



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR

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MERIDIAN COMMUNITY COLLEGE

Audited Financial Statements
For the Year Ended June 30, 2005

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MERIDIAN COMMUNITY COLLEGE

TABLE OF CONTENTS

FINANCIAL AUDIT REPORT	1
Independent Auditor's Report on the Basic Financial Statements and Supplemental Information	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
AUDITED FINANCIAL STATEMENTS	19
Statement of Net Assets	21
Statement of Financial Position - Meridian Community College Foundation	22
Statement of Revenues, Expenses and Changes in Net Assets	23
Statement of Activities and Changes in Net Assets - Meridian Community College Foundation	24
Statement of Cash Flows	25
Statement of Cash Flows - Meridian Community College Foundation	27
Notes to Financial Statements	28
Notes to Financial Statements - Meridian Community College Foundation	39
SUPPLEMENTAL INFORMATION	47
Schedule of Expenditures of Federal Awards	48
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	51
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 <i>Government Auditing Standards</i>	53
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	55
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	57
Independent Auditor's Report on Compliance with State Laws and Regulations	59
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	61

MERIDIAN COMMUNITY COLLEGE

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 SUPPLEMENTAL INFORMATION

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

We have audited the accompanying financial statements of Meridian Community College as of and for the year ended June 30, 2005, 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 report 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, 2005, 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.

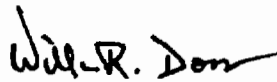
In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2006, on our consideration of Meridian Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 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 whole.



PHIL BRYANT
State Auditor



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

June 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MERIDIAN COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2005

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, 2005. 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 2004. 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 third year of compliance with this standard. These financial statements differ significantly, in both form and the accounting principles used, from those presented prior to fiscal year 2003. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

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

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. The financial reporting model classifies state appropriations and gifts as non-operating 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, 2005

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, non-capital financing, capital and related financing, and investing activities.

Condensed Statement of Net Assets

June 30, 2005 and 2004

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Assets				
Current Assets	\$ 7,357,215	24.62	\$ 7,417,684	25.85
Non-current Assets:				
Capital Assets, Net	22,498,191	75.28	21,241,895	74.04
Other	<u>31,419</u>	<u>.10</u>	<u>31,419</u>	<u>.11</u>
Total Assets	<u>29,886,825</u>	<u>100.00</u>	<u>28,690,998</u>	<u>100.00</u>
Liabilities				
Current Liabilities	1,462,922	21.70	1,161,014	17.13
Non-current Liabilities	<u>5,279,277</u>	<u>78.30</u>	<u>5,617,853</u>	<u>82.87</u>
Total Liabilities	<u>6,742,199</u>	<u>100.00</u>	<u>6,778,867</u>	<u>100.00</u>
Net Assets				
Invested in Capital Assets, Net	17,009,482	73.49	15,583,948	71.12
Restricted:				
Expendable	838,398	3.62	794,617	3.63
Unrestricted	<u>5,296,746</u>	<u>22.89</u>	<u>5,533,566</u>	<u>25.25</u>
Total Net Assets	<u>\$ 23,144,626</u>	<u>100.00</u>	<u>\$ 21,912,131</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 \$2,922,372 at June 30, 2005, a decrease of \$2,009,830 over the balance of \$4,932,202 on June 30, 2004. As interest rates have risen slightly during the 2005 fiscal year, we have tried to obtain an incremental increase in our interest income for the

MERIDIAN COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2005

College and invested \$2,000,000 into certificates of deposits. On June 30, 2004 with our money market account earning almost the same amount as was available in bank CD's, we left our excess funds in this account and retained liquidity.

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 \$1,766,254 at June 30, 2005, a decrease of \$165,915 over the balance of \$1,932,169 at June 30, 2004.

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 \$532,372 at June 30, 2005, an increase of \$100,276 over the balance of \$432,096 at June 30, 2004.

Non-current 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 non-current at June 30, 2005 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, 2005. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$22,498,191 at June 30, 2005, an increase of \$1,256,296 over the balance of \$21,241,895 at June 30, 2004.

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities

Accounts Payable and accrued liabilities represent amounts due at June 30, 2005 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$633,067 at June 30, 2005, an increase of \$61,688 over the balance of \$571,379 at June 30, 2004.

