



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR

PHIL BRYANT
State Auditor

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MERIDIAN COMMUNITY COLLEGE

Audited Financial Statements
For the Year Ended June 30, 2004

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MERIDIAN COMMUNITY COLLEGE

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FINANCIAL AUDIT REPORT

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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 SUPPLEMENT INFORMATION

Dr. Scott Elliott, President and Board of Trustees
Meridian Community College
Meridian, MS 39307

We have audited the accompanying financial statements of Meridian Community College as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of Meridian Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Meridian Community College Foundation, a discretely presented component unit of Meridian Community College which represents 100 percent of the assets and revenues of the discretely presented component units. Those financial statements were audited by an other auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditor.

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. The financial statements of the Meridian Community College Foundation were not audited in accordance with *Government Auditing Standards*. 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, and the reports of the other auditor, provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Meridian Community College and of its discretely presented component unit, as of June 30, 2004, 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, Meridian Community College adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14*, for the year ended June 30, 2004, which requires reporting as component units those organizations that raise and hold economic resources for the direct benefit of the college or its constituents.

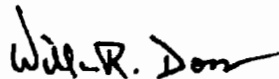
In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2005, on our consideration of Meridian Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 17, 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 opinions on the financial statements that collectively comprise the Meridian 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 by us and the other auditor in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditor, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

This section of the Meridian Community College annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2004. 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. We have included in this discussion comparative data for 2003. 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*. We are in the second year of compliance with this standard.

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 used 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.

MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

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, 2004 and 2003

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Assets				
Current Assets	\$ 7,417,684	25.85	\$ 7,215,535	26.29
Noncurrent Assets:				
Capital, Net	21,241,895	74.04	20,198,799	73.60
Other	<u>31,419</u>	<u>.11</u>	<u>31,419</u>	<u>.11</u>
Total Assets	<u>28,690,998</u>	<u>100.00</u>	<u>27,445,753</u>	<u>100.00</u>
Liabilities				
Current Liabilities	1,161,014	17.13	1,192,681	16.57
Noncurrent Liabilities	<u>5,617,853</u>	<u>82.87</u>	<u>6,004,353</u>	<u>83.43</u>
Total Liabilities	<u>6,778,867</u>	<u>100.00</u>	<u>7,197,034</u>	<u>100.00</u>
Net Assets				
Invested in Capital Assets, Net	15,583,948	71.12	14,010,783	69.21
Restricted:				
Expendable	794,617	3.63	787,308	3.88
Unrestricted	<u>5,533,566</u>	<u>25.25</u>	<u>5,450,628</u>	<u>26.91</u>
Total Net Assets	<u>\$ 21,912,131</u>	<u>100.00</u>	<u>\$ 20,248,719</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. The total amount of cash and cash equivalents reported as current assets on the College financial statements were \$4,932,202 at June 30, 2004, an increase of \$2,141,106 over the balance of \$2,791,096 on June 30, 2003. As interest rates have fallen, we have been able to secure rates comparative to certificate of deposit rates in our money market account that allows us to retain liquidity. Therefore, on June 30, 2003 the college had \$2,000,000 that

MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

was reported as a short-term investment that is part of Cash and Cash Equivalents on June 30, 2004.

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 \$1,932,169 at June 30, 2004, a decrease of \$9,312 over the balance of \$1,941,481 at June 30, 2003.

Inventories

The College maintains inventories of resale merchandise within the college bookstore. Books, student supplies, sportswear, gift items and institutional memorabilia make up the majority of the resale inventory. Inventories totaled \$432,096 at June 30, 2004, an increase of \$81,201 over the balance of \$350,895 at June 30, 2003.

Noncurrent assets

Other Long-term Investments

The other long-term investments are funds held in certificate of deposit that matures at a time past the next fiscal year. These funds are held in this certificate of deposit 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, 2004 totaled \$31,419.

Capital Assets, Net

Capital assets, net, consist of land, improvements, buildings, equipment, historical library holdings, construction in progress, and assets under capital lease at June 30, 2004. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$21,241,895 at June 30, 2004, an increase of \$1,043,096 over the balance of \$20,198,799 at June 30, 2003.

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities

Accounts Payable and accrued liabilities represent amounts due at June 30, 2004 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$571,379 at June 30, 2004, an increase of \$54,400 over the balance of \$516,979 at June 30, 2003.

Deferred Revenue

MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Deferred revenue represents revenue that was received by the College during the fiscal year, but the College did not expend the funds by the end of the June 30, 2004 fiscal year. The deferred revenue totaled \$39,665 at June 30, 2004, a decrease of \$81,873 over the balance of \$121,538 at June 30, 2003.

Annual Leave Liabilities – Current Portion

Annual leave liabilities-current portion represents the portion of accrued compensated balances that would be payable by the end of the June 30, 2005 fiscal year. The amount of the current portion of compensated absences at June 30, 2004 was \$19,832, a decrease of \$4,263 from the balance at June 30, 2003 of \$24,095.

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, 2005 fiscal year. The amount of the current portion of long-term debt at June 30, 2004 was \$530,138, an increase of only \$69 over the balance of \$530,069 on June 30, 2003.

Noncurrent Liabilities

Deposits

Deposits represents the deposits paid by students for reservation and possible damage to a dorm room for the future semester and also the deposits held for others such as individuals or organizations for which the college acts as custodian. The housing deposits are payable to the student upon check-out at the end of the semester. The custodial deposits are payable upon the request of the individual or organization. The amount of deposits totaled \$23,600 at June 30, 2004, an immaterial decrease of \$50 as compared to the balance of \$23,650 at June 30, 2003.

Accrued Leave

This liability consists of accrued compensated balances that represent the amount payable to employees for earned but unpaid vacation. The total amount of the noncurrent portion of accrued compensated balances was \$466,444, an increase of \$143,688 over the balance of \$322,756 at June 30, 2003.

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 \$5,127,809 at June 30, 2004, a decrease of \$530,138 from the balance of \$5,657,947 at June 30, 2003.

Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2004 were \$21,912,131, an increase of \$1,663,412 over the balance of \$20,248,719 on June 30, 2003 as reflected on the Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year 2004.

MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

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:

	June 30, 2004	June 30, 2003
	<u>Amount</u>	<u>Amount</u>
Unemployment Funds	\$ 31,419	\$ 31,419
Capital Projects	6,396	64,828
Grants and Contracts	75,864	57,274
Loan Funds	1,919	1,919
Debt Obligations	<u>679,019</u>	<u>631,868</u>
 Total Restricted Net Assets	 <u>\$ 794,617</u>	 <u>\$ 787,308</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:

	June 30, 2004	June 30, 2003
	<u>Amount</u>	<u>Amount</u>
Unrestricted General Fund	\$ 4,090,019	\$ 4,173,999
Unrestricted Designated Funds	324,866	279,060
Unretricted Auxiliary Funds	<u>1,118,681</u>	<u>997,569</u>
 Total Unrestricted Net Assets	 <u>\$ 5,533,566</u>	 <u>\$ 5,450,628</u>

MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

For the year ended June 30, 2004 and 2003

	June 30, 2004	June 30, 2003
	<u>Amount</u>	<u>Amount</u>
Operating Revenues:		
Tuition and Fees	\$ 2,116,759	\$ 2,037,364
Grants and Contracts	10,402,529	9,815,328
Auxiliary Enterprises	3,149,107	3,027,894
Other Operating Revenues	<u>164,286</u>	<u>163,405</u>
Total Operating Revenues	<u>15,832,681</u>	<u>15,043,991</u>
Operating Expenses	<u>25,932,282</u>	<u>24,356,890</u>
Operating Loss	<u>(10,099,601)</u>	<u>(9,312,899)</u>
 Nonoperating Revenues:		
State Appropriations	8,463,612	8,300,254
Local Appropriations	1,465,798	1,390,657
Noncapital Gifts	60,742	60,742
Investment Income	123,789	78,182
Other Nonoperating Expenses	<u>(139,423)</u>	<u>(222,853)</u>
Net Nonoperating Revenues	<u>9,913,776</u>	<u>9,606,982</u>
Income Before Other Revenues	(185,825)	294,083
State Appropriations restricted for Capital Purposes	1,191,688	1,081,987
Local Appropriations restricted for Capital Purposes	744,882	712,382
Capital Gift	150,000	150,000
Other Additions (deletions), net	<u>(237,333)</u>	<u>(277,993)</u>
Total Other Revenues	<u>1,849,237</u>	<u>1,516,376</u>
Total Increase in Net Assets	<u>1,663,412</u>	<u>1,810,459</u>
 Net Assets		
Net Assets at Beginning of Year, as Restated	<u>20,248,719</u>	<u>18,438,260</u>
Net Assets at End of Year	\$ <u>21,912,131</u>	\$ <u>20,248,719</u>

MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Total operating loss for the fiscal year 2004 was \$10,099,601, an increase of \$786,702 over the loss for fiscal year 2003 of 9,312,899. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, beginning in fiscal year 2003 and 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 2004 were \$15,832,681. Tuition and fees were \$2,116,759. The tuition discount was \$3,172,089. Operating expenses, including depreciation of \$1,012,415, totaled \$25,932,282.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$5,288,848. The tuition discount for the 2004 fiscal year was \$3,172,089.

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, 2004 and 2003:

	<u>June 30, 2004</u> <u>Amount</u>	<u>June 30, 2003</u> <u>Amount</u>
Federal	\$ 7,639,146	\$ 7,126,410
State	1,968,321	2,025,046
Private	<u>795,062</u>	<u>663,872</u>
Total all Sources	<u>\$ 10,402,529</u>	<u>\$ 9,815,328</u>

MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$94,889 for the 2004 fiscal year, an decrease of \$13,376 from the balance of \$108,265 for the 2003 fiscal year.

Sales and Services, Net

Auxiliary enterprises include the College bookstore, food services and housing.

Operating Expenses

Operating expenses totaling \$25,932,282 include salaries and benefits of \$14,149,692, utilities of \$588,257, supplies of \$2,750,278, services of \$2,278,307, and depreciation of \$1,012,415.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
	<u>Amount</u>	<u>Amount</u>
Expenses by Function:		
Instruction	\$ 9,246,650	\$ 9,010,283
Academic Support	2,274,856	2,249,400
Student Services	2,035,173	2,201,469
Institutional Support	2,549,202	2,468,429
Operations and Maintenance of Plant	2,075,106	1,957,940
Student Financial Aid	4,012,163	3,233,024
Auxiliary Enterprises	2,726,717	2,511,114
Depreciation	<u>1,012,415</u>	<u>725,231</u>
 Total Operating Expenses by Function	 <u>\$ 25,932,282</u>	 <u>\$ 24,356,890</u>

Nonoperating Revenues (Expenses)

State Appropriation

The College's largest source of nonoperating revenue is the State of Mississippi appropriation. The College received \$9,655,300 for the 2003-2004 fiscal year, of which \$8,463,612 was for operations. This represents an increase of \$163,358 over the amount received for operations in the previous year. State appropriations for capital projects of \$1,191,688 were paid on behalf of the College during the 2004 fiscal year.

Local Appropriations

The College also receives revenue from the city of Meridian and Lauderdale county. The College received \$2,210,680 for the 2004 fiscal year from the local government of which \$1,465,798 was for operating purposes. This represents an increase of \$75,141 of local operating revenue received from the local government for operating purposes. The remaining \$744,882 was received in fiscal year 2004 for capital projects or retirement of debt.

MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Investment Income, Net

This includes the interest income from the cash in the bank accounts. \$123,789 was earned during the 2004 fiscal year.

Other Nonoperating Expenses

This consists of deletions of interest on retirement of indebtedness during the 2004 fiscal year. The total of this interest amounted to \$237,333.

Other Revenues

State Appropriations for Capital Purposes

\$1,191,688 is the amount of revenue received from the State of Mississippi to purchase, construct, renovate, or repair capital assets during the 2004 fiscal year.

Local Appropriations for Capital Purposes

This includes revenue received from the City of Meridian for capital projects during the fiscal year. The amount of this revenue totaled \$744,882 for the 2004 fiscal year.

Capital Gifts

This consist of a donation of land made to the College from the City of Meridian. The market value of this gift was estimated at \$150,000 at June 30, 2004.

MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

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, 2004 and 2003

	June 30, 2004	June 30, 2003
	<u>Amount</u>	<u>Amount</u>
Cash and Cash Equivalents Provided (Used) by:		
Operating Activities	\$ (9,206,230)	\$ (8,924,048)
Noncapital Financing Activities	9,940,267	9,526,605
Capital and Related Financing Activities	(716,720)	(850,004)
Investing Activities	<u>2,123,789</u>	<u>46,763</u>
Net Increase in Cash and Cash Equivalents	2,141,106	(200,684)
Cash and Cash Equivalents – Beg. of the Year	<u>2,791,096</u>	<u>2,991,780</u>
Cash and Cash Equivalents – End of the Year	<u>\$ 4,932,202</u>	<u>\$ 2,791,096</u>

The major sources of funds included in operating activities include student tuition and fees, \$2,149,520, auxiliary enterprises, \$3,149,107, and grants and contracts, \$9,852,086. The major uses of funds were payments made to and for employees, \$14,114,601 and to suppliers, \$2,794,660.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$8,488,119.

Significant Capital Asset Transactions

The college made several significant capital asset transactions related to land during the 2004 fiscal year. The college accepted the gift of land of the previous John Moss Field by the city of Meridian. This gift has an estimated market value of \$150,000. The college implemented a demolition project of all structures located on the property. Future plans of the college are to convert this land into a fast-pitch softball field which will be located closer to the campus than the field used currently. The college purchased a building located in the College Park Shopping center adjacent to the campus and renovated the space for a new cosmetology program that began accepting students in the

MERIDIAN COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2004

fall semester of 2003. The college purchased a residential property north of the campus and after minor repairs, is currently renting the property to the Baptist Student Union.

In addition, the college completed the Phase V renovation project that provided new music practice rooms, for both vocal and instrumental, and an art gallery and connected Phase VI to the original building. The college continued construction of the Pool enclosure during the 2004 fiscal year, completed a new parking lot on the north side of campus, and began renovations of Rush Hall, a building leased to the college under a ten-year lease purchase arrangement for a cost of \$100 per year. Demolition of the interior of this facility has begun with plans to convert the space into much needed science laboratories and classrooms. We also made major renovations to the lighting in our theater during the 2004 fiscal year.

Factors Impacting Future Periods

There are a number of issues that are directly impacting the community college system as a whole. The continuing decline in 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 demands for increases in compensation for quality faculty and rising utility costs.

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 many of our buildings are approaching 35 to 40 years in age. In addition, the cost of materials and labor in the construction area continue to rise at an alarming rate.

Meridian Community College is fortunate to have strong support from the local community through our foundation, individuals, businesses and the hospitals. They have provided much needed support to the college for the expansion of existing programs. This support has been extremely helpful in providing our students with more opportunities to further their educational goals and our abilities to meet those goals.

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MERIDIAN COMMUNITY COLLEGE

AUDITED FINANCIAL STATEMENTS

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MERIDIAN COMMUNITY COLLEGE
Statement of Net Assets
June 30, 2004

ASSETS

Current assets:

Cash and cash equivalents	\$	4,932,202
Accounts receivables, net		1,932,169
Inventories		432,096
Prepaid expenses		<u>121,217</u>

Total Current Assets 7,417,684

Noncurrent assets:

Other long-term investments		31,419
Students notes receivable, net		0
Capital assets, net of accumulated depreciation		<u>21,241,895</u>

Total Noncurrent Assets 21,273,314

Total Assets 28,690,998

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities		571,379
Annual leave liabilities - current portion		19,832
Deferred revenues		39,665
Long-term liabilities - current portion		<u>530,138</u>

Total Current Liabilities 1,161,014

Noncurrent liabilities:

Deposits refundable		23,600
Accrued leave liabilities		466,444
Long-term liabilities		<u>5,127,809</u>

Total Noncurrent Liabilities 5,617,853

Total Liabilities 6,778,867

NET ASSETS

Invested in capital assets, net of related debt 15,583,948

Restricted for:

Expendable:

Scholarships and fellowships		75,864
Capital projects		6,396
Debt service		679,019
Loans		1,919
Other purposes		31,419

Unrestricted 5,533,566

Total Net Assets \$ 21,912,131

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

MERIDIAN COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2004 and 2003

	2004	Restated 2003
ASSETS		
Cash	\$ 227,064	\$ 136,362
Certificates of deposit	37,096	20,139
Accounts receivable	13,054	2,752
Pledge receivables	132,385	104,351
Prepaid expense	1,000	
Construction in progress	88,385	76,146
Property and equipment	404,111	136,274
Investments -- (at market)	6,988,121	5,814,458
Other investments -- (at cost)	41,151	44,390
Other assets	52,647	52,297
Total assets	\$ 7,985,014	\$ 6,387,169
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 26,312	\$ 25,392
Notes payable - BankPlus	50,000	50,000
Annuity liabilities	158,469	166,743
Total liabilities	234,781	242,135
Net assets:		
Unrestricted	750,027	315,733
Temporarily restricted	999,398	848,569
Permanently restricted	6,000,808	4,980,732
Total net assets	7,750,233	6,145,034
Total liabilities and net assets	\$ 7,985,014	\$ 6,387,169

The accompanying notes are an integral part of these
financial statements

MERIDIAN COMMUNITY COLLEGE
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2004

Operating Revenues:	
Tuition and fees (net of scholarship allowances of \$3,172,089)	\$ 2,116,759
Federal grants and contracts	7,639,146
State grants and contracts	1,968,321
Nongovernmental grants and contracts	795,062
Sales and services of educational departments	94,889
Auxiliary enterprises:	
Student housing	501,548
Food services	399,815
Bookstore	2,179,972
Other auxiliary revenues	67,772
Other operating revenues	<u>69,397</u>
 Total Operating Revenues	 <u>15,832,681</u>
Operating Expenses:	
Salaries and wages	11,414,589
Fringe benefits	2,735,103
Travel	328,316
Contractual services	2,278,307
Utilities	588,257
Scholarships and fellowships	4,024,982
Commodities	2,750,278
Depreciation expense	1,012,415
Other operating expenses	<u>800,035</u>
 Total Operating Expenses	 <u>25,932,282</u>
 Operating Income (Loss)	 <u>(10,099,601)</u>
Nonoperating Revenues (Expenses):	
State appropriations	8,463,612
Local appropriations	1,465,798
Investment income	123,789
Other nonoperating revenues (expenses)	<u>(139,423)</u>
 Total Net Nonoperating Revenues (Expenses)	 <u>9,913,776</u>
 Income (Loss) before Other Revenues, Expenses, Gains and Losses	 <u>(185,825)</u>
State appropriations restricted for capital purposes	1,191,688
Local appropriations restricted for capital purposes	744,882
Capital gifts	150,000
Other additions (deletions), net	<u>(237,333)</u>
 Change in Net Assets	 <u>1,663,412</u>
Net Assets:	
Net Assets - Beginning of Year, as Originally Reported	<u>20,248,719</u>
 Net Assets - End of Year	 \$ <u><u>21,912,131</u></u>

