.75% decreasing to 5.00% by 2023

The demographic actuarial assumptions used in the June 30, 2017 valuation were based on the results of the last actuarial experience study, dated April 18, 2017. The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future.

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2017 was based on an average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

Long-term Expected Rate of Return - Since no trust was set up as of June 30, 2017, there is no projection of cash flows for the Plan and no long-term expected rate of return on plan assets.

NOTE 12: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Mortality - Both pre-retirement and post-retirement mortality rates were based on the RP 2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, male rates set forward 1 year and adjusted by 106% for males at all ages, and females adjusted to 90% for ages less than 76, 95% for age 76, 105% for age 78 and 110% for ages 79 and greater. Post-disability mortality rates were based on the RP 2014 Disabled Retiree Mortality Table set forward 4 years for males and 3 years for females.

Sensitivity of the Corporation's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates and Discount Rate

The following table presents the Corporation's proportionate share of the net OPEB liability calculated using the discount rate of 3.56%, as well as what the Corporation's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.56%) or 1-percentage-point higher (4.56%) than the current rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Corporation's proportionate share of the net OPEB liability	$ 236,573	$ 230,486	$ 225,953

The following table presents the Corporation's proportionate share of the net OPEB liability calculated using the current assumed health care trend rates (7.75% decreasing to 5.00% by 2023), as well as what the Corporation's proportionate share of the net OPEB liability would be if it were calculated using a 1% change in the current assumed health care trend rates:

	1% Decrease	Current Rate	1% Increase
Corporation's proportionate share of the net OPEB liability	$ 212,869	$ 230,486	$ 250,597

Collective Deferred Inflows of Resources Related to OPEB and Changes in Assumptions

Annual changes to the net OPEB liability resulting from changes in assumptions, other inputs, changes in proportion and differences between employer OPEB benefit payments and its proportionate share of OPEB benefit payments are deferred and amortized over the average expected remaining service life of active and inactive members which approximates 6.7 years for the current measurement period.

NOTE 12: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

OPEB Plan Fiduciary Net Position

The fiduciary net position for the OPEB Plan was zero as of June 30, 2017, the measurement date. Therefore, no separately issued financials were prepared. Detailed information about the OPEB Plan's fiduciary net position for June 30, 2018 and going forward will be available in separately issued financial reports available on the Mississippi Department of Finance and Administration website.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 8, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Mississippi Prison Industries Corporation
Schedule of the Corporation's Proportionate Share of the Net Pension Liability- PERS
Last 10 Fiscal Years

	2018	2017	2016	2015
Corporation's proportion of the net pension liability	**$ 4,541,844**	$ 4,201,973	$3,190,227	$2,754,878
Corporation's proportionate share of the net pension liability	**0.027322%**	0.023524%	0.020638%	0.022696%
Corporation's covered payroll	**$ 1,753,775**	$ 1,545,101	$1,434,744	$1,380,482
Corporation's proportionate share of the net pension liability as a percentage of its covered payroll	**258.98%**	271.95%	222.36%	199.56%
Plan fiduciary net position as a percentage of the total pension liability	**61.49%**	57.47%	61.70%	67.21%

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

This schedule is presented to illustrate the requirement to disclose information for the last ten year period. However, until a full ten-year trend is compiled, the Corporation has only presented information for the years in which the information is available as required by GASB.

Mississippi Prison Industries Corporation
Schedule of the Corporation's Contributions to the Pension Plan
Last 10 Fiscal Years

	2018	2017	2016	2015
Contractually required contribution	**$ 245,924**	$ 276,057	$ 236,908	$ 218,423
Contributions in relation to the contractually required contribution	**245,924**	276,057	236,908	218,423
Contribution deficiency (excess)	**$ -**	$ -	$ -	$ -
Corporation's covered payroll	**$1,561,394**	$1,753,775	$1,545,101	$1,434,744
Contributions as a percentage of covered payroll	**15.75%**	15.74%	15.33%	15.22%

This schedule is presented to illustrate the requirement to disclose information for the last ten year period. However, until a full ten-year trend is compiled, the Corporation has only presented information for the years in which the information is available as required by GASB.

NOTE 1: 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 is 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.

Mississippi Prison Industries Corporation
Schedule of Required Supplementary Information
Schedule of the Corporation's Proportionate Share of the Net OPEB Liability
For the Two Years Ended June 30, 2018

	2018	2017
Corporation's proportion of the net OPEB liability	**$ 230,486**	$ 207,538
Corporation's proportionate share of the net OPEB liability	**0.027322%**	0.025418%
Corporation's covered payroll	**$ 1,753,775**	$ 1,545,101
Corporation's proportionate share of the net OPEB liability as a percentage of its covered payroll	**13.14%**	13.43%
Plan fiduciary net position as a percentage of the total OPEB liability	**0.00%**	0.00%

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

This schedule is presented to illustrate the requirement to disclose information for the last ten year period. However, until a full ten-year trend is compiled, the Corporation has only presented information for the years in which the information is available as required by GASB.