MERIDIAN COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2005

Deferred Revenue

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, 2005 fiscal year. The deferred revenue totaled \$215,487 at June 30, 2005, an increase of \$175,822 over the balance of \$39,665 at June 30, 2004.

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, 2006 fiscal year. The amount of the current portion of compensated absences at June 30, 2005 was \$26,123, an increase of \$6,291 from the balance at June 30, 2004 of \$19,832.

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, 2006 fiscal year. The amount of the current portion of long-term debt at June 30, 2005 was \$588,245, an increase of \$58,107 over the balance of \$530,138 on June 30, 2004.

Non-current Liabilities

Deposits

Deposits represent 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 \$25,200 at June 30, 2005, an increase of \$1,600 as compared to the balance of \$23,600 at June 30, 2004.

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 non-current portion of accrued compensated balances was \$353,613, a decrease of \$112,831 over the balance of \$466,444 at June 30, 2004.

Long-Term Liabilities

This liability consists of long-term debt for outstanding bonds, notes, and capital leases. The total amount of the non-current portion of long-term debt was \$4,900,464 at June 30, 2005, a decrease of \$227,345 from the balance of \$5,127,809 at June 30, 2004.

Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2005 were \$23,144,626, an increase of \$1,232,495 over the balance of

MERIDIAN COMMUNITY COLLEGE

Management's Discussion and Analysis
For the Year Ended June 30, 2005

\$21,912,131 on June 30, 2004 as reflected on the Statement of Revenues, Expenses, and Changes in Net Assets for fiscal year 2005.

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, 2005	June 30, 2004
	<u>Amount</u>	<u>Amount</u>
Unemployment Funds	\$ 31,419	\$ 31,419
Capital Projects	5,905	6,396
Grants and Contracts	78,503	75,864
Loan Funds	1,919	1,919
Debt Obligations	<u>720,652</u>	<u>679,019</u>
 Total Restricted Net Assets	 <u>\$ 838,398</u>	 <u>\$ 794,617</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, 2005	June 30, 2004
	<u>Amount</u>	<u>Amount</u>
Unrestricted General Fund	\$ 3,826,707	\$ 4,090,019
Unrestricted Designated Funds	288,938	324,866
Unrestricted Auxiliary Funds	<u>1,181,101</u>	<u>1,118,681</u>
 Total Unrestricted Net Assets	 <u>\$ 5,296,746</u>	 <u>\$ 5,533,566</u>

MERIDIAN COMMUNITY COLLEGE

Management's Discussion and Analysis
For the Year Ended June 30, 2005

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

For the year ended June 30, 2005 and 2004

	June 30, 2005	June 30, 2004
	<u>Amount</u>	<u>Amount</u>
Operating Revenues:		
Tuition and Fees	\$ 2,214,614	\$ 2,116,759
Grants and Contracts	9,642,605	10,402,529
Auxiliary Enterprises	3,113,992	3,149,107
Other Operating Revenues	<u>303,614</u>	<u>164,286</u>
 Total Operating Revenues	 <u>15,274,825</u>	 <u>15,832,681</u>
 Operating Expenses	 <u>25,531,139</u>	 <u>25,932,282</u>
 Operating Loss	 <u>(10,256,314)</u>	 <u>(10,099,601)</u>
Non-operating Revenues:		
State Appropriations	8,617,587	8,463,612
Local Appropriations	1,437,922	1,465,798
Non-capital Gifts		
Investment Income, Net	53,994	123,789
Other Non-operating Expenses	<u> </u>	<u>(139,423)</u>
 Net Non-operating Revenues	 <u>10,109,503</u>	 <u>9,913,776</u>
 Income Before Other Revenues	 (146,811)	 (185,825)
 State Appropriations restricted for Capital Purposes	 172,895	 1,191,688
Local Appropriations restricted for Capital Purposes	837,654	744,882
Capital Gift	600,000	150,000
Other Additions (deletions), net	<u>(231,243)</u>	<u>(237,333)</u>
 Total Other Revenues	 <u>1,379,306</u>	 <u>1,849,237</u>
 Total Increase in Net Assets	 <u>1,232,495</u>	 <u>1,663,412</u>
Net Assets		
Net Assets at Beginning of Year, as Restated	<u>21,912,131</u>	<u>20,248,719</u>
 Net Assets at End of Year	 <u>\$23,144,626</u>	 <u>\$ 21,912,131</u>

MERIDIAN COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2005

Total operating loss for the fiscal year 2005 was \$10,256,314, an increase of \$156,713 over the loss for fiscal year 2004 of \$10,099,601. 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 2005 were \$15,274,825. Tuition and fees were \$2,214,614. The tuition discount was \$3,292,195. Operating expenses, including depreciation of \$791,341 totaled \$25,531,139.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$5,506,809. The tuition discount for the 2005 fiscal year was \$3,292,195.