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

MERIDIAN COMMUNITY COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2004
(With comparative totals for the year ended June 30, 2003)

	<u>TOTALS</u>				<u>Memo (as Restated) 2003</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2004</u>	
Revenues, gains, and other support:					
Contributions	\$ 647,623	144,947	391,657	\$ 1,184,227	\$ 676,191
Interest and dividends	4,722	23,223	100,323	128,268	144,031
Gain (loss) on sale of assets	(5,491)	12,187	5,502	12,198	(31,780)
Total revenue, gains, and other support	<u>646,854</u>	<u>180,357</u>	<u>497,482</u>	<u>1,324,693</u>	<u>788,442</u>
Expenses:					
Scholarships	139,535	137,443		276,978	278,979
Awards	1,940	2,100		4,040	3,050
Faculty/staff programs		39,306		39,306	32,265
Annuity interest expense		34,105		34,105	34,105
Other program expenses	10,820	27,431		38,251	40,070
Management and general	60,697	227		60,924	53,629
Total expenses	<u>212,992</u>	<u>240,612</u>		<u>453,604</u>	<u>442,098</u>
Other income:					
Unrealized holding gains (losses) on marketable securities available for sale	8,537	68,809		77,346	12,921
Excess (deficiency) of revenues over expenses before capital additions, as restated for 2003	442,399	8,555	497,482	948,436	359,265
Capital additions:					
Unrealized holding gains (losses) on marketable securities available for sale - endowment funds			656,763	656,763	129,327
Excess (deficiency) of revenues over expenses after capital additions, as restated for 2003	442,399	8,555	1,154,245	1,605,199	488,592
Net assets, beginning of year	315,733	848,569	4,980,732	6,145,034	5,656,442
Fund transfers in (out)	(8,105)	142,274	(134,169)		
Net assets, end of year, as restated for 2003	<u>\$ 750,027</u>	<u>\$ 999,398</u>	<u>\$ 6,000,808</u>	<u>\$ 7,750,233</u>	<u>\$ 6,145,034</u>

The accompanying notes are an integral part of these financial statements

MERIDIAN COMMUNITY COLLEGE
Statement of Cash Flows
For the Year Ended June 30, 2004

Cash Flows from Operating Activities:	
Tuition and fees	\$ 2,149,520
Grants and contracts	9,852,086
Sales and services of educational departments	94,889
Payments to suppliers	(2,878,550)
Payments to employees for salaries and benefits	(13,975,177)
Payments for contractual services	(2,293,655)
Payments for travel	(328,316)
Payments for other expenses	(791,747)
Payments for utilities	(588,257)
Payments for scholarships and fellowships	(3,690,671)
Student housing	477,898
Food services	399,815
Bookstore	2,179,972
Other auxiliary enterprises	67,772
Other receipts (payments)	<u>71,811</u>
Net Cash Provided (Used) by Operating Activities	<u>(9,252,610)</u>
Cash Flows from Noncapital Financing Activities:	
State appropriations	8,488,119
Local appropriations	1,465,798
Agency transfers-in	1,099,774
Agency transfers-out	(1,066,217)
Federal loan program receipts	2,529,084
Federal loan program disbursements	<u>(2,529,084)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>9,987,474</u>
Cash Flows from Capital and Related Financing Activities:	
Cash paid for capital assets	(1,846,546)
Capital appropriations received	1,936,570
Principal paid on capital debt and leases	(570,238)
Interest paid on capital debt and leases	<u>(237,333)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(717,547)</u>
Cash Flows from Investing Activities:	
Proceeds from sales and maturities of investments	2,000,000
Interest received on investments	<u>123,789</u>
Net Cash Provided (Used) by Investing Activities	<u>2,123,789</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,141,106
Cash and Cash Equivalents - Beginning of the Year	<u>2,791,096</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>4,932,202</u></u>

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

Operating income (loss)	\$ <u>(10,099,601)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	1,012,415
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Receivables, net	(182,974)
Inventories	(81,201)
Prepaid expenses	10,846
Increase (decrease) in liabilities:	
Accounts payables and accrued liabilities	54,003
Deferred revenues	(81,873)
Deposits refundable	(23,650)
Accrued leave liability	<u>139,425</u>
Total adjustments	<u>846,991</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>(9,252,610)</u></u>
Noncash Capital and Related Financing and Investing Activities	
Donation of capital asset	\$ <u><u>150,000</u></u>

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

MERIDIAN COMMUNITY COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2004
(With comparative totals for the year ended June 30, 2003)

	2004	Memo (as Restated) 2003
Cash flows from operating activities:		
Excess revenues over expenses	\$ 1,605,199	\$ 488,592
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:		
(Gain)/loss on sale of assets	(12,198)	31,780
(Increase)/decrease in accounts receivable	(10,302)	5,299
Decrease in notes receivable		187,619
Increase in prepaid expense	(1,000)	
Increase in pledge receivables	(28,034)	(104,351)
Increase/(decrease) in accounts payable	920	(19,412)
Interest and dividends restricted for reinvestment	(23,223)	(27,823)
Interest and dividends restricted for long-term investment	(100,323)	(100,745)
Unrealized holding (gains)/losses on securities -- available for sale	(734,109)	(142,248)
Cash contributions restricted for endowments	(391,657)	(100,048)
Non-cash Vanguard capital gains		(5,690)
Non-cash contributions	(629,097)	(64,416)
Net cash provided/(used) by operating activities	(323,824)	148,557
Cash flows from investing activities:		
Proceeds from sale of assets	630,629	237,468
Interest and dividends restricted for reinvestment	23,223	27,823
Purchase of investments	(628,084)	(566,232)
Construction in progress costs	(88,385)	(76,146)
Purchase of assets	(14,837)	(3,301)
Net cash used by investing activities	(77,454)	(380,388)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investments in endowments	391,657	100,048
	391,657	100,048
Other financing activities:		
Interest and dividends restricted for long-term investments	100,323	100,745
Proceeds from issuance of debt	50,000	50,000
Payments on notes payable	(50,000)	(50,000)
Net cash provided by financing activities	100,323	100,745
	491,980	200,793
Net increase (decrease) in cash	90,702	(31,038)
Cash at beginning of year	136,362	167,400
Cash at end of year	\$ 227,064	\$ 136,362

The accompanying notes are an integral part of these
financial statements

MERIDIAN COMMUNITY COLLEGE

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MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

(1) Summary of Significant Accounting Policies.

