



STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR

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PEARL RIVER COMMUNITY COLLEGE

Audited Financial Statements  
For the Year Ended June 30, 2003

PEARL RIVER COMMUNITY COLLEGE

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PEARL RIVER COMMUNITY COLLEGE

FINANCIAL AUDIT REPORT

PEARL RIVER 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. William A. Lewis, President and Board of Trustees  
Pearl River Community College  
Poplarville, MS 39470

We have audited the accompanying financial statements of Pearl River 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 Pearl River 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 Pearl River 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, Pearl River 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.

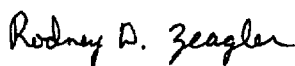
In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2004, on our consideration of Pearl River Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 Pearl River 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

April 13, 2004

**PEARL RIVER COMMUNITY COLLEGE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

PEARL RIVER COMMUNITY COLLEGE

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Pearl River 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 '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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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>
<b>Assets</b>		
Current Assets	\$11,471,833	27.85
Noncurrent Assets:		
Capital, Net	25,182,419	61.14
Other	<u>4,537,159</u>	<u>11.01</u>
Total Assets	<u>41,191,411</u>	<u>100.00</u>
<b>Liabilities</b>		
Current Liabilities	3,573,512	57.38
Noncurrent Liabilities	<u>2,654,919</u>	<u>42.62</u>
Total Liabilities	<u>6,228,431</u>	<u>100.00</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net	21,613,110	61.82
Restricted:		
Nonexpendable	29,250	.07
Expendable	4,492,068	12.85
Unrestricted	<u>8,828,552</u>	<u>25.26</u>
Total Net Assets	<u>\$34,962,980</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, petty cash and certificates of deposit. The total amount of cash and cash equivalents reported as current assets on the college financial statements were \$2,666,294 at June 30, 2003.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

### **Accounts Receivable**

Accounts receivable relate to several transactions including county appropriations, accrued interest, student tuition and fee billings, and auxiliary enterprise sales such as food service and bookstore. 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 \$2,976,136 at June 30, 2003.

### **Inventories**

The college maintains inventories of resale merchandise as well as items for internal consumption. Books, student supplies, and institutional memorabilia make up the majority of the resale inventory. Inventories maintained for internal departmental use include paper goods. Inventories totaled \$452,812 at June 30, 2003.

### **Noncurrent assets**

#### **Cash and Cash Equivalents**

Cash and cash equivalents are those funds that are held in the bank accounts. The cash and cash equivalents that are considered noncurrent are cash in Endowment Funds. The amount of cash and cash equivalents considered noncurrent at June 30, 2003, totaled \$4,507,909.

#### **Other Investments**

Other long-term investments include bank certificates of deposit held by F.D.I.C. insured banks. The value at June 30, 2003, was \$29,250.

#### **Capital Assets, Net**

Capital assets, net, consist of land, infrastructure, buildings, equipment, and historical library holdings at June 30, 2003. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$25,182,419 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 \$2,311,147 at June 30, 2003.

##### **Long-Term Liabilities-Current Portion**

Long-term liabilities-current portion, bonds, notes and capital leases, represents the portion of these balances that would be payable by the end of the June 30, 2003, fiscal year. The amount of the current portion of bonds, notes and capital leases at June 30, 2003, was \$942,485.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Noncurrent Liabilities**

**Long-Term Liabilities**

This liability consists of the bonds, notes and capital leases balances. The total amount of the noncurrent portion of bonds, notes and capital leases balances was \$2,626,824 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 \$34,962,980.

**Analysis of Net Assets**

Restricted nonexpendable net assets consist of endowment gifts with specific restrictions on spending the principal given.

Restricted expendable net assets consist of endowment gifts, gifts with specific restrictions, grants from third party agencies with expenditure restrictions, and loan funds.

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	\$ 7,553,201
Unrestricted Auxiliary Fund	<u>1,275,351</u>
Total Unrestricted Net Assets	\$ <u>8,828,552</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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

	<u>Amount</u>
<b>Operating Revenues:</b>	
Tuition and Fees	\$ 1,816,083
Grants and Contracts	12,942,318
Sales and Services of Educational	120,560
Auxiliary Enterprises	3,047,013
Other Operating Revenues	<u>259,802</u>
Total Operating Revenues	<u>18,185,776</u>
Operating Expenses	<u>28,282,560</u>
Operating Loss	<u>(10,096,784)</u>
<b>Nonoperating Revenues:</b>	
State Appropriations	8,294,443
County Appropriations	3,636,716
Investment Income, Net	1,548
Other Nonoperating Expenses	<u>(113,155)</u>
Net Nonoperating Revenues	<u>11,819,552</u>
Income Before Other Revenues	1,722,768
Capital Appropriations	401,317
Total Increase in Net Assets	2,124,085
<b>Net Assets</b>	
Net Assets at Beginning of Year, as Restated	<u>32,838,895</u>
Net Assets at End of Year	<u>\$ 34,962,980</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Total operating loss for the fiscal year 2003 was \$10,096,784. 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.

