



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.



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

**Audited Financial Statements**

**June 30, 2020**

## Table of Contents

	<u>Page</u>
Management's Discussion and Analysis	1 - 3
Independent Auditors' Report	4 - 5
Statement of Net Position	6
Statement of Revenues and Expenses and Changes in Net Position	7
Statement of Cash Flows	8
Supporting Schedule to Statement of Cash Flows	9
Notes to Financial Statements	10 – 23
Required Supplementary Information	24
Schedules of Corporation's Proportionate Share of the Net Pension Liability – PERS	25
Schedules of the Corporation's Contributions to the Pension Plan	26
Schedule of the Corporation's Proportionate Share of the Net OPEB Liability	27
Schedule of the Corporation's Contributions for OPEB	28
Notes to Required Supplementary Information	29 - 31
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32 - 33
Schedule of Audit Findings	34 – 36
Corrective Action Plan	37

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Management's Discussion and Analysis**  
**June 30, 2020**

---

**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, 2020. 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 \$2,030,399 (net position) at June 30, 2020. This compares to the previous year when assets exceeded liabilities by \$736,675.
- Total sales increased \$2,865,653 from prior year. The change in net position for 2020 was an increase of \$1,293,724 which was \$1,707,111 more than the decrease in net position of \$413,387 in the prior year.
- Additions to property and equipment were \$148,568 for the fiscal year ended June 30, 2020. The disposals at June 30, 2020 were \$24,412.

These additions are composed of:

Machinery and Equipment	\$ 137,664
Software	10,904
	<u>\$ 148,568</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 required supplementary information as required by the Governmental Accounting Standards Board (GASB) Statement 68 and Statement 75.

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Management's Discussion and Analysis**  
**June 30, 2020**

---

Financial Analysis of the Corporation as a Whole

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

**STATEMENT OF NET POSITION**

Assets:	
Current Assets	\$ 3,534,534
Property and Equipment, Net	<u>3,457,955</u>
<b>Total Assets</b>	<b>6,992,489</b>
Deferred Outflows of Resources	353,622
	<u><u>\$ 7,346,111</u></u>
Liabilities:	
Current Liabilities	\$ 670,952
Net Pension Liability	3,009,282
Net Other Postemployment Benefit Liability, Non-Current	177,959
Long-Term Debt- Non-Current	164,550
Capital Lease Obligations, Non-Current	<u>16,711</u>
<b>Total Liabilities</b>	<u><b>4,039,454</b></u>
Deferred Inflows of Resources	<u>1,276,258</u>
Net Position:	
Investment in Capital Assets	3,457,955
Unrestricted (Deficit)	<u>(1,427,556)</u>
<b>Total Net Position</b>	<u><b>2,030,399</b></u>
	<u><u>\$ 7,346,111</u></u>

**STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION**

Sales	\$ 8,632,469
Operating Expenses	<u>7,324,368</u>
Income (Loss) Before Other Revenue and Expenses	1,308,101
Other Revenue and (Expenses), Net	<u>(14,377)</u>
<b>Changes in Net Position</b>	<b>1,293,724</b>
<b>Net Position, at Beginning of Year</b>	<u><b>736,675</b></u>
<b>Net Position, at End of Year</b>	<u><u><b>\$ 2,030,399</b></u></u>

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Management's Discussion and Analysis**  
**June 30, 2020**

---

Property and Equipment

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

There has been a steady increase in additions to facilities and machinery and equipment, over the years. Additional facilities and equipment are required to keep up with the increased sales capabilities.

Capital Leases

The Corporation had five capital leases during the year ended June 30, 2020. The total cost of equipment under the capital leases was \$469,990 and the accumulated depreciation related to the equipment at June 30, 2020 was \$216,091.

Sales and Operating Expense

There were two major customers of the Corporation for the year ended June 30, 2020. Sales to the Mississippi Department of Corrections (MDOC) were \$3,106,906, and sales to the Mississippi Emergency Management Agency (MEMA) were \$1,204,252 for the fiscal year ended June 30, 2020.

Overall Financial Operations

The Corporation reported net income of \$1,293,724 for the year ended June 30, 2020 compared to a net loss of \$413,387 for the year ended June 30, 2019. The June 30, 2020 income includes the effect of increased sales of \$2,865,653, over that for the year ended June 30, 2019.

Economic Factors

The Corporation must concentrate on profitable operations in fiscal year 2020. The Corporation made significant strides in fiscal year 2019 and 2020 eliminating unprofitable activities. In 2020 the Corporation had a strong increase in sales including those to their major customer, MDOC. The Corporation will continue to face obstacles in its goal to sustain growth in a fragile economy faced with state government spending cuts. The effects of the global pandemic ( COVID-19) cannot be predicted at this time and the impact on the Corporation's financial condition or results of operations are uncertain.

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.



