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

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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MISSISSIPPI PRISON INDUSTRIES CORPORATION
Management's Discussion and Analysis
June 30, 2015

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, 2015. 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 \$6,874,787 (net position) at June 30, 2015. This compares to the previous year when assets exceeded liabilities by \$6,817,083, after the effects of GASB 68 prior period adjustment to record the net pension liability.
- Total sales increased \$330,654 from prior year. The change in net position for 2015 was an increase of \$57,704, which was \$222,948 greater than the decrease in net position of \$165,244 in the prior year. A portion of this increase in net position for the year ended June 30, 2015 is the result of adjusting outflows of pension liabilities in accordance with GASB 68.
- Additions to property and equipment were \$37,391 for the fiscal year ended June 30, 2015. These additions are mainly composed of two items as shown below.

(2) Air conditioning units	\$ 18,910
Purchase of body scanners	5,250
Other additions	<u>13,231</u>
Total	<u>\$ 37,391</u>

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 supplementary information such as combining statements of revenues and expenses by cost center, schedule of inventories, and schedule of property and equipment.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Management's Discussion and Analysis
June 30, 2015

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

<u>Assets</u>	
Current Assets	\$ 6,245,797
Property and Equipment, net	3,734,831
Deferred Pension Outflows	228,531
Total Assets	<u>\$ 10,209,159</u>
<u>Liabilities</u>	
Current Liabilities	\$ 260,022
Net Pension Liability	2,754,878
Deferring Pension Inflows	319,472
Total Liabilities	<u>3,334,372</u>
<u>Net Position</u>	
Investment in Capital Assets	3,734,831
Unrestricted	3,139,956
Total Net Position	<u>6,874,787</u>
Total Liabilities and Net Position	<u>\$ 10,209,159</u>

Statement of Revenues and Expenses and Changes in Net Position

Sales	\$ 6,705,277
Operating expenses	<u>6,595,042</u>
Income before other revenue and expenses	110,235
Other revenue and (expenses), net	<u>(52,531)</u>
Changes in net position	<u>57,704</u>
Net position, beginning of year, as previously reported	9,741,749
Prior period adjustment	<u>(2,924,666)</u>
Net position, beginning of year, as restated	<u>6,817,083</u>
Net position, end of year	<u>\$ 6,874,787</u>

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Management's Discussion and Analysis
June 30, 2015

Property and Equipment

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

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

Sales and Operating Expense

The Corporation has maintained a consistent gross profit margin even in a slow economy. A major customer of the Corporation's business is Mississippi Department of Corrections. The Corporation has diversified its products which has enabled the Corporation to maintain consistent sales and depend less on its major customer.

Economic Factors

The Corporation must rely on continued growth from private sector partnerships and product diversification during FY 2015. The Corporation will continue to face obstacles towards sustained growth in a continuing fragile economy 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.



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 not-for-profit corporation and component unit of the State of Mississippi), which comprise the statement of net position as of June 30, 2015, and the related statement of revenue and expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 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 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.

Board of Directors
Mississippi Prison Industries Corporation

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Prison Industries as of June 30, 2015, 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

Restatement of Prior Period Net Position

As discussed in Note 11 to the financial statements, the net position as of June 30, 2014, has been restated due to the recognition of the net pension liability in accordance with GASB Statement 68.

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 required supplementary information, required by GASB Statement 68 on pages 27 through 30, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statements of revenues and expenses, schedule of inventories and schedule of property and equipment on pages 20 through 26, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial

Board of Directors
Mississippi Prison Industries Corporation

statements and certain additional procedures, including comparing and reconciling such information, directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, 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.

A handwritten signature in cursive script that reads "Grantham, Poole, Randall, Kistano, Arington & Cunningham LLC".