- A. Reporting Entity - Meridian Community College was founded in 1937 and is one of Mississippi's 15 public community colleges. The legal authority for the establishment of Meridian Community College is found in Section 37-29-31, Miss. Code Ann. (1972).

Meridian Community College is locally-governed by a five-member board of trustees, appointed by the Mayor of the City of Meridian. Each board member is appointed for a five-year term. In addition, Meridian Community College works jointly with the Mississippi State Board for Community and Junior Colleges, which coordinated the efforts of all 15 community colleges as they serve the taxpayers of the State of Mississippi.

In accordance with Governmental Accounting Standards Board Statement No. 14, the Meridian Community College Public Improvement Corporation (the "Corporation") is deemed a component unit of the institution and is included as a blended component unit in the financial statements. The Corporation is a nonprofit corporation incorporated in the State of Mississippi and was established for the purpose of the construction and financing of the Meridian Community College student apartments.

Meridian Community College reports the following discretely presented component unit:

Meridian Community College Foundation (Foundation) - The Foundation is a legally separate, tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation acts primarily as a fund raising organization to supplement the resources available to Meridian Community College (college) in support of its programs.

Although the college does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the college by the donors.

During the year ended June 30, 2004, the Foundation distributed \$2,750 to the college.

- 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 College 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.

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

- 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.
- H. Inventories - Inventories consist of the bookstore. This inventory is generally valued at cost on the first-in, first-out ("FIFO") basis.
- I. Other Long-term Investments - The college accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income on the Statement of Revenues, Expenses and Changes in Net Assets.
- J. 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 5 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.
- K. 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.
- L. Compensated Absences - Twelve-month employees earn annual personal leave at a rate of 10 days per year for 0 to 10 years of service, 12 days per year for 10 to 14 years of service, 14 days per year for 15 to 19 years of service and 16 days per year for over 20 years of service. There is no requirement that annual leave be taken and there is no maximum accumulation. At termination, these employees are paid for up to 30 days of accrued leave. The liability for accrued leave at June 30, 2004, as reported in the Statement of Net Assets is \$486,276 with \$19,832 of this amount estimated as current.
- 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 and, (3) most federal, state and local grants and contracts.

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

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 - Meridian 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.
- 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. 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 \$5,533,566 at June 30, 2004, includes \$324,866 reserved for designations, \$1,118,681 reserved for auxiliaries, and a remaining amount of \$4,090,019.
- Q. Changes in Accounting Standards - Community College has implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment to GASB Statement No. 14*, in the current fiscal year as required. The provisions of this new standard have been incorporated into the financial statements and accompanying notes as a discrete presentation.

(2) 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.

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

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).

The following table summarizes the carrying values of the college's investments reported on the statement of net assets:

	<u>June 30, 2004</u>
Other long-term investments	\$ <u>31,419</u>
Total	\$ <u><u>31,419</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, 2004:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Not Categorized</u>	<u>Total Per Bank</u>
Investments:					
Certificates of deposit	\$ <u>31,419</u>	<u> </u>	<u> </u>	<u> </u>	<u>31,419</u>
Total Investments	\$ <u><u>31,419</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>31,419</u></u>

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

(3) Accounts Receivable.

Accounts receivable consisted of the following at June 30, 2004:

Student tuition	\$	1,750,080
Federal, state, and private grants and contracts		910,508
State appropriations		151,588
Other		<u>221,775</u>
Total Accounts Receivable		3,033,951
Less allowance for doubtful accounts		<u>1,101,782</u>
Net Accounts Receivable	\$	<u><u>1,932,169</u></u>

(4) 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 institution. The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the institution at June 30, 2004:

	Interest Rates	June 30, 2004	Current Portion	Non-Current Portion
Perkins student loans	3% to 9%	\$ <u>22,530</u>		<u>22,530</u>
Total Notes Receivable		22,530		22,530
Less allowance for doubtful accounts		<u>22,530</u>		<u>22,530</u>
Net Notes Receivable		\$ <u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

(5) Capital Assets.

A summary of changes in capital assets for the year ended June 30, 2004, is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 228,479	193,200		421,679
Construction in progress	<u>1,006,039</u>	<u>1,493,663</u>	<u>1,675,371</u>	<u>824,331</u>
Total Nondepreciable Capital Assets	<u>1,234,518</u>	<u>1,686,863</u>	<u>1,675,371</u>	<u>1,246,010</u>
Depreciable Capital Assets:				
Improvements other than buildings	3,893,161	30,547	72,149	3,851,559
Buildings	20,960,220	1,688,280		22,648,500
Equipment	2,168,543	253,085	104,581	2,317,047
Library books	<u>1,088,288</u>	<u>129,428</u>	<u>18,952</u>	<u>1,198,764</u>
Total Depreciable Capital Assets	<u>28,110,212</u>	<u>2,101,340</u>	<u>195,682</u>	<u>30,015,870</u>

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

	Beginning Balance	Additions	Deletions	Ending Balance
Less Accumulated Depreciation for:				
Improvements other than buildings	1,149,041	149,377	37,517	1,260,901
Buildings	5,331,544	571,060		5,902,604
Equipment	1,726,367	168,811	100,844	1,794,334
Library books	938,979	123,167		1,062,146
Total Accumulated Depreciation	<u>9,145,931</u>	<u>1,012,415</u>	<u>138,361</u>	<u>10,019,985</u>
Total Depreciable Capital Assets, Net	<u>18,964,281</u>	<u>1,088,925</u>	<u>57,321</u>	<u>19,995,885</u>
Capital Assets, Net	\$ <u>20,198,799</u>	<u>2,775,788</u>	<u>1,732,692</u>	<u>21,241,895</u>