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 \$18,185,776. Tuition and fees were \$1,816,083. Operating expenses, including depreciation of \$1,508,609 totaled \$28,282,560. Of this total \$11,922,209 or 42% was for instruction.

**Revenues**

**Operating Revenues**

**Tuition and Fees**

This category includes all tuition and fees assessed for educational purposes totaling \$1,816,083.

**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 Source	\$ 8,761,589
Other Sources	4,180,729
Total All Sources	\$ <u>12,942,318</u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

### **Noncapital Gifts**

This consists of gifts made to the college from a nongovernmental organization and/or individuals. The cash gifts totaled \$230,615 at June 30, 2003.

### **Sales and Services from Educational Activities**

Other operating revenues consist of income from educational activities that totaled \$120,560 for the 2003 fiscal year.

### **Sales and Services, Net**

Sales and services, net, consist of various enterprise entities that exist predominantly to furnish goods and services to students, faculty, staff, or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting.

Auxiliary enterprises primarily include the college bookstore.

### **Operating Expenses**

Operating expenses totaling \$28,282,560 include salaries and benefits of \$14,638,911 scholarships and fellowships of \$4,730,999, utilities of \$873,170, supplies of \$2,943,306, services of \$3,295,273 and depreciation of \$1,508,609.

	<u>Amount</u>
Expenses by Function:	
Instruction	\$ 11,922,209
Academic Support	541,936
Student Services	2,668,754
Institutional Support	3,128,670
Operations and Maintenance of Plant	2,310,240
Student Financial Aid	3,449,616
Auxiliary Enterprises	2,752,526
Depreciation	<u>1,508,609</u>
 Total Operating Expenses by Function	 <u>\$ 28,282,560</u>

### **Nonoperating Revenues (Expenses)**

#### **State Aid**

The college's largest source of nonoperating revenue is the State of Mississippi appropriation. The college received \$8,695,760 for 2002-2003 fiscal year, of which \$8,294,443 was for operations. In addition, the college received \$401,317 in general obligation bonds of the state for capital improvements.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

### **County Appropriations**

The college also receives revenue from the six county district in which the school resides. The college uses the funding for salaries and benefits, for operational purposes. The college receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1<sup>st</sup>. The college received \$3,636,716 for the 2003 fiscal year from the counties. This appropriation was fully recorded by the college during the fiscal year.

### **Investment Income, Net**

This includes the interest income from the cash in the bank accounts. The investment income at June 30, 2003, was \$179,478.

### **Other Nonoperating Expenses**

This includes losses on the sale of fixed assets that the college incurred during the 2003 fiscal year. Total other nonoperating expenses amounted to \$113,155.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**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	\$ (8,461,072)
Noncapital Financing Activities	12,060,428
Capital and Related Financing Activities	(2,151,557)
Investing Activities	<u>(4,735,895)</u>
Net Decrease in Cash and Cash Equivalents	(3,288,096)
Cash and Cash Equivalents – Beginning of the Year	<u>10,462,299</u>
Cash and Cash Equivalents – End of the Year	<u>\$ 7,174,203</u>

The major sources of funds included in operating activities include student tuition and fees, \$6,114,921, auxiliary enterprises, \$3,263,029, and grants and contracts, \$11,948,024. The major uses of funds were payments made to employees, \$14,082,055 and to suppliers, \$6,864,976.

The largest inflow of cash in the noncapital financing activities group is the state appropriation of \$7,743,077.

**Significant Capital Asset Transactions**

None noted for the FY 2003.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

### **Factors Impacting Future Periods**

There are a number of issues of community college-wide importance that directly impacted the fiscal year 2003 financial situation. The level of state support, compensation increases, student tuition and fee increases, and energy cost increases impact the college's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

State appropriations contribute approximately fifty-five percent of general operations' revenue. The level of state support is therefore one of the key factors influencing the college's financial condition.

The need to continue to address priority needs and requirements for deferred maintenance, new technology, repairs, and new construction projects is a large challenge facing the college in the years to come.

Various committees and individuals are assessing the college's performance toward identified goals and ways to achieve greater efficiencies and reduce expenditures in an effort to assist in meeting the future challenges.