**GranthamPoole**

Certified Public Accountants

We See You Through.®

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Mississippi Prison Industries Corporation  
Jackson, Mississippi

### Report on Financial Statements

We have audited the accompanying financial statements of Mississippi Prison Industries Corporation (a nonprofit corporation and component unit of the State of Mississippi), which comprise the statement of net position as of June 30, 2020, and the related statements of revenue and expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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





## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Prison Industries Corporation as of June 30, 2020, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 3 and the supplementary information on pages 25 through 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020, 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, reading "Grantham Poole Ruc".

Ridgeland, Mississippi  
September 29, 2020

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**

**Statement of Net Position**

**June 30, 2020**

**ASSETS**

Current Assets:	
Cash	\$ 1,499,002
Accounts Receivable	854,979
Inventories	1,054,270
Prepaid Expenses	111,795
Deposits	14,488
<b>Total Current Assets</b>	<b>3,534,534</b>
Property and Equipment:	
Land	312,266
Buildings and Improvements	5,136,863
Machinery and Equipment	4,839,296
Software	162,723
<b>Total Property and Equipment</b>	<b>10,451,148</b>
Less Accumulated Depreciation	(6,993,193)
<b>Total Property and Equipment, Net</b>	<b>3,457,955</b>
Deferred Outflows of Resources:	
Deferred Pension Outflows	315,372
Deferred Other Postemployment Benefits Outflows	38,250
<b>Total Deferred Outflows</b>	<b>353,622</b>
<b>Total Assets</b>	<b>\$ 7,346,111</b>

**LIABILITIES AND NET POSITION**

Current Liabilities:	
Accounts Payable	\$ 221,600
Accrued Expenses	99,268
Unearned Income	8,571
Current Maturities of Capital Lease Obligations	103,199
Other Postemployment Benefits Liability - Current Portion	6,381
Current Maturities of Bank Debt	131,850
Accrued Leave	100,083
<b>Total Current Liabilities</b>	<b>670,952</b>
Long-Term Liabilities:	
Net Pension Liability	3,009,282
Net Other Postemployment Benefits Liability, Non-Current	177,959
Long Term Debt, net of Current Maturities	164,550
Capital Lease Obligations, Less Current Maturities	16,711
<b>Total Long-Term Liabilities</b>	<b>3,368,502</b>
Deferred Inflows of Resources:	
Deferred Pension Inflows	1,213,264
Deferred Other Postemployment Benefits Inflows	62,994
	1,276,258
Net Position:	
Investment in Capital Assets	3,457,955
Unrestricted (Deficit)	(1,427,556)
<b>Total Net Position</b>	<b>2,030,399</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 7,346,111</b>

See accompanying notes to financial statements.

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Statement of Revenues and Expenses and Changes in Net Position**  
**Year Ended June 30, 2020**

Sales	\$ 8,632,469
Operating Expenses:	
Cost of Sales	3,687,184
Salaries and Benefits	1,559,417
Contractual Services	953,771
Commodities	449,053
OPEB Expense	5,163
Pension Expense	85,376
Depreciation	547,011
Bad Debts	863
Travel	36,530
<b>Total Operating Expenses</b>	<b>7,324,368</b>
<b>Income Before Other Revenue and Expenses</b>	<b>1,308,101</b>
Other Revenue and Expenses:	
Interest Income, Net of Credit Card Fees	302
Interest Expense	(21,773)
Gain (Loss) on Disposal of Assets	7,094
<b>Total Other Revenues and Expenses</b>	<b>(14,377)</b>
<b>Change in Net Position</b>	<b>1,293,724</b>
<b>Net Position at Beginning of Year</b>	<b>736,675</b>
<b>Net Position at End of Year</b>	<b>\$ 2,030,399</b>

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**

**Statement of Cash Flows**  
**Year Ended June 30, 2020**

---

Cash Flows From Operating Activities :

Cash Received from Customers	\$ 8,407,631
Cash Paid to Suppliers of Goods and Services	(5,542,002)
Cash Paid to Employees for Services	(1,542,818)
Cash Paid to Retirement and OPEB Plans	<u>(224,743)</u>
<b>Net Cash Provided By Operating Activities</b>	<b><u>1,098,068</u></b>

Cash Flows From Capital and Related Financing Activities:

Acquisition of Capital Assets	(148,570)
Proceeds from bank loan	296,400
Payments on Capital Lease Obligations	(131,573)
Proceeds from Sale of Assets	<u>14,825</u>
<b>Net Cash Provided By Capital and Related Financing Activities</b>	<b><u>31,082</u></b>

Cash Flows From Investing Activities:

Interest Received	<u>302</u>
<b>Net Cash Provided By Investing Activities</b>	<b><u>302</u></b>

