



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.



**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**  
Independent Auditor's Reports and Financial Statements  
June 30, 2015



**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**  
**June 30, 2015**

**Contents**

<b>Independent Auditor's Report .....</b>	<b>1</b>
---	----------

**Financial Statements**

Balance Sheet .....	4
Statement of Revenues, Expenses and Changes in Net Position .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7

**Required Supplementary Information**

Schedule of the Employer's Proportionate Share of the Net Pension Liability .....	17
Schedule of the Employer's Contributions .....	18

<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....</b>	<b>19</b>
--	-----------

## Independent Auditor's Report

Board of Directors  
State of Mississippi  
Department of Information Technology Services  
Jackson, Mississippi

### Report on the Financial Statements

We have audited the accompanying financial statements of the Information Technology Services Fund (an internal service fund) of the State of Mississippi, Department of Information Technology Services (ITS) as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Information Technology Services Fund of the State of Mississippi, Department of Information Technology Services as of June 30, 2015, and the changes in its financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in *Note 1*, the financial statements present only the Information Technology Services Fund representing a fund selected for audit by the State of Mississippi, Office of the State Auditor and do not purport to, and do not present fairly the financial position of the State of Mississippi, Department of Information Technology Services as of June 30, 2015, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in *Note 1* to the financial statements, in 2015 the Information Technology Services Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

### ***Other Matter***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB, 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 April 12, 2016, on our consideration of ITS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

Board of Directors  
State of Mississippi  
Department of Information Technology Services  
Page 3

compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ITS' internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi  
April 12, 2016

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Balance Sheet**  
**Internal Service Fund Type**  
**June 30, 2015**

**Assets**

**Current Assets**

Cash	\$ 6,236,978
Accounts receivable	187,024
Due from other governments	226,215
Due from component units	134,184
Due from other funds	<u>3,764,380</u>

Total current assets	<u>10,548,781</u>
----------------------	-------------------

**Noncurrent Assets**

Capital assets

Construction in progress	1,754,586
Furniture and equipment	26,234,339
Infrastructure	1,627,014
Land improvements and building	<u>27,114,451</u>
	56,730,390

Less accumulated depreciation	<u>(23,330,882)</u>
-------------------------------	---------------------

Net capital assets	<u>33,399,508</u>
--------------------	-------------------

**Deferred Outflows of Resources**

	<u>2,235,768</u>
--	------------------

Total assets and deferred outflows of resources	<u><u>\$ 46,184,057</u></u>
---	-----------------------------



**Liabilities, Deferred Inflows of Resources and Net Position****Current Liabilities**

Accounts payable	\$ 2,385,038
Accrued expenses	855,893
Due to other governments	4,460
Due to other funds	21,621
Current portion of lease payable	<u>758,698</u>

Total current liabilities 4,025,710

Net pension liability	16,143,765
Lease payable	<u>2,019,282</u>

Total liabilities 22,188,757

**Deferred Inflows of Resources** 2,340,157

**Net Position**

Net investment in capital assets	30,621,528
Unrestricted (deficit)	<u>(8,966,385)</u>

Total net position 21,655,143

Total liabilities, deferred inflows of resources and net position \$ 46,184,057

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Internal Service Fund Type**  
**Year Ended June 30, 2015**

<b>Operating Revenues</b>	
Sale of supplies and services	\$ 41,933,143
Other	<u>15,126</u>
Total operating revenues	<u>41,948,269</u>
<b>Operating Expenses</b>	
Salaries	10,529,272
Travel	106,962
Contractuals	28,139,030
Commodities	468,604
Depreciation	<u>2,958,848</u>
Total operating expenses	<u>42,202,716</u>
<b>Operating loss</b>	<u>(254,447)</u>
<b>Nonoperating Revenues (Expenses)</b>	
Capital contributions	733,710
Loss on disposal of capital assets	(1,467)
Interest expense	<u>(51,509)</u>
Net nonoperating revenues	<u>680,734</u>
<b>Increase in Net Position</b>	<u>426,287</u>
<b>Net Position, Beginning of Year, as Previously Reported</b>	37,465,548
<b>Cumulative Effect of Change in Accounting Principle</b>	<u>(16,236,692)</u>
<b>Net Position, Beginning of Year, as Restated</b>	<u>21,228,856</u>
<b>Net Position, End of Year</b>	<u><u>\$ 21,655,143</u></u>

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Statement of Cash Flows**  
**Internal Service Fund Type**  
**Year Ended June 30, 2015**