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

(6) 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, 2004. 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, 2004, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2004	Due Within One Year
Bonded Debt								
Limited-tax refunding bonds, Series 2002	\$ 1,905,000	1.7%-3.2%	2009	\$ 1,905,000		335,000	1,570,000	325,000
Total Bonded Debt				<u>1,905,000</u>	<u>0</u>	<u>335,000</u>	<u>1,570,000</u>	<u>325,000</u>
Notes Payable								
Student housing facility refunding note, Series 1998	3,280,000	4%-5.5%	2018	2,835,000		120,000	2,715,000	130,000
Total Notes Payable				<u>2,835,000</u>	<u>0</u>	<u>120,000</u>	<u>2,715,000</u>	<u>130,000</u>
Capital leases								
Copier				4,505		3,928	577	577
Energy Master Lease				1,443,511		71,141	1,372,370	74,561
Total Capital Leases				<u>1,448,016</u>	<u>0</u>	<u>75,069</u>	<u>1,372,947</u>	<u>75,138</u>
Other Long-term Liabilities								
Accrued leave liabilities				346,851	139,425		486,276	19,832
Deposits refundable				23,650	42,542	42,592	23,600	
Total Other Long-term Liabilities				<u>370,501</u>	<u>181,967</u>	<u>42,592</u>	<u>509,876</u>	<u>19,832</u>
Total				<u>\$ 6,558,517</u>	<u>181,967</u>	<u>572,661</u>	<u>6,167,823</u>	<u>549,970</u>
Due within one year							549,970	
Total Long-term Liabilities							<u>\$ 5,617,853</u>	

	Bonded Debt	Capital Leases	Notes Payable	Interest	Total
2005	\$ 325,000	75,138	130,000	234,549	764,687
2006	335,000	78,144	135,000	218,618	766,762
2007	340,000	81,900	140,000	201,007	762,907
2008	210,000	85,837	145,000	183,477	624,314
2009	215,000	89,962	150,000	166,346	621,308
2010 - 2014	145,000	518,981	880,000	538,281	2,082,262
2015 - 2019		442,985	1,135,000	272,436	1,850,421
Totals	<u>\$ 1,570,000</u>	<u>1,372,947</u>	<u>2,715,000</u>	<u>1,814,714</u>	<u>7,472,661</u>

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

(7) Natural Classifications with Functional Classifications.

The college's operating expenses by functional classification were as follows for the year ended June 30, 2004:

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Other	Total
Instruction	\$ 6,687,464	1,472,055	48,076	287,831		6,610	412,377		332,237	9,246,650
Academic support	1,138,674	281,205	41,321	279,539		5,000	91,680		437,437	2,274,856
Student services	1,248,264	304,758	200,107	144,115		3,268	127,595		7,066	2,035,173
Institutional support	1,232,540	379,153	33,766	623,153			272,947		7,643	2,549,202
Operation of plant	788,174	215,256	3,232	254,762	588,257		225,425			2,075,106
Student aid	2,059					4,010,104				4,012,163
Auxiliary enterprises	317,414	82,676	1,814	688,907			1,620,254		15,652	2,726,717
Depreciation								1,012,415		1,012,415
Total Operating Expenses	\$ <u>11,414,589</u>	<u>2,735,103</u>	<u>328,316</u>	<u>2,278,307</u>	<u>588,257</u>	<u>4,024,982</u>	<u>2,750,278</u>	<u>1,012,415</u>	<u>800,035</u>	<u>25,932,282</u>

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

(8) Construction Commitments and Financing.

The college has contracted for various construction projects as of June 30, 2004. 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>Funded by</u>			
		<u>Federal Sources</u>	<u>State Sources</u>	<u>Institutional Funds</u>	<u>Other</u>
Pool enclosure	\$ <u>167,052</u>		<u>167,052</u>		
Total	\$ <u>167,052</u>	<u>0</u>	<u>167,052</u>	<u>0</u>	<u>0</u>

(9) Pension Plan.

Plan description - Meridian 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, 2004, 2003 and 2002 were \$1,026,696, \$977,279 and \$949,797, respectively, equal to the required contributions for each year.

MERIDIAN COMMUNITY COLLEGE

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**MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2004 and 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business Activities

The Meridian Community College Foundation is a nonprofit organization organized for the purpose of assisting individuals in pursuing their collegiate education and training by providing scholarships and awards to individuals on the basis of academic achievement and need. Meridian Community College Foundation provides leadership in attracting private investment to Meridian Community College. The Foundation is exempt from federal income tax in accordance with Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting

The accounts are maintained and the financial statements are presented on the accrual basis of accounting.

Fund Accounting

To ensure observance of donor limitations and restrictions placed on the use of resources available to the Meridian Community College Foundation, its accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. The activities of the Meridian Community College foundation are reported in the following self-balancing fund groups:

Unrestricted fund

The unrestricted fund includes the general activities of the organization. The board can use the fund as it chooses to carry out the purposes for which the Foundation exists. All unrestricted contributions, gifts and income are recorded in this fund. Except for transactions involving one of the other categories of funds, all transactions of the organization are included in this fund.

Temporarily restricted

The temporarily restricted fund includes contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations.

Permanently restricted

The permanently restricted fund includes contributions and other inflows donated with the stipulations that they be invested to provide a permanent source of income and only the income earned on these investments may be expended.

**MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS- CONTINUED
For the years ended June 30, 2004 and 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Donated assets

Donated assets are recorded at fair market value at the date of gift.

Cash

For the purpose of the statement of cash flows, cash includes checking accounts, money market accounts and savings accounts, all of which are readily accessible and are unrestricted in nature.

Property and equipment

Property and equipment are recorded at cost or approximate market value at date acquired, if acquired by gift. At June 30, 2004 and 2003, property and equipment consisted of the following:

	<u>2004</u>	<u>2003</u>
Land	\$ 349,111	\$ 136,274
Building	<u>55,000</u>	<u> </u>
	<u>\$ 404,111</u>	<u>\$ 136,274</u>

Currently none of the property and equipment listed above is subject to depreciation.