PEARL RIVER COMMUNITY COLLEGE

AUDITED FINANCIAL STATEMENTS

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PEARL RIVER COMMUNITY COLLEGE  
Statement of Net Assets  
June 30, 2003

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,666,294
Short-term investments	5,070,074
Accounts receivables, net	2,976,136
Inventories	452,812
Prepaid expenses	<u>306,517</u>

Total Current Assets 11,471,833

Noncurrent assets:

Restricted cash and cash equivalents	4,507,909
Endowment investments	29,250
Capital assets, net of accumulated depreciation	<u>25,182,419</u>

Total Noncurrent Assets 29,719,578

Total Assets 41,191,411

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	2,311,147
Deferred revenues	319,880
Long-term liabilities - current portion	<u>942,485</u>

Total Current Liabilities 3,573,512

Noncurrent liabilities:

Deposits refundable	28,095
Long-term liabilities	<u>2,626,824</u>

Total Noncurrent Liabilities 2,654,919

Total Liabilities 6,228,431

NET ASSETS

Invested in capital assets, net of related debt 21,613,110

Restricted for:

Nonexpendable:	
Scholarships and fellowships	29,250
Expendable:	
Scholarships and fellowships	14,532
Capital projects	2,132,033
Debt service	2,345,503
Unrestricted:	<u>8,828,552</u>

Total Net Assets \$ 34,962,980

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

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PEARL RIVER 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 \$4,004,564 )	\$ 1,816,083
Federal grants and contracts	8,761,589
State grants and contracts	3,950,114
Nongovernmental grants and contracts	230,615
Sales and services of educational departments	120,560
Auxiliary enterprises:	
Student housing	324,608
Food services	1,064,382
Bookstore	1,658,023
Other operating revenues	<u>259,802</u>
 Total Operating Revenues	 <u>18,185,776</u>
Operating Expenses:	
Salaries and wages	11,880,338
Fringe benefits	2,758,573
Travel	292,292
Contractual services	3,295,273
Utilities	873,170
Scholarships and fellowships	4,730,999
Commodities	2,943,306
Depreciation expense	<u>1,508,609</u>
 Total Operating Expenses	 <u>28,282,560</u>
 Operating Income (Loss)	 <u>(10,096,784)</u>
Nonoperating Revenues (Expenses):	
State appropriations	8,294,443
Local appropriations	3,636,716
Investment income	179,478
Interest expense on capital asset-related debt	(177,930)
Other nonoperating revenues (expenses)	<u>(113,155)</u>
 Total Net Nonoperating Revenues (Expenses)	 <u>11,819,552</u>
 Income (Loss) before Other Revenues, Expenses, Gains and Losses	 <u>1,722,768</u>
 State appropriations restricted for capital purposes	 <u>401,317</u>
 Change in Net Assets	 <u>2,124,085</u>
Net Assets:	
Net Assets - Beginning of Year, as Originally Reported	49,422,421
 Cumulative effects of changes in accounting principle	 <u>(16,583,526)</u>
 Net Assets - Beginning of Year, as Restated	 <u>32,838,895</u>
 Net Assets - End of Year	 \$ <u><u>34,962,980</u></u>

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

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

<b>Cash Flows from Operating Activities:</b>	
Tuition and fees	\$ 6,114,921
Grants and contracts	11,948,024
Sales and services of educational departments	120,560
Payments to suppliers	(6,864,976)
Payments to employees for salaries and benefits	(14,082,055)
Payments for utilities	(832,204)
Payments for scholarships and fellowships	(8,128,371)
Auxiliary enterprise charges:	
Student housing	324,608
Food services	1,064,382
Bookstore	1,667,900
Other auxiliary enterprises	<u>206,139</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>(8,461,072)</b></u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
State appropriations	7,743,077
Gifts and grants for other than capital purposes	4,223,612
Federal loan program receipts	8,244,728
Federal loan program disbursements	(8,244,728)
Other sources (uses)	<u>93,739</u>
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u><b>12,060,428</b></u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Proceeds from capital debt	225,245
Cash paid for capital assets	(1,743,259)
Capital appropriations received	401,317
Principal paid on capital debt and leases	(803,512)
Interest paid on capital debt and leases	<u>(231,348)</u>
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u><b>(2,151,557)</b></u>
<b>Cash Flows from Investing Activities:</b>	
Proceeds from sales and maturities of investments	1,424,681
Interest received on investments	51,039
Purchases of investments	<u>(6,211,615)</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>(4,735,895)</b></u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u><b>(3,288,096)</b></u>
<b>Cash and Cash Equivalents - Beginning of the Year</b>	<u><b>10,462,299</b></u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u><b>\$ 7,174,203</b></u></u>

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

Operating income (loss)	\$ <u>(10,096,784)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	1,508,609
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Receivables, net	(476,658)
Inventories	(140,966)
Prepaid expenses	(59,213)
Increase (decrease) in liabilities:	
Accounts payables and accrued liabilities	162,271
Deferred revenues	640,715
Deposits refundable	<u>954</u>
Total Adjustments	<u>1,635,712</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>(8,461,072)</u></u>

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

PEARL RIVER COMMUNITY COLLEGE

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

(1) Summary of Significant Accounting Policies.

