



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR

PHIL BRYANT
State Auditor

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HOLMES COMMUNITY COLLEGE

Audited Financial Statements
For the Year Ended June 30, 2003

HOLMES COMMUNITY COLLEGE

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HOLMES COMMUNITY COLLEGE

FINANCIAL AUDIT REPORT

HOLMES COMMUNITY COLLEGE

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Dr. Starkey Morgan and Board of Trustees
Holmes Community College
Goodman, MS 39079

We have audited the accompanying financial statements of Holmes Community College as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of Holmes Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holmes Community College, as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, Holmes Community College adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*; and related pronouncements for the year ended June 30, 2003.

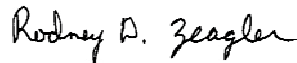
In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2004, on our consideration of Holmes Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 7 through 16, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Holmes Community College's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

June 1, 2004

HOLMES COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003

This section of the Holmes Community College annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2003. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. Since this is a transition year for this format, only one year of financial data is presented. In future years, a comparative analysis will be presented. The financial statements, footnotes, and this discussion are the responsibility of management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. These financial statements differ significantly, in both form and the accounting principles used, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

One of the most important questions asked is whether the College as a whole is better or worse off because of the year's activities. The key to understanding this question is the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These Statements present financial information in a form similar to that use by corporations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. The College's net assets (the difference between assets and liabilities) are one indicator of the College's financial health. Over time, increases or decreases in net assets are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies state appropriations and gifts as nonoperating revenues. The College's dependency on state aid and gifts results in an operating deficit. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

**Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003**

Another important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

Condensed Statement of Net Assets

June 30, 2003

	<u>Amount</u>	<u>Percent</u>
Assets		
Current Assets	\$ 15,262,680	37.33
Noncurrent Assets:		
Capital, Net	25,606,526	62.62
Other	26,289	.05
Total Assets	<u>40,895,495</u>	<u>100.00</u>
Liabilities		
Current Liabilities	902,886	13.62
Noncurrent Liabilities	5,725,127	86.38
Total Liabilities	<u>6,628,013</u>	<u>100.00</u>
Net Assets		
Invested in Capital Assets, Net	19,506,461	56.92
Restricted:		
Expendable	2,145,058	6.26
Unrestricted	12,615,963	36.82
Total Net Assets	<u>\$ 34,267,482</u>	<u>100.00</u>

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the College's bank accounts and certificates of deposits. The total amount of cash and cash equivalents reported as current assets on the College financial statements were \$6,658,425 at June 30, 2003.

Accounts Receivable

Accounts receivable relate to several transactions including local appropriations, student tuition and fees and auxiliary services vendor credits. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College receivables totaled \$790,596 at June 30, 2003.

**Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003**

Noncurrent assets

Cash and Cash Equivalents

Cash and cash equivalents are those funds that are held in the bank accounts and certificates of deposits. The cash and cash equivalents that are considered noncurrent are cash held in a money market account to meet the requirements for an unemployment compensation fund. Unemployment claims are paid out of unrestricted funds of the college. This account is simply maintained for legal compliance purposes. The amount of cash and cash equivalents considered noncurrent at June 30, 2003 totaled \$26,289.

Capital Assets, Net

Capital assets, net, consist of land, improvements, buildings, equipment, historical library holdings and construction in progress at June 30, 2003. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$25,606,526 at June 30, 2003.

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities

Accounts Payable and accrued liabilities represent amounts due at June 30, 2003 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$324,522 at June 30, 2003.

Long-Term Liabilities-Current Portion

Long-term liabilities-current portion represents the portion of long-term debt that would be payable by the end of the June 30, 2004 fiscal year. The amount of the current portion of long-term debt at June 30, 2003 was \$374,936.

Noncurrent Liabilities

Long-Term Liabilities

This liability consists of long-term debt for outstanding bonds, notes, and capital leases. The total amount of the noncurrent portion of long-term debt was \$5,725,127 at June 30, 2003.

Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2003 were \$34,267,482.

**Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003**

Analysis of Net Assets

Restricted expendable net assets consist of unemployment funds, grants from third party agencies with expenditure restrictions, local appropriations restricted for capital projects or debt retirement and loan funds.

The following is a breakdown of the restricted net assets:

	<u>Amount</u>
Unemployment Funds	\$ 26,289
Capital Projects	1,966,903
Scholarships & Fellowships	(99,446)
Debt Obligations	<u>251,312</u>
 Total Restricted Net Assets	 <u>\$2,145,058</u>

Unrestricted net assets represent those balances from operational activities that have not been restricted by parties external to the College such as donors or grant agencies. This includes funds that are normal working capital balances maintained for departmental and auxiliary enterprise activities.