**Cash Flows From Operating Activities**

Cash received from customers	\$ 41,780,049
Other cash received	554,318
Cash paid to or on behalf of employees	(10,548,912)
Cash paid to suppliers and others	(28,657,509)

Net cash provided by operating activities	3,127,946
---	-----------

**Cash Flows From Capital and Related Financing Activities**

Long-term debt borrowings	621,775
Principal and interest payments on debt	(590,548)
Capital expenditures	(235,454)

Net cash used in capital and related financing activities	(204,227)
---	-----------

<b>Increase in Cash</b>	2,923,719
-------------------------	-----------

<b>Cash, Beginning of Year</b>	3,313,259
--------------------------------	-----------

<b>Cash, End of Year</b>	\$ 6,236,978
--------------------------	--------------

**Reconciliation of Operating Loss to Net Cash Provided by Operating Activities**

Net cash from operating activities	
Operating loss	\$ (254,447)
Depreciation	2,958,848
Pension expense	11,462
Changes in operating assets and liabilities	
Accounts receivable and due from other funds	363,837
Accounts payable, accrued expenses and due to other funds	48,246

Net cash provided by operating activities	\$ 3,127,946
---	--------------

**Supplemental Cash Flows Information**

Capital lease obligation incurred for equipment	\$ 1,754,586
Capital contribution	\$ 733,710
Fixed assets in accounts payable	\$ 682,196
Interest paid	\$ 51,509

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Notes to Financial Statements**

**June 30, 2015**

**Note 1: Significant Accounting Policies**

***Background Information***

The State of Mississippi, Department of Information Technology Services (ITS), an agency of the State of Mississippi, follows fund accounting with respect to its funds and pursuant to applicable state statutes. The Information Technology Services Fund No. 3360100000 (ITS Fund) is an internal service fund responsible for the operations of the state data center, administration of telecommunications, providing services for the development and planning of data processing, and for the maintenance of the central telephone system.

This fund represents a fund selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying presentation does not purport to present the financial position, the changes in its financial position or, where applicable, the cash flows of ITS.

**Basis of Presentation**

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

***Account Classifications***

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

***Basis of Accounting/Measurement Focus***

The accounting records of the ITS Fund are maintained on the economic resources measurement focus and the accrual basis in accordance with GAAP, issued by GASB, applicable to governmental entities that use proprietary fund accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Notes to Financial Statements**

**June 30, 2015**

***Cash and Cash Equivalents***

Cash consists of amounts on deposit with the State Treasury. For purposes of the statement of cash flows, when applicable, ITS considers all highly liquid investments and certificates of deposit to be cash equivalents if they have a maturity of three months or less when acquired. There were no cash equivalents as of June 30, 2015.

***Accounts Receivable***

Accounts receivable are reported net of allowances for uncollectible accounts, where applicable. No allowance for uncollectible accounts was recorded as of June 30, 2015.

***Interfund Receivables/Payables***

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

***Capital Assets***

Capital assets acquired or constructed are recorded at historical cost and depreciated using the straight-line method over the estimated useful lives of the assets.

***Net Position***

Net position is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

***Deferred Outflows/Inflows of Resources***

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources.

***Classification of Revenues***

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

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Notes to Financial Statements**

**June 30, 2015**

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as telecommunication and consulting fees.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as contributions.

***Change in Accounting Principles***

In 2015, the ITS Fund adopted GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, (GASB 68) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, (GASB 71) which revise and establish new accounting and financial reporting requirements for governments that provide their employees with pension benefits. The ITS Fund provides its employees with pension benefits through the Mississippi Public Employees' Retirement System (PERS), a cost-sharing, multiple-employer defined benefit retirement program administered by PERS. GASB 68 requires employers participating in multiple-employer, cost-sharing plans, such as PERS, to record their proportionate share, as defined in GASB 68, of PERS' unfunded pension liability. The ITS Fund has no legal obligation to fund this shortfall, nor does it have any ability to affect funding, benefit or annual required contribution decisions made by PERS. The cumulative effect of adopting GASB 68 and GASB 71 resulted in a \$16,236,692 restatement of net position as of July 1, 2014. This restatement decreased previously reported net position. Information regarding PERS' current funding status can be found in their Comprehensive Annual Financial Report (CAFR). Information related to beginning balances for fiscal year 2014 was not available; thus the effects of GASB 68 and GASB 71, including the related pension liability, were not reported on the balance sheet or statement of revenues, expenses and changes in net position for that year.