- A. Reporting Entity - Pearl River Community College was founded in 1924 and is one of Mississippi's 15 public community colleges. The legal authority for the establishment of Pearl River Community College is found in Section 37-29-31, Miss. Code Ann. (1972).

Pearl River Community College is locally-governed by a sixteen-member board of trustees, selected by the board of supervisors of Forrest, Hancock, Jefferson Davis, Lamar, Marion and Pearl River 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, Pearl River 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. Student Notes Receivables, Net - Student notes receivables consist of federal, state and institutional loans made to students for the purpose of paying tuition and fee charges. Loan balances expected to be paid during the next fiscal year are presented on the statement of net assets as current assets. Those balances that are either in deferment status or expected to be paid back beyond the next fiscal year are presented as noncurrent assets on the Statement of Net Assets.

PEARL RIVER COMMUNITY COLLEGE

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

- H. Inventories - Inventories consist of bookstore and printing supplies. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out ("FIFO") basis or the average cost basis.
- I. 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.
- J. Endowment Investments - Endowment investments are generally subject to the restrictions of donor gift instruments. They include true endowment funds, which are funds received from a donor with the restrictions that only the income is to be utilized.
- K. 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.
- L. 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.
- M. 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, (3) most federal, state and local 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.
- N. State Appropriations - Pearl River 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 five 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.

PEARL RIVER COMMUNITY COLLEGE

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

- O. 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.
- P. 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 \$8,828,552 at June 30, 2003, includes \$452,812 reserved for inventories, \$822,539 reserved for auxiliaries, and a remaining amount of \$7,553,201.

(2) Accounting Changes.

As a result of the adoption of GASB Statement No. 34, the college was also required to change in accounting principles regarding the adoption of depreciation on capital assets. Net assets at July 1, 2002, were reduced by \$16,583,526 for the cumulative effect of these changes on years prior to fiscal year 2003.

(3) Cash and Investments.

Policies:

- A. 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.

- B. Investments - Investment policies as set forth by policy and state statute also authorize the college to invest in equity securities, bonds and other securities. Investments are reported at fair value (market).

PEARL RIVER COMMUNITY COLLEGE

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

The following table summarizes the carrying values of the college's investments reported on the Statement of Net Assets:

	<u>June 30, 2003</u>
Endowment investments	\$ <u>29,250</u>
Total	\$ <u><u>29,250</u></u>

In accordance with the GASB Statement No. 3, investments are classified into three categories of custodial risk:

Category 1	Investments that are insured or registered, or securities held by the college or by its agent in the college's name.
Category 2	Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the college's name.
Category 3	Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not held in the college's name.
Not Categorized	Investments in mutual funds, money markets and investment management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The following table summarizes the categorization of investments at June 30, 2003:

	<u>Category 1</u>	<u>Total Per Bank</u>
Investments:		
Certificates of deposit	\$ <u>29,250</u>	<u>29,250</u>
Total Investments	\$ <u><u>29,250</u></u>	<u><u>29,250</u></u>

PEARL RIVER COMMUNITY COLLEGE

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

(4) Accounts Receivable.

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

Student tuition	\$	2,724,429
Federal, state, and private grants and contracts		2,143,121
State appropriations		168,495
Local appropriations		226,973
Other		<u>132,834</u>
 Total Accounts Receivable		 5,395,852
Less allowance for doubtful accounts		<u>2,419,716</u>
 Net Accounts Receivable	 \$	 <u><u>2,976,136</u></u>

(5) Notes Receivable from Students.

Notes receivable from students are payable in installments over a period of up to ten years, commencing three to twelve months from the date of separation from the college. The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the college at June 30, 2003:

	Interest Rates	June 30, 2003	Current Portion	Non-Current Portion
Nursing student loans	3% to 5%	\$ <u>18,719</u>		<u>18,719</u>
Total Notes Receivable		18,719		18,719
Less allowance for doubtful accounts		<u>18,719</u>		<u>18,719</u>
 Net Notes Receivable		 <u><u>\$ 0</u></u>	 <u><u>0</u></u>	 <u><u>0</u></u>