The following is a breakdown of the unrestricted net assets:

	<u>Amount</u>
Unrestricted General Fund	\$ 10,051,187
Unrestricted Auxiliary Funds	<u>2,564,776</u>
 Total Unrestricted Net Assets	 <u>\$ 12,615,963</u>

**Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003**

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2003

	<u>Amount</u>
Operating Revenues:	
Tuition and Fees	
(Net of Scholarship Allowance of \$4,537,696)	\$ 1,057,281
Federal Appropriation	125,048
Grants and Contracts	11,163,883
Sales & Services	21,698
Auxiliary Enterprises	
(Net of Scholarship Allowance of \$115,842)	697,010
Other Operating Revenues	357,410
 Total Operating Revenues	 13,422,330
 Operating Expenses	 24,222,613
 Operating Loss	 (10,800,283)
Nonoperating Revenues:	
State Appropriations	9,175,632
Local Appropriations	1,563,669
Investment Income, Net	331,926
Other Nonoperating Expenses	(322,518)
 Net Nonoperating Revenues	 10,748,709
 Loss Before Other Revenues	 (51,574)
State Appropriations restricted for Capital Purposes	603,478
Local Appropriations restricted for Capital Purposes	1,244,571
Other Additions (deletions), net	(7,945)
 Total Other Revenues	 1,840,104
 Total Increase in Net Assets	 1,788,530
Net Assets	
Net Assets at Beginning of Year, as Restated	32,478,952
 Net Assets at End of Year	 \$34,267,482

**Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003**

Total operating loss for the fiscal year 2003 was \$10,800,283. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, beginning this year and going forward, the College will show a significant operating loss. Another factor in the operating loss for this year is that depreciation expense shown is cumulative and not just for this year. In the future depreciation expense will be for the current year only.

The sources of operating revenue for the College are tuition and fees, grants and contracts, auxiliary services, and other operating revenues.

The College strives to provide students with the opportunity to obtain a quality education. Future enrollments at the College may be affected by a number of factors including any material increases in tuition and other mandatory charges stemming from any material decrease in appropriation funding from the State of Mississippi.

Total operating revenues for fiscal year 2003 were \$13,422,330. Tuition and fees were \$1,057,281. The tuition discount was \$4,537,696. Operating expenses, including depreciation of \$1,158,882, totaled \$24,222,613.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$1,057,281. The tuition discount for the 2003 fiscal year was \$4,537,696.

Grants and Contracts

This includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent that the funds have been expended for exchange transactions. Nonexchange revenues are recorded when received or when eligibility criteria have been met.

The following table details the College's grant and contract awards for the fiscal year ended June 30, 2003:

	<u>Amount</u>
Federal	\$ 8,017,079
State	3,146,804
Total All Sources	<u>\$11,163,883</u>

**Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003**

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$21,698 for the 2003 fiscal year.

Sales and Services, Net

Auxiliary enterprises consist of housing and meal plans.

Operating Expenses

Operating expenses totaling \$24,222,613 include salaries and benefits of \$13,382,974, utilities of \$831,727, supplies of \$1,484,923, services of \$2,112,299, and depreciation of \$1,158,882.

	<u>Amount</u>
Expenses by Function:	
Instruction	\$ 11,209,364
Instructional Support	419,339
Student Services	1,975,544
Institutional Support	2,815,853
Operations and Maintenance of Plant	3,385,859
Student Financial Aid (Net of Scholarship Allowance)	2,642,069
Auxiliary Enterprises	615,703
Depreciation	1,158,882
Total Operating Expenses by Function	\$ 24,222,613

Nonoperating Revenues (Expenses)

State Appropriations

The College's largest source of nonoperating revenue is the State of Mississippi appropriation. The College received \$9,175,632 for fiscal year 2003.

Local Appropriations

The College also receives revenue from the nine counties that make up its local district. They include Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Yazoo and Webster counties. The College received \$2,808,240 for the 2003 fiscal year from the local government of which \$1,563,669 was for operating purposes and \$1,244,571 for capital projects or retirement of debt.

**Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003**

Investment Income, Net

This includes the interest income from the cash in the bank accounts. \$331,926 was earned during the 2003 fiscal year.

Other Nonoperating Expenses

Other nonoperating expenses for fiscal year 2003 totaled \$322,518.

Other Revenues

Local Appropriations for Capital Purposes

This includes revenue received from the nine county support district for capital projects during the fiscal year. The amount of this revenue totaled \$1,244,571 for the 2003 fiscal year.

**Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003**

Statement of Cash Flows

Another way to assess the financial health of the College is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the College during a period. The Statement of Cash Flows also helps users assess:

- The ability to generate future net cash flows,
- The ability to meet obligations as they come due, and
- A need for external financing.

Condensed Statement of Cash Flows (Direct Method)

For the Fiscal Year Ended June 30, 2003

	<u>Amount</u>
Cash and Cash Equivalents Provided (Used) by:	
Operating Activities	\$ (8,942,116)
Noncapital Financing Activities	10,791,590
Capital and Related Financing Activities	(273,915)
Investing Activities	(2,981,733)
Net Decrease in Cash and Cash Equivalents	(1,406,174)
Cash and Cash Equivalents – Beginning of the Year	8,090,888
Cash and Cash Equivalents – End of the Year	\$ 6,684,714

The major sources of funds included in operating activities include student tuition and fees of \$1,033,016, auxiliary enterprises of \$697,010, and grants and contracts of \$11,173,278. The major uses of funds were payments made to employees of \$13,579,236 and to scholarships and fellowships of \$3,385,050 and to suppliers of \$1,484,923.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$9,317,475. In addition, the college received \$1,472,115 from the nine counties that make up its district.

Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003

Factors Impacting Future Periods

There are a number of issues that are directly impacting the community college system as a whole. The continuing decline of state revenues and therefore, state funding is the main issue which will continue to have an impact on our financial position. This is occurring at the same time we are experiencing an increase in enrollment and increases in compensation for quality faculty personnel and utility cost.

One of internal considerations with each year's budget is the desire to refrain from tuition increases as we consider this to be one of the barriers to college education for our local residents. However, with continuing increases in expenditures and decreases in state funding, there may be little choice for the college administration if we wish to expand programs, add new programs and continue to meet our mission.

In addition to operating challenges, our need for deferred maintenance funds and new construction for the increases in enrollment continue to challenge our ability to maintain reserve funds. These expenditures will continue to increase as our buildings age.

Holmes Community College enjoys strong support from the local community both in individual and business support of our foundation and in local support for expansion and addition of existing programs. This support has helped the college to weather the decreases in state funding and yet continue to serve the citizens of its nine county district.

HOLMES COMMUNITY COLLEGE

AUDITED FINANCIAL STATEMENTS

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HOLMES COMMUNITY COLLEGE
Statement of Net Assets
June 30, 2003

ASSETS

Current assets:

Cash and cash equivalents	\$ 6,658,425
Short-term investments	7,813,659
Accounts receivables, net	<u>790,596</u>

Total Current Assets 15,262,680

Noncurrent assets:

Restricted cash and cash equivalents	26,289
Capital assets, net of accumulated depreciation	<u>25,606,526</u>

Total Noncurrent Assets 25,632,815

Total Assets 40,895,495

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	324,522
Deferred revenues	203,428
Long-term liabilities - current portion	<u>374,936</u>

Total Current Liabilities 902,886

Noncurrent liabilities:

Long-term liabilities	<u>5,725,127</u>
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Total Noncurrent Liabilities 5,725,127

Total Liabilities 6,628,013

NET ASSETS

Invested in capital assets, net of related debt 19,50,461

Restricted for:

Expendable:

Scholarships and fellowships	(99,446)
Capital projects	1,966,903
Debt service	251,312
Other purposes	26,289

Unrestricted: 12,615,963

Total Net Assets \$ 34,267,482

The notes to the financial statements are an integral part of this statement.

HOLMES COMMUNITY COLLEGE
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2003

Operating Revenues:	
Tuition and fees (net of scholarship allowances of \$4,537,696)	\$ 1,057,281
Federal appropriations	125,048
Federal grants and contracts	8,017,079
State grants and contracts	3,146,804
Sales and services of educational departments	21,698
Auxiliary enterprises:	
Student housing (net of scholarship allowances of \$70,588)	246,150
Food services (net of scholarship allowances of \$45,254)	404,285
Athletics	15,941
Other auxiliary revenues	30,634
Other operating revenues	<u>357,410</u>
 Total Operating Revenues	 <u>13,422,330</u>
Operating Expenses:	
Salaries and wages	10,937,608
Fringe benefits	2,445,366
Travel	174,793
Contractual services	2,112,299
Utilities	831,727
Scholarships and fellowships	3,534,730
Commodities	1,484,923
Depreciation expense	1,158,882
Other operating expense	<u>1,542,285</u>
 Total Operating Expenses	 <u>24,222,613</u>
 Operating Income (Loss)	 <u>(10,800,283)</u>
Nonoperating Revenues (Expenses):	
State appropriations	9,175,632
Local appropriations	1,563,669
Investment income	331,926
Other nonoperating revenues (expenses)	<u>(322,518)</u>
 Total Net Nonoperating Revenues (Expenses)	 <u>10,748,709</u>
 Income (Loss) before Other Revenues, Expenses, Gains and Losses	 <u>(51,574)</u>
 State appropriations restricted for capital purposes	603,478
Local appropriations restricted for capital purposes	1,244,571
Other additions (deletions), net	<u>(7,945)</u>
 Change in Net Assets	 <u>1,788,530</u>