**Note 2: Cash and Other Deposits**

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

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Notes to Financial Statements**

**June 30, 2015**

**Note 3: Capital Assets**

Capital asset activity for the year ended June 30, 2015 was as follows:

		<b>2015</b>				
	<b>Estimated Useful Life</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Furniture and equipment	3-10 years	\$ 24,874,459	\$ 3,326,021	\$ (1,966,141)	\$ -	\$ 26,234,339
Infrastructure	20 years	1,627,014	-	-	-	1,627,014
Land improvements and building	20-40 years	27,122,437	-	(7,986)	-	27,114,451
Construction in progress		-	1,754,586	-	-	1,754,586
		<u>53,623,910</u>	<u>5,080,607</u>	<u>(1,974,127)</u>	<u>-</u>	<u>56,730,390</u>
Less accumulated depreciation						
Furniture and equipment		18,581,223	3,844,315	(1,783,096)	-	20,642,442
Infrastructure		683,346	65,080	-	-	748,426
Land improvements and building		1,405,464	534,550	-	-	1,940,014
		<u>20,670,033</u>	<u>4,443,945</u>	<u>(1,783,096)</u>	<u>-</u>	<u>23,330,882</u>
Net capital assets		<u>\$ 32,953,877</u>	<u>\$ 636,662</u>	<u>\$ (191,031)</u>	<u>\$ -</u>	<u>\$ 33,399,508</u>

**Note 4: Capital Lease**

In June 2012, ITS entered into a capital lease agreement through the State of Mississippi to acquire a mainframe server. The original amount of the lease was \$1,531,646, and the lease bears interest at 2.86% per annum. ITS makes semiannual payments, with the final payment due on April 10, 2017.

In December 2014, ITS entered into a capital lease agreement through the State of Mississippi to acquire electrical power monitoring systems, a switchboard and power infrastructure. The original amount of the lease was \$2,376,361, and the lease bears interest at 3.79% per annum. ITS makes semiannual payments, with the final payment due on October 10, 2019. At June 30, 2015, funds remaining to be spent under this agreement totaled \$621,755 and are included within the cash line item on the balance sheet.

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Notes to Financial Statements**

**June 30, 2015**

The capital lease activity for 2015 is summarized as follows:

Balance, July 1, 2014	\$ 940,658
Additions	2,376,361
Principal payments	<u>(539,039)</u>
Balance, June 30, 2015	<u><u>\$ 2,777,980</u></u>

The future minimum commitments under capital lease as of June 30, 2015, are as follows:

2016	\$ 851,664
2017	851,664
2018	522,233
2019	522,223
2020	<u>261,116</u>
	3,008,900
Less amount representing interest	<u>(230,920)</u>
Present value of minimum lease payments	<u><u>\$ 2,777,980</u></u>

Assets under capital leases at June 30, 2015 and 2014, totaled \$3,269,000 and \$1,515,014, respectively, net of accumulated depreciation of \$1,515,014 and \$1,052,095, respectively.

**Note 5: Pension Plan**

***Plan Description***

ITS contributes to PERS, a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing the Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 601.359.3589 or 1.800.444.PERS or online at <http://www.pers.ms.gov>.



**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Notes to Financial Statements**

**June 30, 2015**

***Benefits Provided***

For the cost-sharing plan, participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.00% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.50% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years, or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of 8 years of membership service (4 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 (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.00% of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.00% compounded for each fiscal year thereafter.

***Contributions***

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

Policies for PERS provide for employer and member contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Contribution rates for PERS are established in accordance with actuarial contribution requirements determined through the most recent June 30 annual valuation and adopted by the PERS Board of Trustees. Employer contribution rates consist of an amount for service cost; the amount estimated to finance benefits earned by current members during the year; and an amount for amortization of the unfunded actuarial accrued liability. For determining employer contribution rates, the actuary evaluates the assets of the plan based on a five-year smoothed expected return with 20.00% of a year's excess or shortfall of expected return recognized each year for five years. Contribution rates are determined using the entry age actuarial cost

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Notes to Financial Statements**

**June 30, 2015**

method and include provisions for an annual 3.00% cost-of-living increase calculated according to the terms of the respective plan.

Employees are required to contribute 9.00% of their annual pay. The employer's contractually required contribution rate for the year ended June 30, 2015, was 15.75% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, contributions to the pension plan from the ITS Fund were \$1,270,606.