PEARL RIVER COMMUNITY COLLEGE

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

(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 and Prior Period Adjustment	Ending Balance
<b>Nondepreciable Capital Assets:</b>					
Land	\$ 458,882				458,882
Construction in progress	929,237	1,154,492	1,325,858		757,871
<b>Total Nondepreciable Capital Assets</b>	<b>1,388,119</b>	<b>1,154,492</b>	<b>1,325,858</b>	<b>0</b>	<b>1,216,753</b>
<b>Depreciable Capital Assets:</b>					
Improvements other than buildings	4,137,851	1,308,647		12,616,287	18,062,785
Buildings	27,845,167			(12,616,287)	15,228,880
Equipment	5,422,299	497,144	113,431		5,806,012
Library books	2,771,790	108,834		(1,508,265)	1,372,359
<b>Total Depreciable Capital Assets</b>	<b>40,177,107</b>	<b>1,914,625</b>	<b>113,431</b>	<b>(1,508,265)</b>	<b>40,470,036</b>
<b>Less Accumulated Depreciation for:</b>					
Improvements other than buildings	5,407,941	668,543			6,076,484
Buildings	5,105,195	297,575			5,402,770
Equipment	3,884,336	405,255	79,500		4,210,091
Library books	677,789	137,236			815,025
<b>Total Accumulated Depreciation</b>	<b>15,075,261</b>	<b>1,508,609</b>	<b>79,500</b>	<b>0</b>	<b>16,504,370</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>25,101,846</b>	<b>406,016</b>	<b>33,931</b>	<b>(1,508,265)</b>	<b>23,965,666</b>
<b>Capital Assets, Net</b>	<b>\$ 26,489,965</b>	<b>1,560,508</b>	<b>1,359,789</b>	<b>(1,508,265)</b>	<b>25,182,419</b>

\* 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.

PEARL RIVER 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
	<u>                    </u>	<u>                    </u>	<u>                    </u>
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 and bonds payable, capital lease obligations and certain other liabilities that are expected to be liquidated at least one year from June 30, 2003. The various leases cover a period not to exceed five years. The college has the option to prepay all outstanding payments less any unearned interest to fully satisfy the obligation. There is also a fiscal funding addendum stating that if funds are not appropriated for periodic payment for any future fiscal period, the lessee will not be obligated to pay the remainder of the total payments due beyond the end of the current fiscal period.

Information regarding original issue amounts, interest rates and maturity dates for bonds, notes and capital leases 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.

PEARL RIVER COMMUNITY COLLEGE

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

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2003	Due Within One Year
<b>Bonded Debt</b>								
Housing revenue bonds of 1967	\$ 150,000	3.00%	2007	\$ 35,000		5,000	30,000	6,000
District building notes, Series 1998	1,000,000	6.75% to 9.5%	2004	215,000		105,000	110,000	110,000
Educational facilities notes, Series 1998	1,500,000	6.75% to 9.5%	2004	300,000		145,000	155,000	155,000
District building notes, Series 1989	3,200,000	6.75% to 9.5%	2004	640,000		310,000	330,000	330,000
District building notes, Series 1994	825,000	5% to 5.9%	2009	465,000		55,000	410,000	60,000
Educational facilities notes, Series 1995	1,600,000	4.3% to 6.125%	2011	<u>1,115,000</u>		<u>100,000</u>	<u>1,015,000</u>	<u>105,000</u>
<b>Total Bonded Debt</b>				<u>2,770,000</u>	<u>0</u>	<u>720,000</u>	<u>2,050,000</u>	<u>766,000</u>
<b>Capital Leases</b>								
Energy lease 2000	1,020,130	5.50%	2015	<u>927,078</u>		<u>50,452</u>	<u>876,626</u>	<u>53,265</u>
<b>Total Capital Leases</b>				<u>927,078</u>	<u>0</u>	<u>50,452</u>	<u>876,626</u>	<u>53,265</u>
<b>Other Long-term Liabilities</b>								
Revenue shortfall note	225,245	2.70%	2006		225,245		225,245	73,090
Capital improvements revolving loan	600,000	3.70%	2012	<u>450,498</u>		<u>33,060</u>	<u>417,438</u>	<u>50,130</u>
<b>Total Other Long-term Liabilities</b>				<u>450,498</u>	<u>225,245</u>	<u>33,060</u>	<u>642,683</u>	<u>123,220</u>
<b>Total</b>				<u>\$ 4,147,576</u>	<u>225,245</u>	<u>803,512</u>	<u>3,569,309</u>	<u>942,485</u>
<b>Due within one year</b>							<u>942,485</u>	
<b>Total Long-term Liabilities</b>							<u>\$ 2,626,824</u>	

PEARL RIVER COMMUNITY COLLEGE

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

	<u>Bonded Debt</u>	<u>Capital Leases</u>	<u>Notes Payable</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 766,000	53,265	123,220	178,259	1,120,744
2005	176,000	56,235	114,316	124,898	471,449
2006	186,000	59,370	117,820	109,658	472,848
2007	196,000	62,681	42,262	93,328	394,271
2008	211,000	66,175	43,853	77,884	398,912
2009-2013	515,000	390,513	201,212	169,307	1,276,032
2014-2015		188,387		13,127	201,514
Totals	<u>\$ 2,050,000</u>	<u>876,626</u>	<u>642,683</u>	<u>766,461</u>	<u>4,335,770</u>

(8) Operating Leases.