<b>Net Increase In Cash and Cash Equivalents</b>	1,129,452
--	-----------

<b>Cash and Cash Equivalents, at Beginning of Year</b>	<b><u>369,550</u></b>
--	-----------------------

<b>Cash and Cash Equivalents, at End of Year</b>	<b><u><u>\$ 1,499,002</u></u></b>
--	-----------------------------------

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Supporting Schedule to Statement of Cash Flows**  
**Year Ended June 30, 2020**

---

Reconciliation of Operating Income to Net Cash Provided  
by Operating Activities

Income Before Other Revenue and Expenses	<u>\$ 1,308,101</u>
Adjustments to Reconcile Income Before Other Revenue and Expenses to Net Cash Provided By Operating Activities:	
Depreciation	547,011
Changes in Assets and Deferred Outflows:	
(Increase) Decrease in	
Accounts Receivable	(218,223)
Inventories	64,609
Prepaid Expenses	(58,413)
Deferred Pension Outflows	179,547
Deferred Other Postemployment Benefit Outflows	(7,763)
Changes in Liabilities and Deferred Inflows:	
Increase (Decrease) in	
Accounts Payable	(432,996)
Unearned Income	(5,752)
Accrued Expenses	27,935
Net Pension Liability	(1,057,645)
Net Other Postemployment Benefits Liability	(27,525)
Deferred Pension Inflows	745,111
Deferred Other Post Employment Benefits Inflows	<u>34,071</u>
<b>Total Adjustments</b>	<u>(210,033)</u>
 <b>Net Cash Provided By Operating Activities</b>	 <u><u>\$ 1,098,068</u></u>

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2020**

---

**NOTE 1    ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Reporting Entity

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

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

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

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

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

(b) Nature of Operations

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

(c) Basis of Accounting

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

(d) Cash and Cash Equivalents

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

(e) Property and Equipment

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

(f) Bad Debts

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

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2020**

---

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

(g) Tax-Exempt Status

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

Accounting principles generally accepted in the United States of America (GAAP) prescribes a recognition threshold and measurement attribute for tax positions taken or expected to be taken on a tax return. Management believes it has no material uncertain tax positions or any related penalties and interest to accrue for the year ended June 30, 2020 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 2017 and later.

(h) Estimates

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

(i) Fair Value of Financial Instruments

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

(j) Shipping and Handling Costs

Shipping and handling costs are included in contractual services in the statement of revenues and expenses and changes in net position in the amount of \$13,984 for the year ended June 30, 2020. Freight billed to customers is considered sales revenue.

(k) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and therefore will not be recognized as an outflow of resources (expense/ expenditure) until then. The deferred outflows included in these financial statements are deferred pension and postemployment benefit outflows, including contributions to these plans subsequent to the measurement date of the actuarial valuations related to the plans. The deferred outflows relating to postemployment benefits other than pensions results from changes in proportion and differences between the employer's contributions and the proportionate share of contributions, which is being amortized over the average remaining service lives of participants.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and therefore will not be recognized as

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2020**

---

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

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

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

(l) Pensions

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

(m) Other Postemployment Benefits

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



**MISSISSIPPI PRISON INDUSTRIES CORPORATION****Notes to Financial Statements****June 30, 2020****NOTE 2 BANK DEPOSITS**

Collateral for Public Entity Deposits in Treasury – Approved financial institutions are secured under a program established by the Mississippi State Legislature and governed by Section 27-105.5 Miss. Code Ann. (1972). Under this program, an entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of a failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). All deposits with financial institutions must be collateralized in an amount to 105 percent of uninsured deposits. All Corporation funds are in public entity accounts.

**NOTE 3 ACCOUNTS RECEIVABLE**

As of June 30, 2020, accounts receivable consisted of the following:

Mississippi Emergency Management Agency	\$	297,010
Ethicon, Inc.		114,505
Global Polymers		126,617
Tornado Shelters of Jackson		28,520
Leake County Correctional		14,730
Kemper Neshoba Regional Correctional		16,317
Mississippi Department of Education		15,036
Wilkinson County		21,511
Washington County		42,595
University of Southern Mississippi		13,520
Other Accounts Receivable		164,618
	\$	<u>854,979</u>

**NOTE 4 INVENTORIES**

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

	<b>Raw Materials</b>	<b>In Process/ Finished Goods</b>	<b>Total</b>
CMCF Metal Fab	\$ 1,910	\$ 4,055	\$ 5,965
CMCF Print Shop	11,482	15,655	27,137
Distribution Center	-	137,747	137,747
Mattress Factory	92,527	34,854	127,381
Metal Fabrication	102,433	84,221	186,654
SMCF Garment Shop	122,407	55,816	178,223
Textile Shop	310,785	80,378	391,163
	<u>\$ 641,544</u>	<u>\$ 412,726</u>	<u>\$ 1,054,270</u>