Net Assets:

Net Assets - Beginning of Year, as Originally Reported	44,196,125
Cumulative effects of changes in accounting principle	(11,573,173)
Prior period adjustments	<u>(144,000)</u>
Net Assets - Beginning of Year, as Restated	<u>32,478,952</u>
Net Assets - End of Year	\$ <u><u>34,267,482</u></u>

The notes to the financial statements are an integral part of this statement.

HOLMES COMMUNITY COLLEGE
Statement of Cash Flows
For the Year Ended June 30, 2003

Cash Flows from Operating Activities:	
Tuition and fees	\$ 1,033,016
Federal appropriations	125,048
Grants and contracts	11,173,278
Sales and services of educational departments	21,698
Payments to suppliers	(1,484,923)
Payments to employees for salaries and benefits	(13,579,236)
Payments for utilities	(831,727)
Payments for scholarships and fellowships	(3,385,050)
Auxiliary enterprise charges:	
Student housing	246,150
Food services	404,285
Athletics	15,941
Other auxiliary enterprises	30,634
Other receipts (payments)	<u>(2,711,230)</u>
Net Cash Provided (Used) by Operating Activities	<u>(8,942,116)</u>
Cash Flows from Noncapital Financing Activities:	
State appropriations	9,319,475
Local appropriations	1,472,115
Federal loan program receipts	2,228,126
Federal loan program disbursements	<u>(2,228,126)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>10,791,590</u>
Cash Flows from Capital and Related Financing Activities:	
Cash paid for capital assets	(1,461,136)
Capital appropriations received	1,867,566
Principal paid on capital debt and leases	(357,827)
Interest paid on capital debt and leases	<u>(322,518)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(273,915)</u>
Cash Flows from Investing Activities:	
Proceeds from sales and maturities of investments	6,014,795
Interest received on investments	331,926
Purchases of investments	<u>(9,328,454)</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,981,733)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,406,174)</u>
Cash and Cash Equivalents - Beginning of the Year	<u>8,090,888</u>
Cash and Cash Equivalents - End of Year	<u>\$ 6,684,714</u>

Reconciliation of Operating Income (Loss) to Net Cash
Provided (Used) by Operating Activities

Operating income (loss)	\$ <u>(10,800,283)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	1,158,882
Other	339,492
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Receivables, net	244,049
Increase (decrease) in liabilities:	
Accounts payables and accrued liabilities	<u>115,744</u>
Total Adjustments	<u>1,858,167</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>(8,942,116)</u></u>

The notes to the financial statements are an integral part of this statement.

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2003

(1) Summary of Significant Accounting Policies.

- A. Reporting Entity - Holmes Community College was founded in 1925 and is one of Mississippi's 15 public community colleges. The legal authority for the establishment of Holmes Community College is found in Section 37-29-31, Miss. Code Ann. (1972).

Holmes Community College is locally-governed by a 22 member board of trustees, selected by the board of supervisors of Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Webster and Yazoo Counties who support the district through locally assessed ad valorem tax millage. One of the trustees from each of the supporting counties must be the county superintendent of education, unless the superintendent chooses not to serve, in which case the county board of supervisors shall fill the vacancy in accordance with Section 37-29-65, Miss. Code Ann. (1972). Each board member is appointed for a 5-year term. In addition, Holmes Community College works jointly with the Mississippi State Board for Community and Junior Colleges, which coordinates the efforts of all 15 community colleges as they serve the taxpayers of the State of Mississippi.

- B. Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, issued in June and November, 1999, respectively. The college now follows the "business-type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the college's financial activities.
- C. Basis of Accounting - The financial statements of the college have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.
- D. Cash Equivalents - For purposes of the Statement of Cash Flows, the college considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- E. Short-term Investments - Investments that are not cash equivalents but mature within the next fiscal year are classified as short-term investments.
- F. Accounts Receivables, Net - Accounts receivables consist of tuition and fees charged to students, state appropriations, amounts due from state and federal grants and contracts, local governments and credits due to the college from vendors. Accounts receivables are recorded net of an allowance for doubtful accounts.
- G. Restricted Cash and Cash Equivalents - Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as restricted cash and cash equivalents on the Statement of Net Assets.