Leased property under operating leases is composed of 25 copiers, one mail machine and one Risograph machine. The following is a schedule by years of the future minimum rental payments required under those operating leases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$ 101,275
2005	84,830
2006	38,517
2007	9,152
Total Minimum Payments Required	<u>\$ 233,774</u>

The total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the fiscal year ending June 30, 2003, was \$108,718.

PEARL RIVER COMMUNITY COLLEGE

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

(9) Natural Classifications with Functional Classifications.

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

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$ 7,753,978	1,715,646	122,885	669,946	2,536	615,363	1,041,855		11,922,209
Academic support	387,992	94,190	703	34,935			24,116		541,936
Student services	1,401,851	324,230	122,194	242,107	932	352,855	224,585		2,668,754
Institutional support	1,371,449	348,295	42,880	857,288		283,876	224,882		3,128,670
Operation of plant	712,091	206,716	1,552	323,670	839,729		226,482		2,310,240
Student aid						3,449,616			3,449,616
Auxiliary enterprises	252,977	69,496	2,078	1,167,327	29,973	29,289	1,201,386		2,752,526
Depreciation								1,508,609	1,508,609
Total Operating Expenses	\$ <u>11,880,338</u>	<u>2,758,573</u>	<u>292,292</u>	<u>3,295,273</u>	<u>873,170</u>	<u>4,730,999</u>	<u>2,943,306</u>	<u>1,508,609</u>	<u>28,282,560</u>

PEARL RIVER COMMUNITY COLLEGE

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

(10) 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:

Project Title	Total Costs to Complete	Funded by			
		Federal Sources	State Sources	Institutional Funds	Other
Advanced Technology Center	\$ 3,431,389		2,573,542		857,847
Student Center	2,240,483		1,949,220		291,263
Building #3 - Hattiesburg	107,000				107,000
Lamar Hall renovation	70,000				70,000
Marion Hall renovation	40,000				40,000
<b>Total</b>	<b>\$ 5,888,872</b>	<b>0</b>	<b>4,522,762</b>	<b>0</b>	<b>1,366,110</b>

(11) Pension Plan.

Plan description - Pearl River 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 \$1,082,670, \$1,090,170 and \$1,096,511, respectively, equal to the required contributions for each year.

PEARL RIVER COMMUNITY COLLEGE

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

(12) Foundations and Affiliated Parties.

The Pearl River Community College Foundation is an independent corporation formed for the purpose of receiving funds for the sole benefit of Pearl River Community College. The foundation is separately audited and the financial statements of the foundation have not been included in the financial statements of Pearl River 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 Pearl River Community College as a component unit. Following is a summary of the foundation's financial position at June 30, 2003, which amounts are not included in the financial statements of the college. This summary is based on audited figures for the year ended June 30, 2003.

<u>Assets</u>	<u>Amount</u>
Cash and investments	\$ 432,342
Investments	2,081,665
Accounts receivable	376,840
Prepaid insurance	1,539
Construction in progress	30,000
Land	<u>6,758</u>
 Total Assets	 \$ <u><u>2,929,144</u></u>
 <u>Liabilities and Fund Balances</u>	
Accounts payable	\$ 8,568
Net assets:	
Unrestricted	552,426
Temporarily restricted	1,385,980
Permanently restricted	<u>982,170</u>
 Total Liabilities and Net Assets	 \$ <u><u>2,929,144</u></u>

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**PEARL RIVER COMMUNITY COLLEGE**

**SUPPLEMENTAL INFORMATION**

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Student Financial Aid - Cluster:			
<u>U.S. Department of Education</u>			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		\$ 99,588
Federal Family Education Loans (FFEL)	{1} 84.032		1,801,456
Federal Work-study Program (FWS)	84.033		126,791
Federal Pell Grant Program	84.063		6,443,272
Pass-through program from:			
Board of Trustees of the Institution's of Higher Learning - Leveraging Educational Assistance Partnership	84.069		3,800
Total U.S. Department of Education			8,474,907
Total Student Financial Aid Cluster			8,474,907
<u>U.S. Department of Agriculture</u>			
Conservation Reserve Program	10.069		760
Pass-through program from:			
Mississippi Community College Foundation - Mississippi Rural Health Corporation Program - Cooperative Extension Service	10.500		110,354
Total U.S. Department of Agriculture			111,114
<u>U.S. Department of Justice</u>			
Public Safety Partnership & Community Policing Grants	16.710		15,116
Total U.S. Department of Justice			15,116