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 5 CAPITAL ASSETS**

Capital Asset activity for the year ended June 30, 2020 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Land	\$ 312,266	\$ -	\$ -	\$ 312,266
<b>Total Capital Assets Not Being Depreciated</b>	<b>312,266</b>	<b>-</b>	<b>-</b>	<b>312,266</b>
Depreciable Capital Assets				
Buildings	489,579	-	-	489,579
Building Improvements	4,638,059	9,225	-	4,647,284
Machinery and Equipment	4,734,859	128,849	(24,412)	4,839,296
Software	152,228	10,495	-	162,723
<b>Total Depreciable Assets</b>	<b>10,014,725</b>	<b>148,569</b>	<b>(24,412)</b>	<b>10,138,882</b>
Less Accumulated Depreciation for				
Buildings	206,535	12,239	-	218,774
Building Improvements	2,347,179	151,713	-	2,498,892
Machinery and Equipment	3,763,856	373,592	(16,682)	4,120,766
Software	145,294	9,467	-	154,761
<b>Total Accumulated Depreciation</b>	<b>6,462,864</b>	<b>547,011</b>	<b>(16,682)</b>	<b>6,993,193</b>
<b>Total Depreciable Assets, Net</b>	<b>3,551,861</b>	<b>(398,442)</b>	<b>(7,730)</b>	<b>3,145,689</b>
<b>Total Capital Assets, Net</b>	<b>\$ 3,864,127</b>	<b>\$ (398,442)</b>	<b>\$ (7,730)</b>	<b>\$ 3,457,955</b>

**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, 2020, in accordance with the policy and procedures manual adopted by the board.

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

**NOTE 7 LONG-TERM LIABILITIES**

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Net Pension Liability	\$ 4,066,927	\$ 85,376	\$ (1,143,021)	\$ 3,009,282	\$ -
Net OPEB Liability	211,865	6,546	(34,071)	184,340	6,381
Long-Term Debt	-	296,400	-	296,400	131,850
Capital Lease Obligations	229,710	-	(109,800)	119,910	103,199
<b>Total</b>	<b>\$ 4,508,502</b>	<b>\$ 388,322</b>	<b>\$ (1,286,892)</b>	<b>3,609,932</b>	<b>\$ 241,430</b>
Due Within One Year				(241,430)	
<b>Total Long-Term Liabilities</b>				<b>\$ 3,368,502</b>	

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**

**Notes to Financial Statements**

**June 30, 2020**

---

**NOTE 8    NET POSITION**

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

**NOTE 9    ECONOMIC DEPENDENCY**

During 2020, the Corporation had two major customers that comprised approximately 50.0% of its annual sales and 34.7% of its receivables. The loss of these customers could have a significant effect on the income of the Corporation.

**NOTE 10   CAPITAL LEASES**

The Corporation has capital leases for certain equipment with terms of 5 years with imputed interest rates that range from 6% to 12% per annum. These leases meet the criteria for capital leases and accordingly have been recorded as such.

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

Equipment Cost	\$ 469,990
Less Accumulated Depreciation	<u>(216,091)</u>
Total	<u><u>\$ 253,899</u></u>

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

Equipment Cost	\$ 469,990
Less Accumulated Depreciation	<u>(216,091)</u>
Total	<u><u>\$ 253,899</u></u>

<u>Year Ending June 30</u>	<u>Amount</u>
2021	\$ 110,305
2022	<u>17,047</u>
Total Minimum Lease Payments	127,352
Less Amounts Representing Interest	<u>(7,442)</u>
	119,910
Less Current Installments of	
Obligations Under Capital Leases	<u>(103,199)</u>
Long-Term Obligation Under Capital Leases	<u><u>\$ 16,711</u></u>

**NOTE 11   BANK DEBT**

The Corporation was extended a loan in the amount of \$296,400, pursuant to the Paycheck Protection Program (PPP), Title 1 of the CARES Act. The loan matures on April 2022 and bears interest at 1%, payable monthly beginning November 2020 with 18 payments of \$16,680 per month. The note may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the loan may be used for payroll costs, costs used to continue health care benefits, rent, utilities and interest on other debt obligations incurred before February 15, 2020. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The Corporation intends to use the entire loan amount for qualifying expenses and therefore, expects substantially all the loan amounts to be forgiven.

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2020**

---

**NOTE 11 BANK DEBT (CONTINUED)**

Future maturities of Bank Debt are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2021	\$ 131,850
2022	164,550
Total Maturities	296,400
Less Current Maturities	(131,850)
Long-Term Maturities	<u>\$ 164,550</u>

**NOTE 12 OPERATING LEASE AGREEMENT**

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

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

<u>Year Ending June 30</u>	<u>Amount</u>
2021	\$ 35,136
2022	11,820
Total	<u>\$ 46,956</u>

Total rental expense included in contractual services in the statements of revenues and expenses and changes in net position, was \$ 133,363 for the year ended June 30, 2020.