Ridgeland, Mississippi
October 22, 2015

MISSISSIPPI PRISON INDUSTRIES CORPORATION**Statement of Net Position****June 30, 2015****ASSETS****Current Assets**

Cash	\$ 516,242
Certificates of deposit	3,752,638
Accounts receivable (Note 2)	754,272
Inventories	1,176,355
Prepaid expenses	31,802
Deposits	14,488
Total Current Assets	<u>6,245,797</u>

Property and Equipment

Land	404,193
Buildings and improvements	4,843,384
Machinery and equipment	3,265,430
Software	92,021
	<u>8,605,028</u>
Less accumulated depreciation	<u>(4,870,197)</u>
	<u>3,734,831</u>

Deferred Outflows of Resources

Deferred pension outflows	<u>228,531</u>
	<u>\$ 10,209,159</u>

LIABILITIES AND NET POSITION**Current Liabilities**

Accounts payable	\$ 7,016
Accrued expenses	92,854
Unearned income	56,229
Accrued leave (Note 6)	103,923
Total Current Liabilities	<u>260,022</u>

Long-term Liabilities

Net pension liability	<u>2,754,878</u>
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Deferred Inflows of Resources

Deferred pension inflows	<u>319,472</u>
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Net Position

Investment in capital assets	3,734,831
Unrestricted	<u>3,139,956</u>
Total Net Position	<u>6,874,787</u>
	<u>\$ 10,209,159</u>

See accompanying notes to financial statements.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Statement of Revenues and Expenses and Changes in Net Position
Year Ended June 30, 2015

Sales	<u>\$ 6,705,277</u>
Operating Expenses	
Cost of sales	3,874,043
Salaries and benefits	1,409,262
Contractual services	545,897
Commodities	272,715
Pension expense	107,100
Depreciation	313,754
Travel	<u>72,271</u>
	<u>6,595,042</u>
Income before other revenues and expenses	<u>110,235</u>
Other Revenues and Expenses	
Interest income	1,972
Other income	3,600
Inmates placement program (net of expenses)	<u>(58,103)</u>
	<u>(52,531)</u>
Changes in Net Position	<u>57,704</u>
Net Position, Beginning of Year, as Previously Reported	9,741,749
Prior Period Adjustment	<u>(2,924,666)</u>
Net Position, Beginning of Year, as Restated	<u>6,817,083</u>
Net Position, End of Year	<u><u>\$ 6,874,787</u></u>

See accompanying notes to financial statements.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Statement of Cash Flows
Year Ended June 30, 2015

Cash Flows From Operating Activities

Cash received from customers	\$ 6,441,301
Cash paid to suppliers of goods and services	(4,883,572)
Cash paid to employees for services	(1,413,030)
Cash paid to pension plan	<u>(196,925)</u>

Net cash used in operating activities	<u>(52,226)</u>
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Cash Flows From Non-Capital Financing Activities

Other non-operating revenues and expenses	<u>(2,838)</u>
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Cash Flows From Capital and Related Financing Activities

Acquisition and construction of capital assets	<u>(37,391)</u>
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Total cash used in capital and related financing activities	<u>(37,391)</u>
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Cash Flows From Investing Activities

Interest received	1,972
Maturities of Certificates of Deposit	<u>248,526</u>

Total cash provided by investing activities	<u>250,498</u>
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Net increase in cash and cash equivalents	158,043
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Cash and Cash Equivalents, Beginning of Year	<u>358,199</u>
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Cash and Cash Equivalents, End of Year	<u><u>\$ 516,242</u></u>
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See accompanying notes to financial statements.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Supporting Schedule to Statement of Cash Flows
Year Ended June 30, 2015

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

Income before other revenues and expenses	\$ 110,235
Adjustments to reconcile income before other revenues and expenses to net cash used in operating activities	
Depreciation	313,754
Pension payment included in offender placement program	(10,978)
Changes in assets and liabilities:	
(Increase) Decrease in	
Accounts receivable	(284,906)
Inventories	(61,674)
Prepaid expenses	26,566
Deferred pension outflows	(8,454)
Increase (Decrease) in	
Accounts payable	(74,073)
Unearned income	35,418
Accrued expenses	(27,721)
Deferred pension inflows	319,472
Net pension liability	(389,865)
Total adjustments	(162,461)
Net Cash Used in Operating Activities	\$ (52,226)

See accompanying notes to financial statements.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Notes to Financial Statements
June 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

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

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

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

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

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

(b) Nature of Operations

Mississippi Prison Industries 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 and certificates of deposit purchased with maturities of three months or less to be cash equivalents.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Notes to Financial Statements
June 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property and Equipment

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

The Corporation has adopted the provisions of FASB ASC Topic 740-10, Income Taxes. Management believes it has no material uncertain tax positions or any related penalties and interest to accrue for the year ended June 30, 2015 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 2011 and later.

