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

Audited Financial Statements

June 30, 2019

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MISSISSIPPI PRISON INDUSTRIES CORPORATION
Management's Discussion and Analysis
June 30, 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, 2019. 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 $736,675 (net position) at June 30, 2019. This compares to the previous year when assets exceeded liabilities by $1,150,062.

- Total sales decreased $1,281,089 from prior year. The change in net position for 2019 was a decrease of $413,387 which was $1,522,582 less than the decrease in net position of $1,935,969 in the prior year.

- Additions to property and equipment were $12,288 for the fiscal year ended June 30, 2019.

These additions are composed of:

Machinery and equipment	$ 12,288

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 and GASB Statement 75.

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:

Statement of Net Position

Assets	
Current assets	$ 2,193,055
Property and equipment, net	3,864,127
Total Assets	6,057,182
Deferred Outflows of Resources	525,406
	$ 6,582,588
Liabilities	
Current liabilities	$ 957,524
Net pension liability	4,066,927
Net other postemployment benefit liability, non-current	204,476
Capital lease obligations, non-current	119,910
Total Liabilities	5,348,837
Deferred Inflows of Resources	497,076
Net Position	
Investment in capital assets	3,864,127
Unrestricted (deficit)	(3,127,452)
Total Net Position	736,675
	$ 6,582,588

Statement of Revenues and Expenses and Changes in Net Position

Sales	$ 5,766,816
Operating Expenses	6,253,646
Income (loss) before other revenue and expenses	(486,830)
Other revenue and (expenses), net	73,443
Changes in Net Position	(413,387)
Net Position, at Beginning of Year	1,150,062
Net Position, at End of Year	$ 736,675

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.

Capital Leases

The Corporation has 5 capital leases during the year ended June 30, 2019. The total cost of the equipment was $431,526 and the accumulated depreciation related to the capital lease equipment at June 30, 2019 was $157,795.

Sales and Operating Expense

A major customer of the Corporation is the Mississippi Department of Corrections (MDOC). Sales to MDOC were $2,342,875 for the fiscal year ended 2019.

Overall Financial Operations

The Corporation incurred a net loss of $413,387 for the year ended June 30, 2019 compared to a net loss of $1,935,969 for the year ended June 30, 2018. The June 30, 2019 loss includes the effects of the net pension liability adjustments required by GASB 68 of $347,227 of additional pension expense and the effects of net OPEB adjustments required by GASB 75 of $5,395 of additional expense.

Economic Factors

The Corporation must concentrate on profitable operations in fiscal year 2020. The Corporation made significant strides in fiscal year 2019 eliminating unprofitable activities. 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 statement of net position as of June 30, 2019 , and the related statement of revenue and expenses and changes in net position, and cash flow 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 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, 2019 , 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.

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 25 through 31, 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 October 9, 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.

Grantham Poole PLLC

Ridgeland, Mississippi
October 9, 2019

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Statement of Net Position
June 30, 2019

ASSETS

Current Assets		
Cash	$	369,550
Accounts receivable		636,756
Inventories		1,118,879
Prepaid expenses		53,382
Deposits		14,488
Total Current Assets		2,193,055
Property and Equipment		
Land		312,266
Buildings and improvements		5,127,638
Machinery and equipment		4,734,859
Software		152,228
Total Property and Equipment		10,326,991
Less accumulated depreciation		(6,462,864)
Total Property and Equipment, Net		3,864,127
Deferred Outflows of Resources		
Deferred pension outflows		494,919
Deferred other postemployment benefits outflows		30,487
Total Deferred Outflows		525,406
Total Assets	$	6,582,588

LIABILITIES AND NET POSITION

Current Liabilities		
Accounts payable	$	654,596
Accrued expenses		87,932
Unearned income		14,323
Current maturities of capital lease obligations		109,800
Other postemployment benefits liability - current portion		7,389
Accrued leave		83,484
Total Current Liabilities		957,524
Long-Term Liabilities		
Net pension liability		4,066,927
Net other postemployment benefits liability, non-current		204,476
Capital lease obligations, less current maturities		119,910
Total Long-Term Liabilities		4,391,313
Deferred Inflows of Resources		
Deferred pension inflows		468,153
Deferred other postemployment benefits inflows		28,923
		497,076
Net Position		
Investment in capital assets		3,864,127
Unrestricted (deficit)		(3,127,452)
Total Net Position		736,675
Total Liabilities and Net Position	$	6,582,588