**NOTE 13 PENSION PLAN**

Plan Description

The Public Employees Retirement System of Mississippi (PERS) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained at [www.pers.ms.gov](http://www.pers.ms.gov) or by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling (601)359-3589 or 1-800-444-PERS.

Funding Policy

PERS members are required to contribute 9.00% of their annual covered salary and the Corporation is required to contribute at an actuarially determined rate. The actuarially determined rate during fiscal year 2020 was 17.4% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Corporation's contributions to PERS for the year ended June 30, 2020 was \$218,363 which is equal to the required contribution for fiscal year 2020.

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**

**Notes to Financial Statements**

**June 30, 2020**

**NOTE 13 PENSION PLAN (CONTINUED)**

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

**Benefits Provided**

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

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

For the year ended June 30, 2020, the Corporation recognized \$85,376 of pension expense. At June 30, 2020, the Corporation reported a liability of \$3,009,282 for its proportionate share of the net collective pension liability. The collective net pension liability was measured at June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The Corporation's proportion of the net pension liability was based on a projection of the Corporation's share of contributions to the pension plan relative to the projected contributions of all participating state employers. At June 30, 2020, the Corporation's proportion was 0.017106%, which was based on the measurement date at June 30, 2019.

At June 30, 2020, the Corporation recognized 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	\$ 2,545	\$ 5,174
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	-	92,366
The Corporation's Contributions Subsequent to		
The Measurement Date	218,363	-
Change in Assumptions	29,774	-
Changes in Proportionate Share and Differences Between		
Corporation Contributions and Proportionate Share of		
Contributions - Net of Amortization	64,690	1,115,724
Total	<u>\$ 315,372</u>	<u>\$ 1,213,264</u>

The amount of \$218,363 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 13 PENSION PLAN (CONTINUED)**

<u>Year Ending June 30</u>	<u>Amount</u>
2021	\$ (376,139)
2022	(508,377)
2023	(245,478)
2024	13,739
Total	<u>\$ (1,116,255)</u>

**Actuarial Assumptions**

The total pension liability at June 30, 2020 was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.00 to 18.25% including inflation
Investment rate of return	7.75%, net of pension investment expense, including Inflation

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments; for males 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80-119. For females 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119. Mortality rates will be provided generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

The actuarial assumptions used in the June 30, 2019 valuation were based upon the results of the actuarial experience study for the four-year period ending June 30, 2018.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	27.00%	4.90%
International Equity	22.00%	4.75%
Global Equity	12.00%	5.00%
Fixed Income	20.00%	1.50%
Real Estate	10.00%	4.00%
Private Equity	8.00%	6.25%
Cash	1.00%	0.25%
	<u>100.00%</u>	

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2020**

---

**NOTE 13 PENSION PLAN (CONTINUED)**

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed the plan member contributions will be made at the current contribution rate (9%) and the Employer contributions will be made at the current employer contribution rate (17.4%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – June 30, 2020

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

	<u>1% Decrease</u> <u>(6.75%)</u>	<u>Current Discount</u> <u>Rate (7.75%)</u>	<u>1% Increase</u> <u>(8.75%)</u>
Corporation's Proportionate Share of the Net Pension Liability	\$ 3,955,807	\$ 3,009,282	\$ 2,228,013

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 14 OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan Description

The Corporation offers health and life benefits through the State of Mississippi State and School Employees' Life and Health Insurance Plan (the Insurance Plan). The Insurance Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Insurance Plan. The Insurance Plan is self-insured and is financed through premiums collected from employers, employees, retirees and COBRA participants. The Insurance Plan is maintained solely for the benefit of eligible employees, dependents and retirees. A trust was created June 28, 2018 for the OPEB plan and, the plan is considered a cost-sharing multiple-employer defined benefit OPEB plan (the OPEB Plan). Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between claims cost and premiums received for retirees.

Benefits Provided

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



# MISSISSIPPI PRISON INDUSTRIES CORPORATION

## Notes to Financial Statements

June 30, 2020

---

### NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

#### Benefits Provided (Continued)

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

#### Contributions

No contributions towards postemployment benefits are made while in active service. At retirement, contributions vary based on plan election, dependent coverage, Medicare eligibility and date of hire. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Corporation subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The implicit subsidy for the period subsequent to the measurement date as of June 30, 2020 was \$6,381 and has been presented as a deferred outflow.

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

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

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

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

At June 30, 2020 the Corporation reported an OPEB liability of \$184,340 for its proportionate share of the collective net OPEB liability measured and determined by actuarial valuation at June 30, 2019. The Corporation's proportion of the collective net OPEB liability was determined by comparing the Corporation's average monthly employees participating in the Insurance Plan with the total average employees participating in the plan in the fiscal year for all employers. As of June 30, 2019, the Insurance Plan provided health coverage to 321 employer units. This allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by an employee. If the employer had no employees participating during the fiscal year, their proportionate share will be set to zero and the employer will not be allocated a proportionate share of OPEB amounts.