Mississippi Prison Industries Corporation
Schedule of Required Supplementary Information
Schedule of the Corporation's Contributions for OPEB
Last Three Years Ended June 30, 2018

	2018	2017	2016
Contractually required contribution	**$ 9,826**	$ 9,069	$ 8,203
Contributions in relation to the contractually required contribution	**9,826**	9,069	8,203
Contribution deficiency (excess)	**$ -**	$ -	$ -
Corporation's covered payroll	**$1,561,394**	$1,753,775	$1,545,101
Contributions as a percentage of covered payroll	**0.63%**	0.52%	0.53%

This schedule is presented to illustrate the requirement to disclose information for the last ten year period. However, until a full ten-year trend is compiled, the Corporation has only presented information for the years in which the information is available as required by GASB.

NOTE 1: SCHEDULE OF THE CORPORATION'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY AND RELATED RATIOS

The Corporation's proportionate share of the net OPEB liability reported at June 30, 2018 was determined based on the Corporation's allocation percentage of average monthly employees participating in the Insurance Plan with the total average employees participating in the Insurance Plan for all employers as of June 30, 2017.

This allocation methodology was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by an employee. If an employer had no employees participating during the fiscal year, their proportionate share was set to zero and the employer was not allocated a proportionate share of OPEB amounts.

The total OPEB liabilities used in the development of the ratio of the plan fiduciary net position to total OPEB liabilities presented in the schedule was provided by the Insurance Plan's actuarial consultants, Cavanaugh Macdonald Consulting, LLC. The net OPEB liability is measured as the total OPEB liability less the amount of the fiduciary net position for the Insurance Plan as of June 30, 2017. The trust was established on June 28, 2018 and since there were no assets in a trust as of the measurement date, the fiduciary net position was projected to be depleted immediately.

NOTE 2: CHANGES IN ASSUMPTIONS

The Municipal Bond Index Rate was used in the determination of the single equivalent interest rate for purposes of the OPEB discount rate. The OPEB discount rate was changed from 3.01% as of June 30, 2017 (using the prior measurement date as of July 1, 2016) to 3.56% for reporting as of June 30, 2018 (using the current measurement date as of June 30, 2017).

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

To the Board of Directors of
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 the 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, 2018, 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 February 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Mississippi Prison Industries Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Prison Industries Corporation's internal control.

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. However, we did identify certain deficiencies in internal control, described in the accompanying summary of audit findings, that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiencies described in the accompanying summary of audit findings as items 2018-1, 2018-2, 2018-3, 2018-4, 2018-5 and 2018-6 to be material weaknesses.

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 the attention of those charged with governance. We consider the deficiencies described in the accompanying summary of audit findings as item 2018-7 to be a significant deficiency.

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*.

Mississippi Prison Industries Corporation's Response to Findings

As of the date of issuance of these financial statements, Mississippi Prison Industries Corporation's management has not completed their evaluation of and response to the findings identified in our audit as described above.

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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi
February 8, 2019

Finding Number 2018-1 – Material Weakness in Controls Related to Segregation of Duties

Criteria: A financial reporting system requires appropriate segregation of duties to ensure that all relevant information is processed in a timely manner and appropriately assimilated into the financial reporting process.

Condition: Certain deficiencies in internal control result from a lack of segregation of duties.

Cause: Due to the limited number of accounting personnel working for the Corporation, certain critical accounting duties have been combined and assigned to employees based on availability. 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 issue. However, we noted that the Controller prepares and pays payroll with no documented review. Journal entries prepared by the Controller had no evidence of review either. We also noted that the accounts receivable clerk handles both billings and collections and manages the customer master file. Similarly, the accounts payable clerk handles both disbursements and manages the supplier master file.

Effect: Inadequate segregation of duties prevents the Corporation from safeguarding its assets. To the extent possible, duties should be segregated to serve as a check and balance to maintain the best control system possible.

Finding Number 2018-2 – Material Weakness in Maintenance of Source Documents

Criteria: A financial reporting system requires an appropriate review function to ensure that all relevant information is processed correctly and appropriately assimilated into the financial reporting process.

Condition: Certain deficiencies in internal control result from a lack of maintenance of source documents. Out of 23 journal entries selected, four were not supported by documentation and eleven had support that differed from the journal entry recorded. Out of 60 travel disbursements tested, seven were not supported by a travel voucher and 41 were not supported by documented approval authorization. Supporting documentation nor documented approval was provided for any instance of a new hire or pay raise occurring during the fiscal year.

Cause: The Corporation has a small staff and lacks entity level control structure that would be needed to ensure that review processes are completed and documented and that all source documents, including invoices and travel receipts, are properly filed and easily accessible.

Effect: Inadequate controls over review and maintenance of source documentation could result in inaccurate accounting information. We recommend policies be strengthened so that review functions and business purposes are documented and source documentation is better maintained.

Finding Number 2018-3 – Material Weakness over Inventory Controls

Criteria: Inventories held by the Corporation are an important part of its overall financial reporting system and requires appropriate controls over pricing, existence and obsolescence.