(h) Estimates

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

(i) Investments

The Corporation has investments in certificates of deposit which are short-term in nature and the fair market value approximates cost. The fair value for all of the Corporation's investments in marketable securities are based upon quoted prices for these securities in active markets (Level 1 measurements). Gains or losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Accounting Standards Codification 820 requires companies to group its assets and liabilities that are carried at fair value in its financial statements into three levels based on the markets in which these assets and liabilities are traded and the reliability of assumptions used to determine their fair value. These levels are as follows:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Notes to Financial Statements
June 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investments

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active.

Level 3 - Valuation is based on significant valuation assumptions that are not readily observable in the market.

(j) 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, marketable securities, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

(k) Shipping and Handling Costs

Shipping and handling costs are included in contractual services in the statement of revenues and expenses and changes in net assets in the amount of \$18,370 for the year ended June 30, 2015. Freight billed to customers is considered sales revenue.

(l) Deferred Outflows/Inflows of Resources

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

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

See Note 10 for further details.

NOTE 2 ACCOUNTS RECEIVABLE

As of June 30, 2015, accounts receivable consisted of the following:

MS Department of Corrections	\$ 326,806
East Mississippi Community College	12,375
Jackson State University	20,021
S & N Airflow	19,480
MS Department of Wildlife	10,130
FCCI Insurance Group - Hail damage insurance	54,860
Other Accounts Receivable	310,600
	<u>\$ 754,272</u>

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Notes to Financial Statements
June 30, 2015

NOTE 3 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
Textile Shop	\$ 382,588	\$ 237,098	\$ 619,686
Office Furniture	9,299	288,231	297,530
Metal Fabrication	39,292	50,451	89,743
SMCF Garment Shop	89,324	30,275	119,599
CMCF Print Shop	22,238	19,514	41,752
Administrative Building	-	8,045	8,045
	<u>\$ 542,741</u>	<u>\$ 633,614</u>	<u>\$ 1,176,355</u>

NOTE 4 PENSION PLAN

Plan Description

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

Funding policy

PERS members are required to contribute 9.00% of their annual covered salary and Mississippi Prison Industries Corporation is required to contribute at an actuarially determined rate. The rate during fiscal year 2015 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. Mississippi Prison Industries Corporation's contributions to PERS for the years ended June 30, 2015 was \$196,925, equal to the required contributions for fiscal year 2015.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Notes to Financial Statements
June 30, 2015

NOTE 5 NET POSITION

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

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, 2015, 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 ECONOMIC DEPENDENCY

The Corporation has one major customer that comprises approximately 57.6% of total gross sales for 2015. The loss of this customer could have a significant effect on the income of this corporation. The sales to each are as follows:

	<u>Amount</u>	<u>% of Sales</u>
Customer #1	<u>\$ 3,861,261</u>	<u>57.6%</u>

NOTE 8 OPERATING LEASE AGREEMENT

The Corporation has leased certain property and equipment, except for those items purchased or constructed since February 1, 1991, from the Mississippi Department of Corrections under the terms outlined in the lease agreement. Based on an amendment as of January 3, 2015, 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 Company maintains equipment under operating leases. Future minimum rental payments required under the leases as of June 30, 2015 are:

<u>Years Ending June 30</u>	<u>Amount</u>
2016	\$ 28,583
2017	15,259
2018	7,900
2019	382
Total	<u>\$ 52,124</u>

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Notes to Financial Statements
June 30, 2015

NOTE 8 OPERATING LEASE AGREEMENT (CONTINUED)

Total rental expense was \$93,798 for the year ended June 30, 2015.

NOTE 9 INMATE PLACEMENT PROGRAM

The Corporation receives funding from Mississippi Department of Corrections. The funding is for the Offender Placement Program and Transition Placement Training Center targeted for inmates and ex-offenders with the Mississippi Department of Corrections (MDOC). The purpose is to provide job training, human skills development, job placement and other supportive services to the ex-inmates and their families. The Corporation is reimbursed for eligible expenses under the contract. For the year ended June 30, 2015, the Corporation received \$94,125 from MDOC.

Transactions for the Program for year ended June 30, 2015 were as follows:

	<u>Amount</u>
MDOC Reimbursements	\$ 350,038
Program Expenses	<u>(408,141)</u>
Net Expenses Over Revenue as Reflected on the Statement of Revenues and Expenses and Changes in Net Position	<u>\$ (58,103)</u>

Beginning in the second quarter of 2011, MPIC took on the responsibility of handling restitution offenders.