Investments

Investments securities classified as available for sale are recorded at market value. Following is a summary of investments securities available for sale:

June 30, 2004

	<u>Cost</u>	<u>Market</u>
The Common Fund - Intermediate	\$ 16,404	\$ 5,801
The Common Fund - Equity	3,337,751	6,362,330
Vanguard Wellesley	77,444	81,153
Vanguard Morgan Growth	16,026	16,206
Corporate Stocks and Stock Gifts	217,833	270,268
Mutual Funds	50,428	55,823
AmSouth Shared Investment	<u>193,333</u>	<u>196,540</u>
	<u>\$3,909,219</u>	<u>\$6,988,121</u>

**MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2004 and 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

June 30, 2003

	<u>Cost</u>	<u>Market</u>
The Common Fund – Intermediate	\$ 16,228	\$ 5,774
The Common Fund – Equity	2,782,200	5,100,183
Vanguard Wellesley	74,201	78,071
Vanguard Morgan Growth	16,026	13,432
Corporate Stocks	565,339	565,339
Mutual Funds	<u>51,659</u>	<u>51,659</u>
	<u>\$ 3,505,653</u>	<u>\$ 5,814,458</u>

Other investments are recorded at cost and consist of the following:

June 30, 2004

	<u>Cost</u>	<u>Market</u>
Zero coupon bonds	\$ 14,983	\$ 50,431
Corporate stocks	22,190	17,592
Stock Gifts	<u>3,978</u>	<u>2,908</u>
	<u>\$ 41,151</u>	<u>\$ 70,931</u>

June 30, 2003

	<u>Cost</u>	<u>Market</u>
Zero coupon bonds	\$ 14,983	\$ 45,776
Corporate stocks	22,190	18,255
Money Fund	<u>7,217</u>	<u>7,217</u>
	<u>\$ 44,390</u>	<u>\$ 75,911</u>

Other assets

Other assets at June 30, 2004, and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Northwood Country Club Stock	\$ 2,500	\$ 2,500
Life insurance policies	11,871	11,871
Steel sculpture	5,000	5,000
Cartmell oil portraits	12,925	12,925
Donations of artwork	<u>20,351</u>	<u>20,001</u>
	<u>\$52,647</u>	<u>\$52,297</u>

**MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2004 and 2003**

Use of estimates

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

Reclassifications

Certain financial statement amounts for 2003 have been reclassified to be consistent with the 2004 presentation.

NOTE 2 ANNUITY LIABILITIES

The Foundation is obligated pursuant to the terms of two (2) separate charitable remainder annuity trust agreements established by a donor-program of the Foundation to pay the donor annual sums of \$9,000 per trust agreement (paid quarterly) for the life of the donor. Pursuant of these agreements, \$100,000 gifts were made on March 1, 1995 and April 15, 1997, respectively. The donor's charitable deduction for federal income tax purposes was \$56,886 and \$57,492, respectively in 1995 and 1997. The annuity liabilities are to be revalued annually on the donor's date of birth with Internal Revenue Service rate tables, based on the donor's attained age and the payout rates.

The Foundation is also obligated pursuant to the terms of another charitable remainder annuity trust agreement established by a donor-program of the Foundation to pay the donors an annual sum of \$8,078 per trust agreement (paid monthly) for the lives of the donors. Pursuant of this agreement a \$115,400 gift was made in February 2000. The donors' charitable deduction for federal income tax purposes was \$35,838 in 2000. The annuity liability is to be revalued annually with Internal Revenue Service rate tables, based on the donors' attained ages and the payout rates.

The Foundation is obligated pursuant to the terms of a fourth charitable remainder annuity trust agreement established by a donor-program of the Foundation to pay the donor annual sums of \$8,027 per trust agreement (paid quarterly) for the life of the donor. Pursuant of this agreement a \$100,338 gift was made in February 2002. The donor's charitable deduction for federal income tax purposes was \$69,549 in 2002. The annuity liability is to be revalued annually with Internal Revenue Service rate tables, based on the donor's attained age and the payout rates.

**MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2004 and 2003**

NOTE 2 ANNUITY LIABILITIES – continued

At June 30, 2004, the annuity liabilities amounted to \$158,469 (annuity #1: \$29,178; annuity #2: \$30,712; annuity #3: \$27,232; annuity #4: \$71,347). At June 30, 2003 the annuity liabilities amounted to \$166,743.

The Foundation's promise to make the payments to the donor pursuant to the agreement is unsecured and in no way contingent upon future earnings with respect to the property transferred to the Foundation.

NOTE 3 CONCENTRATION OF CREDIT RISK

The Foundation maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2004 and 2003 the Foundation did not have cash in excess of the insurance limit.

The Foundation maintains a significant portion of its investments with one brokerage firm.

NOTE 4 NON-QUALIFIED DEFERRED COMPENSATION PLAN

On July 26, 2001 the Foundation established a non-qualified deferred compensation plan for the benefit of Dr. Scott Elliott, President of Meridian Community College. The plan was established to encourage him to remain as President of the College as the College has benefited from his capable and efficient management and leadership. The plan requires that \$10,000 per year be contributed into the plan up to fifteen years. The Foundation will retain title to and beneficial ownership of the plan asset. Benefits will be paid out of the plan asset in accordance with provisions established in the plan document. The plan also allows for third party contributions into the plan. For the year ended June 30, 2004 the Foundation had earmarked \$10,000 to be contributed to the plan, along with an additional \$15,000 in contributions restricted for this purpose. These funds were not transferred to the plan asset until July 2004. For the year ended June 30, 2003, \$25,000 was contributed to the plan. At June 30, 2004 and 2003 the balance in the plan amounted to \$55,823 and \$51,659, respectively.

**MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2004 and 2003**

NOTE 6 TUITION GUARANTEE PROGRAM

The Foundation sponsors a Tuition Guarantee Program to encourage area-wide attendance based on academic eligibility. This program cost the Foundation approximately \$77,145 for the year ended June 30, 2004, and \$84,408 for the year ended June 30, 2003. The Tuition Guarantee covers tuition only. However, the Meridian Community College Foundation also awards scholarships based on ACT scores which can be used to help pay fees and purchase books. The cost of this additional program was \$53,750 for the year ended June 30, 2004 and \$26,871 for the year ended June 30, 2003.