**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

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

At June 30, 2019 the Corporation's proportion was 0.021724% (used to determine its collective share of the net OPEB liability as of June 30, 2019) as compared to its proportion measured at June 30, 2018 of 0.02739% or a decrease of 0.005666%.

For the year ended June 30, 2020, the Corporation recognized OPEB expense of \$5,163. At June 30, 2020 the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences in Expected and Actual Experience	\$ 279	\$ 2,639
Changes in Assumptions and Inputs	13,743	9,559
Changes in Proportion and Differences Between Employer OPEB Benefit Payments and Proportionate Share of OPEB Benefit Payments	17,844	50,796
Net Difference Between Projected and Actual Investment Earnings on OPEB Investments	3	-
Employer Implicit Subsidy Subsequent to Measurement Date	6,381	-
Total	<u>\$ 38,250</u>	<u>\$ 62,994</u>

Deferred outflows of resources related to OPEB resulting from the Corporation's implicit rate subsidy contribution or cost subsequent to June 30, 2020 was \$6,381 and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ending June 30</b>	<b>Amount</b>
2021	\$ (5,351)
2022	(5,351)
2023	(5,351)
2024	(6,342)
2025	(6,622)
Thereafter	(2,108)
Total	<u>\$ (31,125)</u>

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

Actuarial cost method	Entry Age Normal
Inflation rate	2.75%
Salary increases, including wage inflation	3.00%-18.25%
Long-term expected rate of return	3.50%
Discount rate	3.50%
Healthcare cost trend rates	7.00% decreasing to 4.75% by 2028

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

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

The demographic actuarial assumptions used in the June 30, 2019 valuation were based on the results of the last actuarial experience study, dated April 2, 2019. The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation.

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

**Discount Rate** - The discount rate used to measure the total OPEB liability at June 30, 2019 was based on an average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

**Long-term Expected Rate of Return** - The long-term investment rate of return, net of OPEB plan investment expense, including inflation was 3.50%.

**Mortality** – Mortality rates were based on the PubS.H-2010(b) Retiree Table with the following adjustments; For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119. For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119. Mortality rates will be projected generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

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

The following table presents the Corporation's proportionate share of the net OPEB liability calculated using the discount rate of 3.50%, as well as what the Corporation's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.50%) or 1-percentage-point higher (4.50%) than the current rate:

	<u>1% Decrease (2.50%)</u>	<u>Current Discount Rate (3.50%)</u>	<u>1% Increase (4.50%)</u>
Corporation's Proportionate			
Share of the Net OPEB Liability	\$ 204,770	\$ 184,340	\$ 166,861

The following table presents the Corporation's proportionate share of the net OPEB liability calculated using the current assumed health care trend rates (7.00% decreasing to 4.75% by 2028), as well as what the Corporation's proportionate share of the net OPEB liability would be if it were calculated using a 1% change in the current assumed health care trend rates:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Corporation's Proportionate			
Share of the Net OPEB Liability	\$ 170,819	\$ 184,340	\$ 199,656

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Financial Statements**  
**June 30, 2020**

---

**NOTE 14 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

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

Annual changes to the net OPEB liability resulting from changes in assumptions, other inputs, changes in proportion and differences between employer OPEB benefit payments and its proportionate share of OPEB benefit payments are deferred and amortized over the average expected remaining service life of active and inactive members which approximates 6.4 years for the current measurement period.

OPEB Plan Fiduciary Net Position

The fiduciary net position for the OPEB Plan was \$1,018,000 as of June 30, 2019, the measurement date. Detailed information about the OPEB Plan's fiduciary net position for June 30, 2020 and going forward will be available in separately issued financial reports available on the Mississippi Department of Finance and Administration website.

**NOTE 15 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 29, 2020, the date the financial statements were available to be issued.

**NOTE 16 UNCERTAINTIES**

On March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The extent of the impact of COVID-19 on the Corporation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Corporation's operations, customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Corporation's financial condition or results of operations are uncertain.

Because of the pandemic the Federal Government has provided various funding opportunities to businesses, including non-profit entities, to assist in the financial downturn. The Corporation applied for and received \$296,400 through the Small Business Administration, Payroll Protection Program. The loan is disclosed in Note 11.