PEARL RIVER 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>
<u>U.S. Department of Labor</u>			
Pass-through programs from:			
Mississippi Employment Security Commission - Trade Adjustment Assistance - Workers	17.245		4,301
WIA Cluster:			
Mississippi Employment Security Commission - WIA Adult Programs	17.258		397,092
Mississippi Development Authority - WIA Youth Activities	17.259		1,678
Southern Mississippi Planning and Development - WIA Youth Activities	17.259		39,692
Mississippi Employment Security Commission - WIA Dislocated Workers	17.260		229,340
Total WIA Cluster			<u>667,802</u>
Total U.S. Department of Labor			<u>672,103</u>
<u>National Aeronautics and Space Administration</u>			
Pass-through program from:			
University of Mississippi - Aerospace Education Services Program	43.001		9,465
Total National Aeronautics and Space Administration			<u>9,465</u>
<u>National Endowment for the Humanities</u>			
Pass-through program from:			
University of Southern Mississippi - Promotion of the Humanities - Federal/State Partnership	45.129		150
Total National Endowment for the Humanities			<u>150</u>
<u>National Science Foundation</u>			
Pass-through program from:			
Brevard Community College - Education and Human Resources	47.076		26,691
Total National Science Foundation			<u>26,691</u>

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>Small Business Administration</u>			
Pass-through program from:			
University of Mississippi - Small Business Development Center	59.037		38,065
Total Small Business Administration			38,065
<u>U.S. Department of Education</u>			
Trio - Student Support Services	84.042		291,136
Pass-through programs from:			
Mississippi State Board for Community & Junior Colleges - Adult Education - State Grant Program	84.002		263,485
Mississippi Department of Education - Vocational Education - Basic Grants to States	84.048	EV048A99024	530,968
Mississippi Department of Education - Tech Prep Education	84.243	EV048A990295	45,351
Mississippi Department of Education - School to work opportunities	84.278	U44034008860	11,613
Subtotal pass-through programs			851,417
Total U.S. Department of Education			1,142,553
<u>U.S. Department of Health and Human Services</u>			
Pass-through program from:			
Mississippi Department of Mental Health - Developmental disabilities basic support and advocacy grants	93.630		76,282
Total U.S. Department of Health and Human Services			76,282
Total Other Programs			2,091,539
Total Expenditures of Federal Awards			\$ 10,566,446

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.

**PEARL RIVER 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. William A. Lewis, President and Board of Trustees  
Pearl River Community College  
Poplarville, MS 39470

We have audited the financial statements of Pearl River 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 April 13, 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

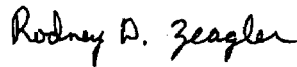
In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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, 2003-2 and 2003-3.

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, of the reportable conditions described in the findings referred to above, we consider the item 2003-1 to be 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

April 13, 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. William A. Lewis, President and Board of Trustees  
Pearl River Community College  
Poplarville, MS 39470

#### Compliance

We have audited the compliance of Pearl River 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 each of its major federal programs for the year ended June 30, 2003. The college's major federal programs are 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 each of its major federal programs 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, Pearl River Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

## Internal Control Over Compliance

The management of the Pearl River 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.

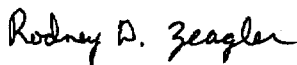
We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our opinion, could adversely affect the college's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2003-4.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the finding referred to above is not 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

April 13, 2004

**PEARL RIVER 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. William A. Lewis, President and Board of Trustees  
Pearl River Community College  
Poplarville, MS 39470

We have audited the financial statements of Pearl River Community College as of and for the year ended June 30, 2003, and have issued our report thereon dated April 13, 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

April 13, 2004

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**PEARL RIVER COMMUNITY COLLEGE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**PEARL RIVER COMMUNITY COLLEGE**

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PEARL RIVER 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?   | Yes         |
| 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?                         | Yes         |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133?                             | Yes         |
| 7. | Federal programs identified as major programs:  |             |
| a. | Student Financial Aid Cluster<br>CFDA #84.007<br>CFDA #84.032<br>CFDA #84.033<br>CFDA #84.063<br>CFDA #84.069 |             |
| b. | WIA Cluster<br>CFDA #17.258<br>CFDA #17.259<br>CFDA #17.260   |             |
| c. | Vocational Education - Basic Grants to States<br>CFDA #84.048   |             |
| 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          |

PEARL RIVER COMMUNITY COLLEGE

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

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? Yes

Section 2: Financial Statement Findings

Material Weaknesses

2003-1. Finding

During our test of capital assets the following were noted:

- A. In three instances, the equipment purchased could not be traced to the fixed asset subsidiary ledger.
- B. The amount charged to the capitalizable object codes for equipment differed from the amount added to the equipment subsidiary by \$238,396.
- C. In five instances, the equipment could not be located.
- D. In 15 instances, the equipment was in the wrong location.
- E. In one instance, there was no equipment tag on the equipment.
- F. In one instance, the description did not match the equipment verified.

Recommendation

The college should implement policies and procedures to insure that amounts expended for equipment, per the general ledger accounts, are reconciled to capital asset additions, per the subsidiary listings. Inventory tags/numbers should be placed on all equipment owned by the college. Transfers of equipment from one location to another should be properly documented and the resulting change in location should be reflected in the subsidiary listing.