NOTE 7 NOTE PAYABLE - BANK PLUS

This is a six-month construction loan used to finance the construction of a house by the Home Building Trades Program. If the house is not finished when the loan is due, the loan is renewed at the current construction rate. The finished house is sold, and the proceeds are used to pay off the loan. Bank Plus donates the interest back to the program.

NOTE 8 PRIOR YEAR RESTATEMENT

The accompanying financial statements for the year ended June 30, 2003 have been restated to correct an error in the failure to report pledge receivables. The effect of the restatement was to increase net income by \$104,991 and also increase current assets by the same amount.

MERIDIAN COMMUNITY COLLEGE

SUPPLEMENTAL INFORMATION

MERIDIAN COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

<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		\$ 86,400
Federal Family Education Loans (FFEL)	{1} 84.032		1,567,986
Federal Work-study Program (FWS)	84.033		166,520
Federal Pell Grant Program	84.063		5,753,898
Subtotal direct programs			<u>7,574,804</u>
Pass-through program from:			
State of Mississippi Institutions of Higher Learning Leveraging Educational Assistance Partnership (LEAP)	84.069		<u>3,368</u>
Total U.S. Department of Education			<u>7,578,172</u>
Total Student Financial Aid Cluster			<u>7,578,172</u>
Other Programs:			
<u>U.S. Department of Agriculture</u>			
Pass-through program from:			
Mississippi Community College Foundation - Mississippi Rural Health Corp. Program Cooperative Extension Service	10.500		<u>131,104</u>
Total U.S. Department of Agriculture			<u>131,104</u>
<u>U.S. Department of Defense</u>			
Pass-through program from:			
Mississippi Contract Procurement Center Procurement Technical Assistance for Business Firms	12.002		<u>69,536</u>
Total U.S. Department of Defense			<u>69,536</u>
<u>U.S. Department of Labor</u>			
Pass-through program from:			
State Department of Education - School to Career Grant	17.249	U4403408860	<u>26,455</u>
WIA Cluster:			
Mississippi Employment Security Commission- WIA Adult Program	17.258		196,056
Mississippi Employment Security Commission- WIA Dislocated Worker	17.260		106,033
Total WIA Cluster			<u>302,089</u>

MERIDIAN COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

<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>
Mississippi Employment Security Commission- Trade Adjustment Assistance Workers (TAA)	17.245		127,141
Mississippi Employment Security Commission- WIA Student Nurse Academy	17.255		10,425
Total U.S. Department of Labor			466,110
<u>National Aeronautics and Space Administration</u>			
Pass-through program from:			
University of Mississippi - Aerospace Education Services Program	43.001		3,495
Total National Aeronautics and Space Administration			3,495
<u>U.S. Department of Veterans Affairs</u>			
Veteran's Aid Administration	64.Unknown		29,943
Total U.S. Department of Veterans Affairs			29,943
<u>U.S. Department of Education</u>			
Pass-through programs from:			
State Department of Education - Adult Education - State Grant Program	84.002	EV048A700248	272,400
State Department of Education - Vocational Education Basic Grants to States	84.048	EV243A60095	371,554
State Department of Education - Tech-Prep Education	84.243		97,417
State Department of Education - Gaining Early Awareness & Readiness for Undergraduate Program	84.334		16,215
Mississippi State University - Teacher Quality Enhancement Grants	84.336		50,958
Tribe of Choctaw Indians - Trio - Upward Bound	84.047A		15,039
Total U.S. Department of Education			823,583
<u>Corporation for National and Community Service</u>			
Pass-through program from:			
Mississippi Emergency Management Agency - Americorps	94.006		9,992
Total Corporation for National and Community Service			9,992

MERIDIAN COMMUNITY COLLEGE
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2004

<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>Department of Homeland Security</u>			
Pass-through programs from:			
Mississippi Emergency Management Agency - State Domestic Preparedness Equipment Support Program	97.004		95,049
Mississippi Emergency Management Agency - Community Emergency Response Teams	97.054		<u>9,548</u>
Total Department of Homeland Security			<u>104,597</u>
Total Other Programs			<u>1,638,360</u>
Total Expenditures of Federal Awards			<u>\$ 9,216,532</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.

MERIDIAN COMMUNITY COLLEGE

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Dr. Scott Elliott, President and Board of Trustees
Meridian Community College
Meridian, MS 39307

We have audited the financial statements of Meridian Community College as of and for the year ended June 30, 2004, as listed in the table of contents and have issued our report thereon dated April 1, 2005. We did not audit the financial statements of the discretely presented component unit, Meridian Community College Foundation, which represents 100 percent of the assets and revenues of the discretely presented component units. Those financial statements were audited by an other auditor whose report has been furnished to us. This report, insofar as it relates to the amounts included for the above mentioned entity, is based solely on the report of the other auditor. 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. The financial statements of the Meridian Community College Foundation, audited by an other auditor, were not audited in accordance with *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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the basic 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. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 1, 2005



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. Scott Elliott, President and Board of Trustees
Meridian Community College
Meridian, MS 39307

Compliance

We have audited the compliance of Meridian 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, 2004. 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, Meridian 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, 2004.

Internal Control Over Compliance

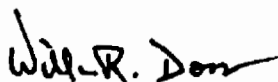
The management of the Meridian Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the college's internal 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 reportable 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 caused by error or fraud 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



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 1, 2005

MERIDIAN 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. Scott Elliott, President and Board of Trustees
Meridian Community College
Meridian, MS 39307

We have audited the financial statements of Meridian Community College as of and for the year ended June 30, 2004, and have issued our report thereon dated April 1, 2005. We did not audit the financial statements of the discretely presented component unit, Meridian Community College Foundation, which represents 100 percent of the assets and revenues of the discretely presented component units. Those financial statements were audited by an other auditor whose report has been furnished to us. This report, insofar as it relates to the amounts included for the above mentioned entity, is based solely on the report of the other auditor. 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. The financial statements of the Meridian Community College Development Foundation, audited by an other auditor, were not audited in accordance with *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 black ink.

PHIL BRYANT
State Auditor

Handwritten signature of William R. Doss in black ink.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 1, 2005

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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MERIDIAN COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

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? | No |

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: | |
| a. | Student financial aid cluster:
CFDA #84.007
CFDA #84.032
CFDA #84.033
CFDA #84.063
CFDA #84.069 | |
| b. | Vocational education basic grants to states
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? | Yes |
| 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 |

MERIDIAN COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

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.