See accompanying notes to financial statements.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Statement of Revenues and Expenses and Changes in Net Position
Year Ended June 30, 2019

Sales	$ 5,766,816
Operating Expenses	
Cost of sales	2,720,882
Salaries and benefits	1,322,896
Contractual services	654,258
Commodities	428,352
OPEB expense	14,437
Pension expense	523,655
Depreciation	563,420
Travel	25,746
Total Operating Expenses	6,253,646
Income (Loss) Before Other Revenue and Expenses	(486,830)
Other Revenue and Expenses	
Interest income, net of credit card fees	222
Interest expense	(32,736)
Gain (loss) on disposal of assets	101,609
Other income	4,348
Total Other Revenues and Expenses	73,443
Change in Net Position	(413,387)
Net Position at Beginning of Year	1,150,062
Net Position at End of Year	$ 736,675

See accompanying notes to financial statements.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Statement of Cash Flows
Year Ended June 30, 2019

Cash Flows From Operating Activities	
Cash received from customers	$ 5,672,047
Cash paid to suppliers of goods and services	(4,209,213)
Cash paid to employees for services	(1,339,204)
Cash paid to retirement plan	(185,471)
Net Cash Used in Operating Activities	(61,841)
Cash Flows From Non-Capital Financing Activities	
Other non-operating revenues and expenses	4,348
Net Cash Provided by Non-Capital Financing Activities	4,348
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets	(12,287)
Payments on capital lease obligations	(133,149)
Proceeds from sale of assets	256,099
Net Cash Provided by Capital and Related Financing Activities	110,663
Cash Flow From Investing Activities	
Interest received	223
Net Cash Provided by Investing Activities	223
Net Increase in Cash and Cash Equivalents	53,393
Cash and Cash Equivalents, at Beginning of Year	316,157
Cash and Cash Equivalents, at End of Year	$ 369,550

See accompanying notes to financial statements.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Supporting Schedule to Statement of Cash Flows
Year Ended June 30, 2019

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Loss before other revenue and expenses	$ (486,830)
Adjustments to reconcile loss before other revenue and expenses to net cash used in operating activities	
Depreciation	563,420
Changes in assets and deferred outflows	
(Increase) Decrease in	
Accounts receivable	(105,639)
Inventories	282,442
Deferred pension outflows	453,183
Deferred other postemployment benefit outflows	6,829
Changes in liabilities and deferred inflows	
Increase (Decrease) in	
Accounts payable	(654,630)
Unearned income	10,870
Accrued expenses	(23,370)
Net pension liability	(474,917)
Net other postemployment benefits liability	(18,621)
Deferred pension inflows	368,960
Deferred other post employment benefits inflows	17,187
Total Adjustments	424,989
Net Cash Used In Operating Activities	$ (61,841)

NOTE 1 ORGANIZATION AND 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 ORGANIZATION AND 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 year ended June 30, 2019 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 2015 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 $13,651 for the year ended June 30, 2019. Freight billed to customers is considered sales revenue.

(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

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Deferred Outflows/Inflows of Resources (Continued)

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. The deferred outflows relating to postemployment benefits other than pensions results 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.

(l) 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 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.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) 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.

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, 2019 , accounts receivable consisted of the following:

Alabama Department of Corrections	$	87,800
CITE Armored, Inc		28,613
Ethicon, Inc		98,038
Global Polymers		46,014
John Richard Designs		37,082
Leake County Correctional		20,027
Mississippi Department of Corrections		59,373
Mississippi Department of Education		11,781
Wilkinson County		45,488
Rankin County Sherriff Department		37,200
S & N Airflo, Inc.		12,843
University of Southern Mississippi		14,025
Other accounts receivable		138,472
	$	636,756

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	Total
CMCF Metal Fab	$ 1,139	$ 8,060	$ 9,199
CMCF Print Shop	18,497	14,879	33,376
Distribution Center	-	130,112	130,112
Mattress Factory	44,022	8,087	52,109
Metal Fabrication	187,418	96,978	284,396
SMCF Garment Shop	107,477	47,702	155,179
Textile Shop	349,107	105,401	454,508
	$ 707,660	$ 411,219	$1,118,879