Condition: Certain deficiencies in internal control result from a lack of inventory control. Print shop inventory is maintained on a spreadsheet (rather than in QuickBooks like the other segments of inventory on hand). Pricing per unit for print shop items is not supported and difficult to verify. Manual adjustments to various components of inventory resulted in incorrect asset values for many items (quantity times price was inaccurate for most of these adjustments). The process for month-end close of inventory is not adequately controlled – some inventory items were noted to be held in trucks and not recorded until the subsequent month and some count adjustments were not recorded in QuickBooks.

Cause: The Corporation has a small staff and lacks entity level control structure that is needed to ensure that inventory is accounted for accurately.

Effect: Inadequate controls over the inventory control process could result in material misstatements. We recommend policies be strengthened so that deficiencies noted above do not recur. The Corporation should implement a consistent method in communicating inventory activity to the accounting department.

Finding Number 2018-4 – Material Weakness in Property Control System

Criteria: Property held by the Corporation are an important part of its overall financial reporting system and requires appropriate controls over existence and potential impairment.

Condition: Certain deficiencies in internal control result from a lack of control over property. Sewing machines purchased and received in April 2017 were not recorded until August 2017, when the invoice was actually paid. Certain equipment was capitalized even though the amount purchased was below the capitalization threshold used by the Corporation. Three truck leases were entered into that should have been recorded as capital leases, with an asset and corresponding amount of debt recorded at lease inception. Subsidiary ledger details of property capitalized and related depreciation contained numerous small errors.

Cause: The Corporation has a small staff and lacks entity level control structure that is needed to ensure that property is accounted for accurately.

Effect: Inadequate controls over property could result in material misstatements. We recommend policies be strengthened to adequately safeguard the Corporation's assets.

Finding Number 2018-5 – Material Weakness in Pension and Postemployment Benefit Liability Controls

Criteria: Pension and postemployment benefit liabilities and related deferred inflows and outflows held by the Corporation are an important part of its overall financial reporting system and requires appropriate controls over existence and obsolescence.

Condition: To a large extent, the Corporation relies on its external auditors to calculate the Corporation's allocation of pension and postemployment benefit liabilities. However, the external auditor cannot be considered part of an entity's system of control. Therefore, the adjustments calculated and proposed to the Corporation by the external auditor represent deficiencies in internal control.

Cause: The Corporation has a small staff and lacks the experience needed to ensure that these calculations are accounted for accurately.

Effect: Inadequate controls over pension and postemployment benefit liabilities could result in material misstatements.

Finding Number 2018-6 – Material Weakness in Reconciliations, Review and Close-out Process for Financial Reporting

Criteria: A financial reporting system requires entity level controls to be constructed so reconciliations are prepared to support trial balance amounts, an appropriate review function be put in place to ensure that all relevant information is accumulated correctly for general ledger close-out and financial reporting.

Condition: To a large extent, the Corporation relies on its external auditors as a buffer for corrections that are needed to the general ledger accounts. As part of the audit, in addition to other areas noted previously, adjustments to receivables, revenue, bad debts, prepaid expenses, accounts payable and accrued leave were necessary to present the Corporation's financial statements in conformity with generally accepted accounting principles. However, the external auditor cannot be considered part of an entity's system of control. Therefore, the adjustments calculated and proposed to the Corporation by the external auditor represent deficiencies in internal control.

Cause: The Corporation has a small staff and lacks entity level control structure that would be needed to ensure that comprehensive reconciliations are prepared, review processes are completed and financial statements prepared in accordance with accounting principles generally accepted in the United States.

Effect: Inadequate controls over reconciliations, review and the close-out process for financial reporting could result in material misstatements.

Finding Number 2018-7 – Significant Deficiency in Information Technology General Controls (ITGC)

Criteria: Information reporting systems are a critical component of the overall financial reporting system. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed a model for evaluating controls that has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.

Condition: During the course of our audit, we noted certain deficiencies related to the information technology environment. The Corporation's servers were not maintained in a secure environment. The server room was not locked and lacked the expected environmental controls such as a dedicated air conditioning unit, temperature monitoring and backup generator, although an uninterruptible power supply (UPS) is used. Furthermore, we noted that tape backups were not taken offsite and were rather left unattended in the unlocked server room. The Company should revise its practice to ensure proper safeguarding of its servers and data. Certain ITGC responsibilities are contracted out to a third party, Blakeney Data Group. Nevertheless, the Corporation is still responsible for services provided by the third party and determining that its data is secure. Therefore, we recommend the Corporation enter into a written agreement with the Blakeney Data Group. The Corporation should define how the third party is to secure its data, in addition to identifying measurable metrics to evaluate the services delivered by the third party service provider. From a broader perspective, we noted the Corporation did not have formally documented ITGC policies governing the security, availability, processing integrity, confidentiality and privacy of data. We recommend the Corporation develop and implement a comprehensive set of ITGC policies.

Cause: The Corporation has a small staff and outsources key functions of its technology environment controls, with limited supervision.

Effect: Inadequate ITGC controls and policies could result in a loss of accounting information or interruption of the operations.