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

At June 30, 2015, the ITS Fund reported a liability of \$16,143,765 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The ITS Fund's proportion of the net pension liability was based on employer contributions to PERS for the plan's fiscal year ended June 30, 2014, relative to the total employer contributions of participating employers to PERS. At June 30, 2014, the ITS Fund's proportion was 0.133%, which was .007% higher than its proportion measured as of June 30, 2013. The ITS Fund's actuarially determined pension liability at June 30, 2014 was \$17,458,481. Information related to beginning balances for fiscal year 2014 was not available; thus the effects of GASB 68 and GASB 71, including the related pension liability, were not reported on the balance sheet or statement of revenues, expenses and changes in net position for that year.

For the year ended June 30, 2015, the ITS Fund recognized pension expense of \$1,349,946. At June 30, 2015, the ITS Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 251,838	\$ -
Changes in proportion	713,324	-
Net difference between projected and actual earnings on pension plan investments	-	2,340,157
Contributions subsequent to the measurement date	1,270,606	-
	<u>\$ 2,235,768</u>	<u>\$ 2,340,157</u>

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Notes to Financial Statements**

**June 30, 2015**

At June 30, 2015, the ITS Fund reported \$1,270,606 as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2016	\$ (237,859)
2017	(237,859)
2018	(314,238)
2019	<u>(585,039)</u>
	<u><u>\$ (1,374,995)</u></u>

***Actuarial Assumptions***

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	3.50%
Salary increases	4.25% -19.50%, average, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2012. The experience report is dated June 12, 2013.

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

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Notes to Financial Statements**

**June 30, 2015**

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014, are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation Percentage</b>	<b>Long-term Expected Real Rate of Return</b>
U.S. Broad	34%	5.20%
International equity	19%	5.00%
Emerging markets equity	8%	5.45%
Fixed income	20%	0.25%
Real assets	10%	4.00%
Private equity	8%	6.15%
Cash	1%	-0.50%
	<u>100%</u>	

***Discount Rate***

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate (9.00%), and that participating employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the ITS Fund's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The ITS Fund's proportionate share of the net pension liability has been calculated using a discount rate of 8.00%. The following presents the ITS Fund's proportionate share of the net pension liability calculated using a discount rate 1.00% higher and 1.00% lower than the current rate.

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**

**Notes to Financial Statements**

**June 30, 2015**

	<b>1% Decrease (7.00%)</b>	<b>Current Discount Rate (8.00%)</b>	<b>1% Increase (9.00%)</b>
Proportionate share of the net pension liability	\$ 22,008,766	\$ 16,143,765	\$ 11,251,482

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued CAFR which can be obtained at <http://www.pers.ms.gov>.

***Payable to the Pension Plan***

At June 30, 2015, the ITS Fund has no amounts payable for outstanding contributions to the pension plan required for the year ended June 30, 2015.

## **Required Supplementary Information**

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**  
**Schedule of the Employer's Proportionate Share**  
**of the Net Pension Liability**  
**Year Ended June 30, 2015**

	<b>2015</b>	<b>2014</b>
Employer's proportion of the net pension liability	0.133%	0.126%
Employer's proportionate share of the net pension liability	\$ 16,143,765	\$ 17,458,481
Employer's covered-employee payroll	\$ 7,672,033	\$ 7,222,063
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	210.4%	241.7%
Plan fiduciary net position as a percentage of the total pension liability	67.21%	61.02%

Information above is presented as of the measurement date.

Information is not currently available for prior years; additional years will be displayed as they become available.

**State of Mississippi**  
**Department of Information Technology Services**  
**Information Technology Services Fund**  
**Schedule of the Employer's Contributions**  
**Year Ended June 30, 2015**

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,270,606	\$ 1,320,893
Contributions in relation to the contractually required contribution	<u>1,270,606</u>	<u>1,320,893</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 8,067,340	\$ 7,672,033
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

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

Information is not currently available for prior years; additional years will be displayed as they become available.



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

Board of Directors  
State of Mississippi  
Department of Information Technology Services  
Jackson, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Information Technology Services Fund of the State of Mississippi, Department of Information Technology Services (ITS), which are comprised of a balance sheet as of June 30, 2015, and statements of revenues, expenses and changes in net position and cash flows for the year then ended and have issued our report thereon dated April 12, 2016, which contained *Emphasis of Matter* paragraphs regarding the entity reflected in the financial statements and a change in accounting principle.

***Internal Control Over Financial Reporting***

Management of ITS is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered ITS' 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 ITS' internal control. Accordingly, we do not express an opinion on the effectiveness of ITS' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

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

We noted certain matters that we reported to ITS' management in a separate letter dated April 12, 2016.

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

BKD, LLC

Jackson, Mississippi  
April 12, 2016