NOTE 5 CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 404,193	$ -	$ (91,927)	$ 312,266
Total Capital Assets Not Being Depreciated	404,193	-	(91,927)	312,266
Depreciable capital assets				
Buildings	593,282	-	(103,703)	489,579
Building improvements	4,771,634	-	(133,575)	4,638,059
Machinery and equipment	4,953,905	12,288	(231,334)	4,734,859
Software	152,228	-	-	152,228
Total Depreciable Assets	10,471,049	12,288	(468,612)	10,014,725
Less accumulated depreciation for				
Buildings	237,737	14,832	(46,034)	206,535
Building improvements	2,324,450	151,409	(128,680)	2,347,179
Machinery and equipment	3,606,567	388,623	(231,334)	3,763,856
Software	136,738	8,556	-	145,294
Total Accumulated Depreciation	6,305,492	563,420	(406,048)	6,462,864
Total Depreciable Assets, Net	4,165,557	(551,132)	(62,564)	3,551,861
Total Capital Assets, Net	$ 4,569,750	$ (551,132)	$ (154,491)	$ 3,864,127

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, 2019 , 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 7 LONG-TERM LIABILITIES

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Net pension liability	$4,541,844	$ 523,656	$ (998,573)	$4,066,927	$ -
Net OPEB liability	230,486	12,391	(31,012)	211,865	7,389
Capital lease obligations	330,123	-	(100,413)	229,710	109,800
Total	$5,102,453	$ 536,047	$ (1,129,998)	4,508,502	$ 117,189
Due within one year				(117,189)	
Total Long-Term Liabilities				$4,391,313	

NOTE 8 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 9 ECONOMIC DEPENDENCY

During 2019, the Corporation had one major customer that comprised approximately 40.7% of its annual sales and 9.3% of its receivables. The loss of this customer could have a significant effect on the income of the Corporation.

NOTE 10 CAPITAL LEASES

The Corporation has capital leases for certain equipment with terms of 5 years with imputed interest rates that range from 6% to 12% 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	$ 431,526
Less accumulated depreciation	(157,795)
Total	$ 273,731

NOTE 10 CAPITAL LEASES (CONTINUED)

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

Year Ending June 30	Amount
2020	$ 127,162
2021	110,305
2022	17,047
Total minimum lease payments	254,514
Less amounts representing interest	(24,804)
	229,710
Less current installments of obligations under capital leases	(109,800)
Long-term obligation under capital leases	$ 119,910

NOTE 11 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	Amount
2020	$ 41,664
2021	35,136
2022	11,820
Total	$• 88,620

Total rental expense included in contractual services in the statements of revenues and expenses and changes in net position, was $129,984 for the year ended June 30, 2019.

NOTE 12 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.

NOTE 12 PENSION PLAN (CONTINUED)

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 2019 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, 2019 was $176,429, which is equal to the required contribution for fiscal year 2019.

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.

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

For the year ended June 30, 2019, the Corporation recognized $523,655 of pension expense. At June 30, 2019, the Corporation reported a liability of $4,066,927 for its proportionate share of the net collective pension liability. The collective net pension liability was measured at June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. 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, 2019, the Corporation's proportion was 0.02445%, which was based on the measurement date at June 30, 2018.

NOTE 12 PENSION PLAN (CONTINUED)

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

At June 30, 2019, 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	$ 17,300	$ 19,157
Net difference between projected and actual earnings on pension plan investments	-	123,666
The Corporation's contributions subsequent to the measurement date	176,429	-
Change in assumptions	2,682	2,161
Changes in proportionate and differences between District contributions and proportionate share of contributions - net of amortization	298,508	323,169
Total	$ 494,919	$ 468,153

The amount of $176,429 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:

Year Ending June 30	Amount
2020	$ 146,604
2021	(72,868)
2022	(205,108)
2023	(18,291)
Total	$ (149,663)

Actuarial Assumptions

The total pension liability at June 30, 2019 was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% to 18.5% including inflation
Investment rate of return	7.75%, net of pension investment expense, including Inflation

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

NOTE 12 PENSON PLAN (CONTINUED)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based upon the results of the actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

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	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%	0.75%
Real Estate	10.00%	3.50%
Private Equity	8.00%	5.10%
Emerging Debt	2.00%	2.25%
Cash	1.00%	0.00%
	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%) through June 30, 2019 and at the current contribution rate of 17.4% thereafter. 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, 2019

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.