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2003

- H. Capital Assets, Net of Accumulated Depreciation - Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See Note 6 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose.
- I. Deferred Revenues - Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- J. Compensated Absences - The college does not provide for the accumulation of leave beyond one year. Therefore, no accrual for compensated absences has been recorded in the financial statements.
- K. Classification of Revenues - The college has classified its revenues as either operating or nonoperating revenues according to the following criteria:
- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances and (3) most federal and state grants and contracts.
- Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations, local appropriations and investment income.
- L. State Appropriations - Holmes Community College receives funds from the State of Mississippi based on the number of full-time students actually enrolled and in attendance on the last day of the sixth week of the fall semester of the previous year, counting only those students who reside within the State of Mississippi. Beginning with the 2004 fiscal year, a new funding formula will be phased in over a 5-year period which will shift the funding calculation from a predominantly full-time student formula, weighted by type of student, to a full-time equivalent formula which is based on total credit hours generated by all students with special consideration given only to high cost programs.
- M. Scholarship Discounts and Allowances - Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties and Federal Direct Lending, is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a college basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2003

- N. Net Assets - GASB Statement No. 34 reports equity as "Net Assets" rather than "Fund Balance". Net assets are classified according to external donor restrictions or availability of assets for satisfaction of college obligations. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes and funds held in federal loan programs.

The unrestricted net asset balance of \$12,615,963 at June 30, 2003, includes \$2,564,776 reserved for auxiliaries and a remaining amount of \$10,051,187.

(2) Accounting Changes.

As a result of the adoption of GASB Statement No. 34, the college was also required to make certain changes in accounting principles, specifically the adoption of depreciation on capital assets and the adoption of new capitalization thresholds for certain capital assets. Net assets at July 1, 2002, were reduced by \$11,573,173 for the cumulative effect of these changes on years prior to fiscal year 2003.

(3) Prior Period Adjustments.

For the year ended June 30, 2003, the college recorded prior period adjustments of \$144,000, which included a deletion of library books incorrectly recorded in fiscal year 2002.

(4) Cash and Investments.

Policies:

Cash, Cash Equivalents and Short-term Investments - Investment policies as set forth by policy and state statute authorize the college to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market funds, U.S. Treasury bills and notes, and repurchase agreements.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the college'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 these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2003

(5) Accounts Receivable.

Accounts receivable consisted of the following at June 30, 2003:

Student tuition	\$	1,122,341
Federal, state, and private grants and contracts		78,340
State appropriations		163,575
Other		<u>268,700</u>
Total Accounts Receivable		1,632,956
Less allowance for doubtful accounts		<u>842,360</u>
Net Accounts Receivable	\$	<u><u>790,596</u></u>

(6) Capital Assets.

A summary of changes in capital assets for the year ended June 30, 2003, is presented as follows:

	Beginning Balance	Additions	Deletions	Change in Accounting Principle *	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 719,007				719,007
Construction in progress	<u>1,513,351</u>	<u>970,750</u>	<u>665,558</u>		<u>1,818,543</u>
Total Nondepreciable Capital Assets	<u>2,232,358</u>	<u>970,750</u>	<u>665,558</u>	<u>0</u>	<u>2,537,550</u>
Depreciable Capital Assets:					
Improvements other than buildings	1,331,630	756,038			2,087,668
Buildings	28,152,166			(4,325)	28,147,841
Equipment	4,002,030	307,104	144,385		4,164,749
Library books	<u>1,311,206</u>	<u>92,802</u>	<u>175,026</u>		<u>1,228,982</u>
Total Depreciable Capital Assets	<u>34,797,032</u>	<u>1,155,944</u>	<u>319,411</u>	<u>(4,325)</u>	<u>35,629,240</u>
Less Accumulated Depreciation for:					
Improvements other than buildings	671,652	69,430			741,082
Buildings	7,607,634	550,388			8,158,022
Equipment	2,350,771	474,684	136,440		2,689,015
Library books	<u>938,791</u>	<u>64,380</u>	<u>31,026</u>		<u>972,145</u>
Total Accumulated Depreciation	<u>11,568,848</u>	<u>1,158,882</u>	<u>167,466</u>	<u>0</u>	<u>12,560,264</u>
Total Depreciable Capital Assets, Net	<u>23,228,184</u>	<u>(2,938)</u>	<u>151,945</u>	<u>(4,325)</u>	<u>23,068,976</u>
Capital Assets, Net	<u>\$ 25,460,542</u>	<u>967,812</u>	<u>817,503</u>	<u>(4,325)</u>	<u>25,606,526</u>

* Because of a change in capitalization standards, a portion of the prior year fixed assets had to be removed from inventory. This reduction in beginning inventory balance is included in the change in accounting principle column.