NOTE 10 PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2015, the Corporation reported a liability of \$2,754,878 for its proportionate share of the net collective pension liability. The Corporation recorded the initial net pension liability of \$3,144,743 as a prior period adjustment in accordance with GASB 68. The net pension liability was measured at 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 Corporation's proportion of the net pension liability was based on a projection of the Corporation's long term share of contributions to the pension plan relative to the projected contributions of all participating state entities, actuarially determined. At June 30, 2015, the Corporation's proportion was 0.023%.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Notes to Financial Statements
June 30, 2015

NOTE 10 PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

For the year ended June 30, 2015, the Corporation recognized pension expense of \$118,078, included in the statement of revenues and expenses and changes in net position as follows:

Pension expense	\$ 107,100
Inmate placement program expenses	<u>10,978</u>
	<u>\$ 118,078</u>

At June 30, 2015, the Corporation recognized deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 31,606	\$ 319,472
The Corporation's contributions subsequent to the measurement date	<u>196,925</u>	<u>-</u>
	<u>\$ 228,531</u>	<u>\$ 319,472</u>

The amount of \$196,925 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction of pension expense as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2016	\$ 68,499
2017	68,499
2018	71,000
2019	79,868

Actuarial Assumptions

The total pension liability at June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in measurement:

Inflation	3.50%
Salary increases	4.25% to 19.5% including inflation
Investment rate of return	8.0%, net of pension investment expense, including Inflation

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Notes to Financial Statements
June 30, 2015

NOTE 10 PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Actuarial Assumptions (Continued)

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward for two years for males.

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

The Long- term 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Broad	34.00%	5.20%
International Equity	19.00%	5.00%
Emerging Markets Equity	8.00%	5.45%
Fixed Income	20.00%	25.00%
Real Assets	10.00%	4.00%
Private Equity	8.00%	6.15%
Cash	1.00%	(0.50%)
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed the plan member contributions will be made at the current contribution rate the Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all the projected benefit payments of current active and inactive employees. 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.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Notes to Financial Statements
June 30, 2015

NOTE 10 PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Sensitivity Analysis

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Corporation's proportionate share of the net pension liability	\$ 3,755,721	\$ 2,754,878	\$ 1,920,027

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 11 PRIOR PERIOD ADJUSTMENT

The Corporation implemented GASB 68 which requires the Corporation to record their share of the net pension liability at June 30, 2014 (the measurement date). The Net pension liability for the Mississippi PERS retirement system was calculated by PERS actuaries for the difference between the actual funding of PERS retirement benefits and the required funding of PERS retirement benefits. Each of the entities was prorated a % share of the liability by the PERS actuaries.

Implementation of GASB 68:

Net pension liability at June 30, 2014 (measurement date)	\$ 3,144,743
Deferred outflows – contributions made during June 30, 2014	<u>(220,077)</u>
Total prior period adjustment related to GASB 68	<u>\$ 2,924,666</u>

NOTE 12 SUBSEQUENT EVENT

Management has evaluated subsequent events through October 22, 2015, the date the financial statements were available to be issued.

**MISSISSIPPI PRISON INDUSTRIES CORPORATION
COMBINING STATEMENTS OF
REVENUES AND EXPENSES
YEARS ENDED JUNE 30, 2015**

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Combining Statement of Revenues and Expenses
Year Ended June 30, 2015

	<u>Combined</u>	<u>Textile Shop</u>
Sales	<u>\$ 6,705,277</u>	<u>\$ 2,379,563</u>
Direct Costs		
Materials	3,699,007	1,286,741
Inmate labor	175,035	59,373
Salaries and benefits	529,715	94,280
Contractual services	169,776	33,140
Commodities	187,285	36,369
Pension expense	40,061	7,087
Depreciation	198,711	28,604
Travel	<u>957</u>	<u>363</u>
	<u>5,000,547</u>	<u>1,545,957</u>
Profit before Overhead	1,704,730	833,606
Allocated Overhead (1)	<u>1,594,495</u>	<u>565,852</u>
Income (Loss) before Other Revenue (Expense)	<u>110,235</u>	<u><u>\$ 267,754</u></u>
Other Revenue (Expense)		
Interest Income	1,972	
Other income	3,600	
Inmate Placement Program	<u>(58,103)</u>	
	<u>(52,531)</u>	
Net Income (loss)	<u><u>\$ 57,704</u></u>	

- (1) "Allocated overhead" is allocated to each division based on the percentage of each division's sales to total sales of those divisions.