NOTE 12 PENSON PLAN (CONTINUED)

Sensitivity Analysis – June 30, 2019 (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Corporation's proportionate share of the net pension liability	$ 5,354,977	$ 4,066,927	$ 2,996,389

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 13 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 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

NOTE 13 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Contributions (Continued)

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, 2019 was $7,389 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.

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

At June 30, 2019 the Corporation reported an OPEB liability of $211,865 for its proportionate share of the collective net OPEB liability measured and determined by actuarial valuation at June 30, 2018. 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, 2018, the Insurance Plan provided health coverage to 327 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.

NOTE 13 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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

At June 30, 2018 the Corporation's proportion was 0.02739% (used to determine its collective share of the net OPEB liability as of June 30, 2019) as compared to its proportion measured at June 30, 2017 of 0.02938% or a decrease of 0.00199%.

For the year ended June 30, 2019, the Corporation recognized OPEB expense of $14,437. At June 30, 2019 the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	$ 431	$ -
Changes in assumptions and inputs		15,096
Changes in proportion and differences between employer OPEB benefit payments and proportionate share of OPEB benefit payments	22,667	13,827
Employer implicit subsidy subsequent to measurement date	7,389	-
Total	$ 30,487	$ 28,923

Deferred outflows of resources related to OPEB resulting from the Corporation's implicit rate subsidy contribution or cost subsequent to June 30, 2019 was $7,389 and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	Amount
2020	$ (722)
2021	(722)
2022	(722)
2023	(722)
2024	(1,552)
Thereafter	(1,385)
Total	$ (5,825)

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

Actuarial cost method	Entry Age Normal
Inflation rate	3.00%
Salary increases, including wage inflation	3.25%-18.50%
Long-term expected rate of return	4.50%
Discount rate	3.89%
Healthcare cost trend rates	7.25% decreasing to 4.75% by 2028

NOTE 13 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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

The demographic actuarial assumptions used in the June 30, 2018 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, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 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, 2018 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 -The long-term investment rate of return, net of OPEB plan investment expense, including inflation was 4.50%.

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 3.89%, 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 (2.89%) or 1-percentage-point higher (4.89%) than the current rate:

	1% Decrease (2.89%)	Current Discount Rate (3.89%)	1% Increase (4.89%)
Corporation's proportionate share of the net OPEB liability	$ 234,847	$ 211,865	$ 192,099

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 4.75% by 2028), 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	$ 196,257	$ 211,865	$ 229,591

NOTE 13 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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

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 6.4 years for the current measurement period.

OPEB Plan Fiduciary Net Position

The fiduciary net position for the OPEB Plan was $1,000,000 as of June 30, 2018, the measurement date. Detailed information about the OPEB Plan's fiduciary net position for June 30, 2019 and going forward will be available in separately issued financial reports available on the Mississippi Department of Finance and Administration website.

NOTE 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 9, 2019, the date the financial statements were available to be issued.

NOTE 15 PENDING LITIGATION

A claim was made against the Corporation by an inmate who worked as part of the prison industry programs operated by the Corporation. The inmate was injured and alleges the Corporation did not maintain a safe workplace or premises. At the present time an estimate of the liability cannot be made, however the attorney representing the Corporation believes, based on the merits of the claim, a material potential loss is not probable.

Required Supplementary Information

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

	2019	2018	2017	2016	2015
Corporation's proportion percentage of the net pension liability	0.024451%	0.027322%	0.023524%	0.020638%	0.022696%
Corporation's proportionate share of the net pension liability	$ 4,066,927	$ 4,541,844	$ 4,201,973	$ 3,190,227	$ 2,754,878
Corporation's covered employee payroll	$ 1,561,394	$ 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-employee payroll	260.47%	258.98%	271.95%	222.36%	199.56%
Plan fiduciary net position as a percentage of the total pension	62.54%	61.49%	57.47%	61.70%	67.21%

The amounts represented 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
Schedules of the Corporation's Contributions to the Pension Plan
Last 10 Fiscal Years