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2003

Depreciation is computed on a straight-line basis with the exception of the library books category, which is computed using a composite method. The following useful lives, salvage values and capitalization thresholds are used to compute depreciation:

	Estimated Useful Lives	Salvage Value	Capitalization Threshold
Buildings	40 years	20%	\$ 50,000
Improvements other than buildings	20 years	20%	25,000
Equipment	3 - 15 years	1% - 10%	5,000
Library books	10 years	0%	0

(7) Long-term Liabilities.

Long-term liabilities of the college consist of notes payable that are expected to be liquidated at least one year from June 30, 2003.

Information regarding original issue amounts, interest rates and maturity dates for the notes included in the long-term liabilities balance at June 30, 2003, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2003	Due Within One Year
Notes Payable								
DOE college facilities note	\$ 1,200,000	5.50%	2018	\$ 937,892		37,829	900,063	39,936
Educational facilities note, 1998	2,215,000	4.13% - 5.88%	2013	1,890,000		120,000	1,770,000	125,000
Dormitory notes, 2000	4,000,000	4.95% - 6.0%	2015	<u>3,630,000</u>		<u>200,000</u>	<u>3,430,000</u>	<u>210,000</u>
Total Notes Payable				\$ <u>6,457,892</u>	<u>0</u>	<u>357,829</u>	6,100,063	<u>374,936</u>
Due within one year							<u>374,936</u>	
Total Long-term Liabilities							\$ <u>5,725,127</u>	

	Notes Payable	Interest	Total
2004	\$ 374,936	302,962	677,898
2005	392,163	282,535	674,698
2006	414,514	261,770	676,284
2007	436,996	238,769	675,765
2008	459,616	215,216	674,832
2009-2013	2,702,794	716,416	3,419,210
2014-2018	<u>1,319,044</u>	<u>121,031</u>	<u>1,440,075</u>
Totals	\$ <u>6,100,063</u>	<u>2,138,699</u>	<u>8,238,762</u>

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2003

(8) Natural Classifications with Functional Classifications.

The college's operating expenses by functional classification were as follows for the year ended June 30, 2003:

<u>Functional Classification</u>	<u>Salaries & Wages</u>	<u>Fringe Benefits</u>	<u>Travel</u>	<u>Contractual Services</u>	<u>Utilities</u>	<u>Scholarships & Fellowships</u>	<u>Commodities</u>	<u>Depreciation Expense</u>	<u>Other</u>	<u>Total</u>
Instruction	\$ 7,854,908	1,665,960	79,280	104,710		704,840	793,717		5,949	11,209,364
Academic support	233,892	62,763	381	20,326			22,436		79,541	419,339
Student services	1,059,827	244,456	46,442	186,419		187,371	204,131		46,898	1,975,544
Institutional support	976,376	234,545	35,981	1,144,223		450	134,142		290,136	2,815,853
Operation of plant	680,612	195,109	12,709	228,932	831,727		317,009		1,119,761	3,385,859
Student aid						2,642,069				2,642,069
Auxiliary enterprises	131,993	42,533		427,689			13,488			615,703
Depreciation								1,158,882		1,158,882
Total Operating Expenses	\$ <u>10,937,608</u>	<u>2,445,366</u>	<u>174,793</u>	<u>2,112,299</u>	<u>831,727</u>	<u>3,534,730</u>	<u>1,484,923</u>	<u>1,158,882</u>	<u>1,542,285</u>	<u>24,222,613</u>

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2003

(9) Construction Commitments and Financing.

The college has contracted for various construction projects as of June 30, 2003. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

<u>Project Title</u>	<u>Total Costs to Complete</u>	<u>State Sources</u>	<u>Institutional Funds</u>
Male & female dorms	\$ 184,900	184,900	
President's home	<u>303,193</u>	<u> </u>	<u>303,193</u>
Total	\$ <u>488,093</u>	<u>184,900</u>	<u>303,193</u>

(10) Pension Plan.

Plan description - Holmes Community College participates in 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 Mississippi State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding policy - PERS members are required to contribute 7.25% of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the Mississippi State Legislature. The college's contributions to PERS for the years ending June 30, 2003, 2002 and 2001 were \$960,665, \$900,116 and \$902,317, respectively, equal to the required contributions for each year.

(11) Foundations and Affiliated Parties.