Reportable Conditions Not Considered to be Material Weaknesses

2003-2. Finding

During our test of expenditures the following were noted:

- A. In three instances, the expenditures were made without an approved purchase order.
- B. In one instance, the purchase order was prepared after the expenditure was made.
- C. In one instance, the travel was approved after the travel actually occurred.

Recommendation

The college should implement procedures to insure that disbursements are properly approved prior to purchase.

PEARL RIVER COMMUNITY COLLEGE

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

2003-3. Finding

The college did not submit Pell disbursement data timely to the U.S. Department of Education. This resulted in undue pressure being put on the college to meet its immediate cash needs.

Recommendation

The college should implement procedures to insure Pell disbursement data is submitted timely to the U.S. Department of Education.

Section 3: Federal Award Findings and Questioned Costs

Reportable Condition Not Considered to be a Material Weakness

2003-4. Finding

Compliance requirement: Special tests and provisions

Program: Student Financial Aid cluster; CFDA #'s 84.007, 84.032, 84.033, 84.063 & 84.069

The college did not comply with Title IV financial aid regulation known as the Student Right to Know Disclosure requirement that requires disclosure of graduate and transfer out rates for the general student body and for students receiving athletically related student aid.

Recommendation

The college should implement procedures to insure that the requirements for the Student Right to Know Disclosure are met.

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**PEARL RIVER COMMUNITY COLLEGE**

**AUDITEE'S CORRECTIVE ACTION PLAN  
AND SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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# PEARL RIVER COMMUNITY COLLEGE

MISSISSIPPI'S PIONEER COMMUNITY COLLEGE

## Pearl River Community College Auditee's Corrective Action Plan

**As required by Section .315b of OMB Circular A-133, the Pearl River 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 2003-1

- A) Contact Person(s): Roger Knight, Nancy Sidock.
- B) Corrective Action Planned:

In response to an audit finding for FY 2002, the position of Inventory Control Manager was created and filled as of February 16, 2004. Efforts are currently underway by the Inventory Control Manager to tag all required equipment, to inventory each location verifying the presence of fixed assets, to verify existing tag numbers for description accuracy, and to resolve location issues as well. This effort includes the updating and maintenance of the inventory control module within the institution's Banner software program.

- C) Anticipated Completion Date:

These corrective actions have been implemented and are currently on going.

### Finding 2003-2

- A) Contact Person(s): Roger Knight, Bettye Clark
- B) Corrective Action Planned:

The institution will enforce the purchasing laws established by the State of Mississippi as they apply to the institution. Internal policies and procedures governing travel and various expenditures will be enforced by the institution's administration. A written policy will be presented to the institution's Policy and Procedure Committee for approval and implementation that will serve to



# PEARL RIVER COMMUNITY COLLEGE

MISSISSIPPI'S PIONEER COMMUNITY COLLEGE

administer the \$150.00 per day maintenance purchasing allowance. The purchasing violation letter presently being generated by the Business Office will continue to be used to address with both vendor and employee those purchasing situations where institutional policy and procedure have been violated.

C) Anticipated Completion Date:

Immediate.

Finding 2003-3

A) Contact Person(s): Dr. Adam Breerwood, Peggy Shoemake.

B) Corrective Action Planned:

The institution's Financial Aid Department will submit claims for the Pell program on a timelier basis by utilizing a weekly submission program.

C) Anticipated Completion Date:

These corrective actions have been implemented and are currently on going.

Finding 2003-4

A) Contact Person(s): Dr. Adam Breerwood

B) Corrective Action Planned:

A student right to know disclosure will be prepared by the institution.

C) Anticipated Completion Date:

The corrective action planned will be initiated immediately.



# PEARL RIVER COMMUNITY COLLEGE

MISSISSIPPI'S PIONEER COMMUNITY COLLEGE

**Pearl River Community College  
Auditee's Summary Schedule of Prior Audit Findings  
For The Year Ended June 30, 2003**

**As required by Section .315(b) of OMB Circular A-133, the Pearl River Community College has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2003.**

<b><u>Finding:</u></b>	<b><u>Status</u></b>
2002-7	Corrective action taken, and continues to be an on-going process.
2002-8	Corrective action on going.
2002-9	Corrective action taken. Financial management of grants now housed within the Business Office.
2002-10	Corrective action on going.
2002-11	Corrective action on going.
2002-12	Corrective action taken. Finding closed out by the Mississippi Department of Education.
2002-13	Corrective action taken.
2002-14	Corrective action taken. Finding closed out by the Mississippi Department of Education.
2002-15	Corrective action taken. Indirect cost rate established and submitted to the United States Department of Education.
2002-16	Corrective action taken.