	2019	2018	2017	2016	2015
Contractually required contribution	$ 176,429	$ 245,924	$ 276,057	$ 236,908	$ 218,423
Contributions in relation to the contractually required contribution	(176,429)	(245,924)	(276,057)	(236,908)	(218,423)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Corporation's covered payroll	$ 1,125,983	$ 1,561,394	$ 1,753,775	$ 1,545,011	$ 1,434,744
Contribution's as a percentage of covered payroll	15.67%	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.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Schedule of the Corporation's Proportionate Share of the Net OPEB Liability
Last 10 Fiscal Years

	2019	2018	2017
Corporation's proportion percentage of the net OPEB liability	0.027389%	0.027322%	0.025418%
Corporation's proportionate share of the net OPEB liability	$ 211,865	$ 230,486	$ 207,538
Corporation's covered employee payroll	$ 1,561,394	$ 1,753,775	$ 1,545,101
Corporation's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	13.57%	13.14%	13.43%
Plan fiduciary net position as a percentage of the total OPEB liability	0.13%	0.00%	0.00%

The amounts represented 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 for OPEB
Last 10 Fiscal Years

	2019	2018	2017	2016
Contractually required contribution	$ 7,389	$ 9,826	$ 9,069	$ 8,203
Contributions in relation to the contractually required contribution	(7,389)	(9,826)	(9,069)	(8,203)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Corporation's covered payroll	$ 1,125,983	$ 1,561,394	$ 1,753,775	$ 1,545,101
Contribution's as a percentage of covered payroll	0.66%	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.

PENSION SCHEDULES

Basis of Presentation

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

In 2017 the expectation of retired mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with scale BB to 2022. Small adjustments were also made to Mortality Table for disabled lives. The wage inflation was reduced from 3.75% to 3.25%. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. The percentage of active member disabilities assumed to be in line of duty was increased from 6% to 7%.

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.

OPEB SCHEDULES

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, 2019 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, 2018.

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, 2019.

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 3.56% as of June 30, 2018 (using the prior measurement date of June 30, 2017) to 3.89% for reporting as of June 30, 2019 (using the current measurement date of June 30, 2018).

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, 2019, 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 October 9, 2019.

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.

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 2019-1, 2019-2, 2019-3, 2019-4, 2019-5, and 2019-6 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 2019-7 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.

Grantham Poole PLLC

Ridgeland, Mississippi
October 9, 2019

MATERIAL WEAKNESS

Finding Number	**Finding and Recommendation**
2019-001	Material Weakness in Controls Related to Segregation of Duties
Repeat Finding	Yes, 2018-1
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, 2019, the majority of the accounting duties were performed by one individual. . 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.
Recommendation	To the extent possible, duties should be segregated to serve as a check and balance to maintain the best control system possible.

MATERIAL WEAKNESS

Finding Number	**Finding and Recommendation**
2019-002	Material Weakness in Maintenance of Source Documents
Repeat Finding	Yes, 2018-2
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	There were instances during our audit whereby source documentation requested was not readily available. Many of the inventory cost invoices could not be located timely. Additionally, certain travel documentation tested did not include attached receipts, description of the expense or other documentation to substantiate business purpose.
Cause	The company does not have adequate processes to ensure source documents are retained and filed in a readily accessible location.
Effect	Inadequate controls over review and maintenance of source documentation could result in inaccurate accounting information.
Recommendation	We recommend policies be strengthened so that review functions and business purposes are documented and source documentation is better maintained.

MATERIAL WEAKNESS

Finding Number	**Finding and Recommendation**
2019-003	Material Weakness over Inventory Controls
Repeat Finding	Yes, 2018-3
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.

MATERIAL WEAKNESS (Continued)

Finding Number	**Finding and Recommendation**
2019-003	Material Weakness over Inventory Controls (Continued)
Condition	During our inventory cost testing, differences were noted whereby certain costs used to extend the inventory did not agree with recent inventory prices. Also, some extensions on the June 30, 2019 inventory valuation by department were not mathematically correct. It was also noted that some inventory source documents are located at remote locations rather than the administrative central office.
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.
Recommendation	We recommend policies be strengthened so that deficiencies noted above do not reoccur. The Corporation should implement policies, procedures and a review process to ensure inventory is accurately calculated and reported.