The Holmes Community College foundation is an independent corporation formed for the purpose of receiving funds for the sole benefit of Holmes Community College. The foundation is separately audited and the financial statements of the foundation have not been included in the financial statements of Holmes Community College. Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations Are Component Units*, will become effective for the fiscal year ended June 30, 2004, and will require the foundation's financial statements to be included in the financial statements of Holmes Community College as a component unit. Following is a summary of the foundation's financial position at December 31, 2002, which amounts are not included in the financial statements of the institution. This summary is based on audited figures for the year ended December 31, 2002.

<u>Assets</u>	<u>Amount</u>
Cash and investments	\$ 153,451
Investments	2,006,403
Construction in progress	<u>578,153</u>
Total Assets	\$ <u>2,738,007</u>

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2003

<u>Liabilities and Fund Balances</u>	<u>Amount</u>
Net Assets:	
Unrestricted	\$ 111,690
Temporarily restricted	1,722,298
Permanently restricted	<u>904,019</u>
Total Liabilities and Net Assets	\$ <u><u>2,738,007</u></u>

(12) Subsequent Events.

The institution received \$6,500,000 of bond proceeds in July 2003, for purpose of constructing the Advanced Technology Training Center on the Ridgeland Campus. The debt will be repaid through local support millage from Madison County.

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HOLMES COMMUNITY COLLEGE

SUPPLEMENTAL INFORMATION

HOLMES COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Student Financial Aid - Cluster:			
<u>U.S. Department of Education</u>			
Direct programs:			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		\$ 105,405
Federal Family Education Loans (FFEL)	{ 1 } 84.032		2,228,126
Federal Work-study Program (FWS)	84.033		181,518
Federal Pell Grant Program	84.063		<u>6,646,414</u>
Subtotal direct program			<u>9,161,463</u>
Passed-through program from State of Mississippi Institutions of Higher Learning:			
Leveraging Educational Assistance Partnership (LEAP)	84.069		<u>3,674</u>
Total U.S. Department of Education			<u>9,165,137</u>
Total Student Financial Aid Cluster			<u>9,165,137</u>
Other Programs:			
<u>U.S. Department of Agriculture</u>			
Pass-through program from:			
Mississippi Community College Foundation Distance Learning and Telemedicine Loans and Grants	10.855		<u>125,048</u>
Total U.S. Department of Agriculture			<u>125,048</u>
<u>U.S. Department of Labor</u>			
Pass-through programs from:			
MS Employment Security Commission - WIA Adult Program	17.258		70,785
MS Employment Security Commission - WIA Dislocated Workers	17.260		40,323
MS Employment Security Commission - Trade Adjustment Assist. (TAA)	17.245		<u>38,572</u>
Total U.S. Department of Labor			<u>149,680</u>
<u>U.S. Department of Education</u>			
Direct program:			
TRIO - Student Support Services	84.042A		<u>252,472</u>
Subtotal direct program			<u>252,472</u>
Pass-through programs from:			
State Department of Education - Adult Education - State Grant Program	84.002		248,177
State Department of Education - Vocational Education Basic Grants to States	84.048		292,046
State Department of Education - Tech-Prep Education	84.243		<u>73,049</u>
Subtotal pass-through programs			<u>613,272</u>
Total U.S. Department of Education			<u>865,744</u>

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health & Human Services</u>			
Pass-through program from:			
State Department of Health and Human Services			
Temporary Assistance for Needy Families	93.558		<u>17,992</u>
Total U.S. Department of Health & Human Services			<u>17,992</u>
Total Other Programs			<u>1,158,464</u>
Total Expenditures of Federal Awards			\$ <u><u>10,323,601</u></u>

Notes to Schedule of Expenditures of Federal Awards

This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements, with the following exceptions:

{ 1 } For purposes of this schedule, loans made to students under the Federal Family Education Loans (CFDA #84.032) are presented as federal expenditures. Neither the funds advanced to students nor the outstanding loan balance is included in the financial statements since the loans are made and subsequently collected by private lending institutions and/or the federal government.

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HOLMES COMMUNITY COLLEGE

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Dr. Starkey Morgan and Board of Trustees
Holmes Community College
Goodman, MS 39079

We have audited the financial statements of Holmes Community College as of and for the year ended June 30, 2003, as listed in the table of contents and have issued our report thereon dated June 1, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

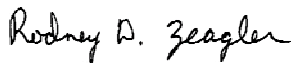
In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the college's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-1 and 2003-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the findings referred to above is a material weakness.