**NOTE 17 PENDING LITIGATION**

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

## **Required Supplementary Information**

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Corporation's Proportion Percentage of the Net Pension Liability	0.017106%	0.024451%	0.027322%	0.023524%	0.020638%	0.022696%
Corporation's Proportionate Share of the Net Pension Liability	\$ 3,009,282	\$ 4,066,927	\$ 4,541,844	\$ 4,201,973	\$ 3,190,227	\$ 2,754,878
Corporation's Covered Employee Payroll	\$ 1,125,983	\$ 1,561,394	\$ 1,753,775	\$ 1,545,101	\$ 1,434,744	\$ 1,380,482
Corporation's Proportionate Share of the Net Pension Liability as a Percentage of its Covered- Employee Payroll	267.26%	260.47%	258.98%	271.95%	222.36%	199.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.59%	62.54%	61.49%	57.47%	61.70%	67.21%

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 218,363	\$ 176,429	\$ 245,924	\$ 276,057	\$ 236,908	\$ 218,423
Contributions in Relation to the Contractually Required Contribution	<u>(218,363)</u>	<u>(176,429)</u>	<u>(245,924)</u>	<u>(276,057)</u>	<u>(236,908)</u>	<u>(218,423)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Corporation's Covered Payroll	\$ 1,254,930	\$ 1,125,983	\$ 1,561,394	\$ 1,753,775	\$ 1,545,011	\$ 1,434,744
Contribution's as a Percentage of Covered Payroll	17.40%	15.67%	15.75%	15.74%	15.33%	15.22%

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Corporation's Proportion Percentage of the Net OPEB Liability	0.021724%	0.027389%	0.027322%	0.025418%
Corporation's Proportionate Share of the Net OPEB Liability	\$ 184,340	\$ 211,865	\$ 230,486	\$ 207,538
Corporation's Covered Employee Payroll	\$ 1,125,983	\$ 1,561,394	\$ 1,753,775	\$ 1,545,101
Corporation's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	16.37%	13.57%	13.14%	13.43%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.12%	0.13%	0.00%	0.00%

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution	\$ 6,381	\$ 7,389	\$ 9,826	\$ 9,069	\$ 8,203
Contributions in Relation to the Contractually Required Contribution	<u>(6,381)</u>	<u>(7,389)</u>	<u>(9,826)</u>	<u>(9,069)</u>	<u>(8,203)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Corporation's Covered Payroll	\$ 1,254,930	\$ 1,125,983	\$ 1,561,394	\$ 1,753,775	\$ 1,545,101
Contribution's as a Percentage of Covered Payroll	0.51%	0.66%	0.63%	0.52%	0.53%

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



**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Required Supplemental Information**  
**June 30, 2020**

---

**PENSION SCHEDULES**

Basis of Presentation

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

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

Changes in Assumptions

In 2015 and later, the expectation of retired life mortality was changed to be the RP-2014 Healthy Annuitant Blue Collar Table projected in 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price of inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

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

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

In 2019 The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

- For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119.
- For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119.
- Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Required Supplemental Information**  
**June 30, 2020**

---

**PENSION SCHEDULES (CONTINUED)**

Changes in Assumptions (Continued)

- o The expectation of disabled mortality was changed to PubT.H-2010 Disabled Retiree Table for disabled retirees with the following adjustments:
  - For males, 137% of male rates at all ages.
  - For females, 115% of female rates at all ages.
  - Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.
- o The price inflation assumption was reduced from 3.00% to 2.75%.
- o The wage inflation assumption was reduced from 3.25% to 3.00%.
- o Withdrawal rates, pre-retirement mortality rates, and service retirement rates were also adjusted to more closely reflect actual experience.
- o The percentage of active member disabilities assumed to be in the line of duty was increased from 7% to 9%.

Changes in Benefit Provisions

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

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Notes to Required Supplemental Information**  
**June 30, 2020**

---

**OPEB SCHEDULES**

Schedule Of The Corporation's Proportionate Share Of The Net OPEB Liability And Related Ratios

The Corporation's proportionate share of the net OPEB liability reported at June 30, 2020 was determined based on the Corporation's allocation percentage of average monthly employees participating in the Insurance Plan with the total average employees participating in the Insurance Plan for all employers as of June 30, 2019.

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

The total OPEB liabilities used in the development of the ratio of the plan fiduciary net position to total OPEB liabilities presented in the schedule was provided by the Insurance Plan's actuarial consultants, Cavanaugh Macdonald Consulting, LLC. The net OPEB liability is measured as the total OPEB liability less the amount of the fiduciary net position for the Insurance Plan as of June 30, 2019.

Changes In Assumptions

The Municipal Bond Index Rate was used in the determination of the single equivalent interest rate for purposes of the OPEB discount rate. The OPEB discount rate was changed from 3.89% as of June 30, 2019 (using the prior measurement date of June 30, 2018) to 3.50% for reporting as of June 30, 2020 (using the current measurement date of June 30, 2019).



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

Board of Directors  
Mississippi Prison Industries Corporation  
Jackson, Mississippi

We have audited, in accordance with 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, 2020, and the related statements of revenues and expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2020.