Continued on next page

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Combining Statement of Revenues and Expenses
Year Ended June 30, 2015

	<u>SMCF Garment</u>	<u>CMCF - Printing</u>
Sales	\$ 886,448	\$ 671,243
Direct Costs		
Materials	410,193	219,110
Inmate labor	32,779	18,417
Salaries and benefits	86,440	102,830
Contractual services	4,292	103,191
Commodities	7,761	37,565
Pension expense	6,417	7,850
Depreciation	11,102	39,542
Travel	572	-
	<u>559,556</u>	<u>528,505</u>
Profit before Overhead	326,892	142,738
Allocated Overhead (1)	<u>210,795</u>	<u>159,620</u>
Income (Loss) before		
Other Revenue (Expense)	<u>\$ 116,097</u>	<u>\$ (16,882)</u>

(1) "Allocated overhead" is allocated to each division based on the percentage of each division's sales to total sales of those divisions.

Continued on next page

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Combining Statement of Revenues and Expenses
Year Ended June 30, 2015

	<u>Metal Fabrication</u>	<u>Administrative Building Retail</u>
Sales	\$ 832,525	\$ 48,393
Direct Costs		
Materials	285,250	26,395
Inmate labor	62,495	-
Salaries and benefits	129,866	-
Contractual services	25,990	-
Commodities	99,928	35
Pension expense	9,778	
Depreciation	46,129	-
Travel	22	-
	<u>659,458</u>	<u>26,430</u>
Profit before Overhead	173,067	21,963
Allocated Overhead (1)	<u>197,972</u>	<u>11,508</u>
Income (Loss) before		
Other Revenue (Expense)	<u>\$ (24,905)</u>	<u>\$ 10,455</u>

- (1) "Allocated overhead" is allocated to each division based on the percentage of each division's sales to total sales of those divisions.

Continued on next page

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Combining Statement of Revenues and Expenses
Year Ended June 30, 2015

	CMCF Office Furniture/ Services
	<hr/>
Sales	\$ 1,887,105
	<hr/>
Direct Costs	
Materials	1,471,318
Inmate labor	1,971
Salaries and benefits	116,299
Contractual services	3,163
Commodities	5,627
Pension expense	8,929
Depreciation	73,334
Travel	-
	<hr/>
	1,680,641
	<hr/>
Profit before Overhead	206,464
Allocated Overhead (1)	448,748
	<hr/>
Income (Loss) before	
Other Revenue (Expense)	\$ (242,284)
	<hr/> <hr/>

MISSISSIPPI PRISON INDUSTRIES CORPORATION

Schedule of Inventories

June 30, 2015

CMCF Printshop:

Raw Materials	\$ 22,238
Work-in-process	13,341
Finished Goods	6,173
	<u>41,752</u>

Textile Shop:

Raw Materials	382,588
Work-in-process	16,007
Finished Goods	221,091
	<u>619,686</u>

SMCF Garment Shop:

Raw Materials	89,324
Work-in-process	30,275
Finished Goods	-
	<u>119,599</u>

Metal Fabrication:

Raw Materials	39,292
Work-in-process	37,954
Finished Goods	12,497
	<u>89,743</u>

Administrative Building:

Finished Goods	8,045
	<u>8,045</u>

Office Furniture:

Raw Materials	9,299
Work-in-process	4,927
Finished Goods	283,304
	<u>297,530</u>

Total Inventory	<u><u>\$ 1,176,355</u></u>
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MISSISSIPPI PRISON INDUSTRIES CORPORATION

Schedule of Property and Equipment

June 30, 2015

Administration:

Land	\$	404,193
Building		593,282
Machinery and equipment		1,197,095
Building improvements		785,568
Software		92,021
Less accumulated depreciation		(1,544,207)
		<u>1,527,952</u>

Textile Shop:

Machinery and equipment		349,685
Building improvements		241,834
Less accumulated depreciation		(409,635)
		<u>181,884</u>

Furniture and Services:

Machinery and equipment		185,108
Building improvements		1,059,738
Less accumulated depreciation		(589,250)
		<u>655,596</u>

Metal Fabrication:

Machinery and equipment		488,108
Building improvements		346,162
Less accumulated depreciation		(603,615)
		<u>230,655</u>

Administrative Building Retail:

Machinery and equipment		3,875
Less accumulated depreciation		(3,875)
		<u>-</u>

SMCI Garment:

Machinery and equipment		164,065
Building improvements		177,041
Less accumulated depreciation		(270,856)
		<u>70,250</u>

CMCF Print Shop:

Machinery and equipment		791,092
Building Improvements		285,571
Less accumulated depreciation		(864,519)
		<u>212,144</u>

CMCF - Warehouse:

Machinery and equipment		86,402
Building improvements		1,354,187
Less accumulated depreciation		(584,239)
		<u>856,350</u>
	\$	<u>3,734,831</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2015</u>
Corporation's proportion percentage of the net pension liability	0.023%
Corporation's proportionate share (amount) of the net pension liability	\$ 2,754,879
Corporation's covered employee payroll	\$ 1,434,744
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	192.01%
Plan fiduciary net position as a percentage of the total pension liability	67.21%

See accompanying notes to required supplementary information.

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Schedule of the Corporation's Contributions
Last 10 Fiscal Years

	<u>2015</u>
Contractually required contribution	\$ 218,423
Contributions in relation to the contractually required contribution	<u>(218,423)</u>
	<u><u>\$ -</u></u>
Corporation's covered payroll	\$ 1,434,744
Contribution's as a percentage of covered - employee payroll	15.22%

MISSISSIPPI PRISON INDUSTRIES CORPORATION
Notes to Required Supplementary Information
June 30, 2015

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.



**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***

The Board of Directors
Mississippi Prison Industries Corporation

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, 2015, 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 22, 2015.

Internal Control Over Financial Reporting

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

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

The Board of Directors
Mississippi Prison Industries Corporation

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

Purpose of this Report

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



Ridgeland, Mississippi
October 22, 2015



October 22, 2015

The Board of Directors
Mississippi Prison Industries Corporation

We have audited the financial statements of Mississippi Prison Industries Corporation for the year ended June 30, 2015, and have issued our report thereon dated October 22, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 15, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mississippi Prison Industries Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of depreciation is based on the estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The Board of Directors
Mississippi Prison Industries Corporation
October 22, 2015

Management's estimate of the net pension liability is based on an actuarial valuation. The corporation's proportion of the net pension liability was based on a projection of the Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all participating state entities, actuarially determined. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

The Board of Directors
Mississippi Prison Industries Corporation
October 22, 2015

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Summary for Year Ended June 30, 2015

Sales of the Corporation increased by 5.2% compared the prior year. Sales to the Department of Corrections increased by \$641,975 from the prior year. The sales to this customer as a percentage of overall sales of the Corporation increased from 51% in the prior year to 58% in the current year.

Certain of the larger variances in sales by division are presented below:

<u>Product Group</u>	<u>Sales</u>		<u>Variance</u>
	<u>2015</u>	<u>2014</u>	<u>Increase</u> <u>(Decrease)</u>
Textile Shops	\$ 3,266,011	\$ 2,877,168	\$ 388,843
Printing	671,243	626,745	44,498
Metal Fabricating	832,525	891,855	(59,330)
Administration Bldg., Retail	48,393	467,803	(419,410)
Office Furniture/ Services	1,887,105	1,511,052	376,053

Income (loss) before other revenues and expenses was \$110,235 as opposed to (\$163,943) for the prior year.

The inventory on hand at June 30, 2015 was \$61,674 more than inventory on hand one year ago.

Accounts receivable was \$284,906 more than the balance one year ago. However, \$54,860 of the accounts receivable balance is an insurance reimbursement due for hail damage and \$89,001 from the Department of Corrections for the inmate placement program.

Purchasing

As stated in our separate report dated October 22, 2015 of the items we tested, we found no instances of noncompliance with the rulings of the Attorney General of the State of Mississippi regarding purchasing laws. We commend management for its efforts to comply with these laws.

Summary

We want management and the Board to know that we are always available to answer any questions or provide assistance as needed during the year. We want to thank the staff of Mississippi Prison Industries Corporation for their complete cooperation and assistance.

The Board of Directors
Mississippi Prison Industries Corporation
October 22, 2015

This information is intended solely for the use of the Board of Directors and management of Mississippi Prison Industries Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Grantham, Poole, Randall, Reitano, Arrington & Cunningham PLLC".

Grantham, Poole, Randall, Reitano, Arrington & Cunningham, PLLC