MATERIAL WEAKNESS

Finding Number	**Finding and Recommendation**
2019-004	Material Weakness in Property Control System
Repeat Finding	Yes, 2018-4
Criteria	Fixed assets held by the Corporation are an important part of its overall financial reporting system and requires appropriate controls over existence and potential impairment.
Condition	The Corporation's subsidiary fixed asset schedules were never reconciled back to the adjusted depreciation schedules as of the June 30, 2018 audit. The June 30, 2018 audit entries were recorded on the general ledger without properly reconciling back to the fixed asset subsidiary thereby resulting in discrepancies between the two.

MATERIAL WEAKNESS (Continued)

Finding Number	**Finding and Recommendation**
2019-004	Material Weakness in Property Control System (Continued)
Cause	This was an oversight by the accounting staff due to the lack of controls because of the size of the staff.
Effect	This caused delays in the current audit due to beginning balances per the fixed asset subsidiary having to be reconciled. Inadequate controls over property could result in material misstatements.
Recommendation	We recommend policies be implemented to reconcile back the fixed asset subsidiary records back to the general ledger for agreement.

MATERIAL WEAKNESS

Finding Number	**Finding and Recommendation**
2019-005	Material Weakness in Pension and Postemployment Benefit Liability Controls
Repeat Finding	Yes, 2018-5
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.

MATERIAL WEAKNESS (Continued)

Finding Number	**Finding and Recommendation**
2019-005	Material Weakness in Pension and Postemployment Benefit Liability Controls (Continued)
Effect	Inadequate controls over pension and postemployment benefit liabilities could result in material misstatements.
Recommendation	We recommend the Corporation staff prepare the pension and postretirement calculations in the future and post the adjustments to these accounts prior to the audit.

MATERIAL WEAKNESS

Finding Number	**Finding and Recommendation**
2019-006	Material Weakness in Reconciliations, Review and Close-out Process for Financial Reporting
Repeat Finding	Yes, 2018-6
Criteria	A financial reporting system requires entity level controls to be constructed so reconciliations are prepared to support trial balance amounts, and 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. This deficiency has been carried forward from the previous year's significant deficiencies 2018-6 and has not been corrected.

MATERIAL WEAKNESS (Continued)

Finding Number	**Finding and Recommendation**
2019-006	Material Weakness in Reconciliations, Review and Close-out Process for Financial Reporting (Continued)
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.
Recommendation	We recommend the Corporation implement policies to segregate as many accounting functions as possible.

SIGNIFICANT DEFICIENCY

Finding Number	**Finding and Recommendation**
2019-007	Significant Deficiency in Information Technology General Controls (ITGC)
Repeat Finding	Yes, 2018-7
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

SIGNIFICANT DEFICIENCY (Continued)

Finding Number	Finding and Recommendation
2019-007	Significant Deficiency in Information Technology General Controls (ITGC) (Continued) monitoring and backup generator, although an uninterruptible power supply (UPS) is used. 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. The Corporation did move to a cloud-based backup system, however the other issues as mentioned above had not been corrected as previously noted in the previous audit.
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.
Recommendation	The Corporation should work with its outsourced provider, Blakeney Data Group, to develop and implement policies to ensure all data is secure and move forward with a cloud based system.

FINANCIAL AUDIT FINDINGS
or
OTHER AUDIT FINDINGS
or
COMPLIANCE REVIEW FINDINGS

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P.O. Box 956
Jackson, MS 39205-0956

November 7, 2019

Dear Mr. White,

Below is a summary of the MPIC responses to the 6/30/19 FY audit findings.

AUDIT FINDINGS:

2019-1 **Controls Related to Segregation of Duties Should Be Strengthened**

Response: MPIC is made aware of certain deficiencies in internal control resulting from a lack of segregation of duties.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation – Certain functions in the payroll, accounts receivable and accounts payable roles have been split so as to ensure that multiple individuals are responsible for all of the duties each role entails; This will ensure that checks and balances in place to protect our assets and minimize errors.
B. Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
C. Anticipated completion date for corrective action: 10/30/2019 **COMPLETED**

2019-2 **Controls Related to Maintenance of Source Documents Should Be Strengthened**

Response: 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.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation – The accounting department is enforcing stronger controls to make sure every receipt and expense report has the proper set of

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documentation attached. We have a new process implemented whereby a clerk is assigned to our recipes and expense report before it is checked by our purchasing clerk. After the purchasing clerk has reviewed for accuracy, the documentation is then sent to our controller for final monthly sign-off. If the employee doesn't adhere to the rules, then they will be written up.

B. Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
C. Anticipated completion date for corrective action: 10/31/2019 **COMPLETED**

2019-03 **Controls Over Inventory Controls Should Be Strengthened**

Response: MPIC is aware that the inventory controls should be strengthened to make sure no misstatements are not made, and inventory is accurately stated.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation – We have scheduled training to fully implement the inventory software (Fishbowl Inventory) that is currently in place. Each shop has established a month-end reconciling system in which they send accounting daily inventory tracking tickets that tie back to a master spreadsheet. Accounting will start matching these tracking tickets against customer sales orders that get billed.
B. Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
C. Anticipated completion date for corrective action: 12/31/2019 **IN PROCESS**

2019-4 **Controls Related to Property Control System Should Be Strengthened**

Response: MPIC is aware that there are certain changes that need to be made to the property control system.

Corrective Action Plan:

A. Specific steps to be taken to correct the situation – The Controller will work with the current year auditor to make sure that the fixed asset schedules reconcile to the audit schedules and tie to beginning balances on the balance sheet without any errors. The Controller will also make sure a better process is in place of recording additions and deletions of fixed assets;
B. Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
C. Anticipated completion date for corrective action: 3/31/2020 **IN PROCESS**

2019-05 **Controls Related to Pension and Postemployment Benefit Liability Controls Should Be Strengthened**

Response: MPIC was not aware that the internal accounting department was tasked with preparing the Pension and Postemployment benefits calculations internally. Going forward, they are going to learn how to prepare the schedule and adjustments, so the external audit firm does not have to prepare.

Corrective Action Plan:

- **A.** Specific steps to be taken to correct the situation – The accounting department will take the steps to learn how to prepare and calculate the allocation entry for pension and post-employment benefits without the assistance of the CPA audit firm.
- **B.** Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
- **C.** Anticipated completion date for corrective action: 6/30/2020

2019-06 **Controls Related to Reconciliations, Review and Close-out Process for Financial Reporting Should Be Strengthened**

Response: MPIC is aware that controls related to reconciliations, review and close-out process for financial reporting should be strengthened and working on a plan to do so.

Corrective Action Plan:

- **A.** Specific steps have been taken to correct the situation – An outside firm has been hired to assist the controller with reviewing the month-end books which will serve as a second set of eyes for due diligence. The Controller has delegated some of her duties to others so that the system of checks and balances are effectively adhered to before the books are closed every month.
- **B.** Name(s) of the contact person(s) responsible for corrective action-Brenda Morgan, Controller and Bradley Lum, CEO
- **C.** Anticipated completion date for corrective action: 10/1/2019 **COMPLETED**

2019-07 **Controls Related to Information Technology General Controls (ITGC) Should Be Strengthened**

Response: MPIC is aware that certain ITGC controls need to be put in place and working on a plan to do so.

Corrective Action Plan:

- **A.** Specific steps to be taken to correct the situation – A contract is going to be put in place for Blakeney Data Solutions that lists terms of what services the third-party provider is going to offer MPIC. Also, Blakeney Data Solutions will help implement a cloud-based backup process. This will eliminate the backup tape system that is currently in place.
- **B.** Name(s) of the contact person(s) responsible for corrective action- Bradley Lum, CEO
- **C.** Anticipated completion date for corrective action: 12/31/2019 **IN PROCESS**

Bradley Lum, CEO

Brenda Morgan, Controller

MISSISSIPPI PRISON INDUSTRIES CORPORATION

FINANCIAL AUDIT FINDINGS
or
OTHER AUDIT FINDINGS
or
COMPLIANCE REVIEW FINDINGS

Shad White, State Auditor
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B. Name(s) of the contact person(s) responsible for corrective action- Bradley Lum, CEO
C. Anticipated completion date for corrective action: 12/31/2019 **IN PROCESS**

Bradley Lum, CEO

Brenda Morgan, Controller