**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) as a basis for designing 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 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 combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying summary of audit findings as items 2020-001, 2020-002 and 2020-003 that we consider to be material weaknesses.



### **Compliance and Other Matters**

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

### **Mississippi Prison Industries Corporation's Response to Findings**

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

### **Purpose of this Report**

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

A handwritten signature in black ink, reading "Grantham Poole Ruc".

Ridgeland, Mississippi  
September 29, 2020

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Schedule of Audit Findings**  
**June 30, 2020**

---

**MATERIAL WEAKNESS**

**Finding Number**

**Finding and Recommendation**

**2020-001**

**Material Weakness in Maintenance of Source Documents**

**Repeat Finding**

Yes, 2019-002

**Criteria**

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

**Condition**

There were instances during our audit whereby source documentation requested was not readily available. Many of the inventory cost invoices could not be located timely. Additionally, certain travel documentation tested did not include attached receipts, description of the expense or other documentation to substantiate business purpose.

**Cause**

The company does not have adequate processes to ensure source documents are retained and filed in a readily accessible location.

**Effect**

Inadequate controls over review and maintenance of source documentation could result in inaccurate accounting information.

**Recommendation**

We recommend policies be strengthened so that review functions and business purposes are documented and source documentation is better maintained.

**2020-002**

**Material Weakness over Inventory Controls**

**Repeat Finding**

Yes, 2019-003

**Criteria**

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

**Condition**

During our inventory cost testing, differences were noted whereby certain costs used to extend the inventory did not agree with recent inventory prices. It was also noted that some inventory source documents are located at remote locations rather than the administrative central office.

**Cause**

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

**MISSISSIPPI PRISON INDUSTRIES CORPORATION**  
**Schedule of Audit Findings**  
**June 30, 2020**

---

**MATERIAL WEAKNESS (CONTINUED)**

**Finding Number**

**Finding and Recommendation**

**2020-002**

Material Weakness over Inventory Controls (Continued)

**Effect**

Inadequate controls over the inventory control process could result in material misstatements.

**Recommendation**

We recommend policies be strengthened so that deficiencies noted above do not reoccur. The Corporation should implement policies, procedures and a review process to ensure inventory is accurately calculated and reported.

**2020-003**

Material Weakness in Pension and Postemployment Benefit Liability Controls

**Repeat Finding**

Yes, 2019-005

**Criteria**

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

**Condition**

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

**Cause**

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

**Effect**

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

**Recommendation**

We recommend the Corporation staff prepare the pension and postretirement calculations in the future and post the adjustments to these accounts prior to the audit.



## **FINANCIAL AUDIT FINDINGS**

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

October 8, 2020

Dear Mr. White,

Below is a summary of the MPIC responses to the 6/30/20 FY audit findings.

### **AUDIT FINDINGS:**

#### **2020-001      Material Weakness in Maintenance of Source Documents**

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

#### **Corrective Action Plan:**

- A. Specific steps to be taken to correct the situation – The accounting department is enforcing stronger controls to make sure every receipt and expense report has the proper set of documentation attached. If the employee does not adhere to the policy, they will be moved to an out of pocket and reimbursement style of purchasing only.
- B. Name(s) of the contact person(s) responsible for corrective action-Ryan Ratcliff, Controller and Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 10/31/2020 **COMPLETED**

#### **2020-002      Material Weakness over Inventory Controls**

Response: MPIC concurs with the finding and is aware that the inventory controls should be strengthened to make sure no misstatements are made, and inventory is accurately stated.

#### **Corrective Action Plan:**

- A. Specific steps to be taken to correct the situation – We have begun implementing the inventory software (Fishbowl Inventory) that is currently in place. Each shop has established a month-end





reconciling system in which they send accounting daily inventory tracking tickets that tie back to a master spreadsheet. Accounting will start matching these tracking tickets against customer sales orders that get billed.

- B. Name(s) of the contact person(s) responsible for corrective action-Ryan Ratcliff, Controller and Bradley Lum, CEO
- C. Anticipated completion date for corrective action: 12/31/2020 **IN PROCESS**

**2020-003      Material Weak ness in Pension and Postemployment Benefit Liability Controls**

Response: MPIC concurs with the finding. MPIC is aware that the internal accounting department was tasked with preparing the Pension and Postemployment benefits calculations internally. Going forward, the department will learn how to prepare the schedule and adjustments.

**Corrective Action Plan :**

- A. Specific steps to be taken to correct the situation – The accounting department will take the steps to learn how to prepare and calculate the allocation entry for pension and post-employment benefits without the assistance of the CPA audit firm.
- B. Name(s) of the contact person(s) responsible for corrective action-Ryan Ratcliff, Controller and Bradley Lum, CEO

Anticipated completion date for corrective action: 6/30/2021

Bradley Lum, CEO

Ryan Ratcliff, Controller