This report is intended solely for the information and use of the college, Members of the Legislature, entities with accreditation overview, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

June 1, 2004



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Dr. Starkey Morgan and Board of Trustees
Holmes Community College
Goodman, MS 39079

Compliance

We have audited the compliance of Holmes Community College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The college's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the college's management. Our responsibility is to express an opinion on the college's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the college's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the college's compliance with those requirements.

In our opinion, Holmes Community College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

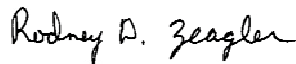
The management of the Holmes Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the college's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the college, Members of the Legislature, entities with accreditation overview, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

June 1, 2004

HOLMES COMMUNITY COLLEGE

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Dr. Starkey Morgan and Board of Trustees
Holmes Community College
Goodman, MS 39079

We have audited the financial statements of Holmes Community College as of and for the year ended June 30, 2003, and have issued our report thereon dated June 1, 2004. 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*.

We have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the financial statements did not disclose any instances of noncompliance with state laws and regulations.

This report is intended solely for the information and use of the college, Members of the Legislature, entities with accreditation overview, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Handwritten signature of Phil Bryant in cursive.

PHIL BRYANT
State Auditor

Handwritten signature of Rodney D. Zeagler in cursive.

RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

June 1, 2004

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HOLMES COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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HOLMES COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditor's report issued on the financial statements: | Unqualified |
| 2. Material noncompliance relating to the financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section ____.510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |

Student financial aid cluster:

CFDA #84.007
CFDA #84.032
CFDA #84.033
CFDA #84.063
CFDA #84.069

- | | |
|--|-----------|
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? | No |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? | No |

HOLMES COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

Section 2: Financial Statement Findings

Reportable Conditions Not Considered To Be Material Weaknesses

2003-1. Finding

As previously reported, our review of accounts receivable and the corresponding revenues at fiscal year-end revealed that some accruals were not made. Audit adjustments were made to properly reflect the accounts receivable and corresponding revenues.

Recommendation

More care should be taken when recording year-end accounts receivable, particularly state and local appropriations.

2003-2. Finding

During our test work of the college capital assets accounts, we noted the following:

- A. Capital assets account balances were not adjusted on the general ledger to reflect additions and deletions during the year.
- B. As previously reported, detail listings of land, improvements other than buildings and construction in progress assets accounts were not maintained by the college.

Audit adjustments were made to properly reflect capital assets account balances at June 30, 2003.

Recommendation

Detail subsidiary records are maintained for equipment, buildings, and books and films, thus, the general ledger should be adjusted at year-end to agree with these subsidiary listings. The college should also maintain subsidiary listings and update the general ledger for land, improvements other than buildings and construction in progress.

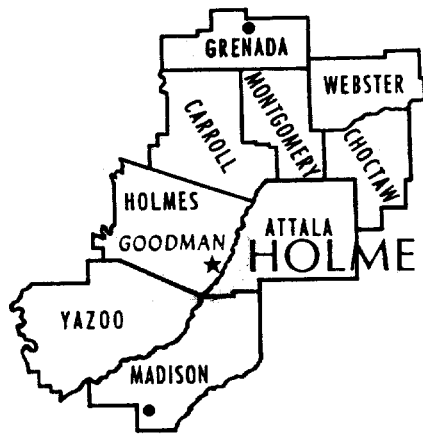
Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.

HOLMES COMMUNITY COLLEGE

AUDITEE'S CORRECTIVE ACTION PLAN

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HOLMES COMMUNITY COLLEGE
GOODMAN, MS 39079
601/472-2312

BUSINESS MANAGER

Auditee's Corrective Action Plan
For the Year Ended June 30, 2003

As required by Section __.315(b) of OMB Circular A-133, Holmes Community College has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2003:

Finding

Corrective Action Plan Details

2003-1

a. Name of Contact Person Responsible for Corrective Action:

Steve Caldwell, Business Manager, 662-472-9015

b. Corrective Action Planned:

Holmes Community College is continuing a plan to properly record accounts receivable at year end. Information necessary to properly record accruals will be obtained before fiscal year end.

c. Anticipated Completion Date:

Corrective action should be complete as of June 30, 2004.

2003-2

a. Name of Contact Person Responsible for Corrective Action:

Steve Caldwell, Business Manager, 662-472-9015

b. Corrective Action Planned:

Holmes Community College is continuing a plan to properly record additions and deletions to plant in the general ledger. Subsidiary ledgers are maintained and entries will be made to the general ledger to properly represent subsidiary balances.

c. Anticipated Completion Date:

Corrective action should be complete as of June 30, 2004.

Date Submitted: 8/12/2004

Submitted by