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. Non-exchange 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 years ended June 30, 2005 and 2004:

	<u>June 30, 2005</u> <u>Amount</u>	<u>June 30, 2004</u> <u>Amount</u>
Federal	\$ 6,930,120	\$ 7,639,146
State	1,858,147	1,968,321
Private	<u>854,338</u>	<u>795,062</u>
Total all Sources	<u>\$ 9,642,605</u>	<u>\$ 10,402,529</u>

MERIDIAN COMMUNITY COLLEGE

Management's Discussion and Analysis
For the Year Ended June 30, 2005

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$215,532 for the 2005 fiscal year, an increase of \$120,643 over the balance of \$94,889 for the 2004 fiscal year.

Sales and Services, Net

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

Operating Expenses

Operating expenses totaling \$25,531,139 include salaries and benefits of \$11,717,205, utilities of \$656,380, supplies of \$2,575,607, services of \$2,191,637, and depreciation of \$791,341.

	June 30, 2005 <u>Amount</u>	June 30, 2004 <u>Amount</u>
Expenses by Function:		
Instruction	\$ 9,206,053	\$ 9,246,650
Academic Support	1,925,199	2,274,856
Student Services	2,202,257	2,035,173
Institutional Support	2,407,585	2,549,202
Operations and Maintenance of Plant	2,789,267	2,075,106
Student Financial Aid	3,546,277	4,012,163
Auxiliary Enterprises	2,663,160	2,726,717
Depreciation	<u>791,341</u>	<u>1,012,415</u>
Total Operating Expenses by Function	<u>\$ 25,531,139</u>	<u>\$ 25,932,282</u>

Non-operating Revenues (Expenses)

State Appropriation

The College's largest source of non-operating revenue is the State of Mississippi appropriation. The College received \$8,790,482 for the 2004-2005 fiscal year, of which \$8,617,587 was for operations. This represents an increase of \$153,975 over the amount received for operations in the previous year. State appropriations for capital projects of \$172,895 were paid on behalf of the College during the 2005 fiscal year.

Local Appropriations

The College also receives revenue from the City of Meridian and Lauderdale County. The College received \$2,275,576 for the 2005 fiscal year from the local government of which \$1,437,922 was for operating purposes. This represents a decrease of \$27,876 of

MERIDIAN COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2005

local operating revenue received from the local government for operating purposes. The remaining \$837,654 was received in fiscal year 2005 for capital projects or retirement of debt.

Investment Income, Net

This includes the interest income from the cash in the bank accounts. A total of \$53,994 was earned during the 2005 fiscal year.

Other Additions (Deletions), net

This consists of deletions of interest on retirement of indebtedness during the 2005 fiscal year. The total of this interest amounted to \$231,243.

Other Revenues

State Appropriations for Capital Purposes

\$172,895 is the amount of revenue received from the State of Mississippi to purchase, construct, renovate, or repair capital assets during the 2005 fiscal year.

Local Appropriations for Capital Purposes

This includes revenue received from the City of Meridian and Lauderdale County for capital projects during the fiscal year. The amount of this revenue totaled \$837,654 for the 2005 fiscal year.

Capital Gifts

This consists of a donation of a building and land made to the College from the Medical Foundation, Inc. The market value of this gift was estimated at \$600,000 at June 30, 2005.

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.

MERIDIAN COMMUNITY COLLEGE

Management's Discussion and Analysis
For the Year Ended June 30, 2005

Condensed Statement of Cash Flows (Direct Method)

For the Fiscal Year Ended June 30, 2005 and 2004

	June 30, 2005 <u>Amount</u>	June 30, 2004 <u>Amount</u>
Cash and Cash Equivalents Provided (Used) by:		
Operating Activities	\$ (9,213,069)	\$ (9,206,230)
Non-capital Financing Activities	9,986,814	9,940,267
Capital and Related Financing Activities	(837,569)	(716,720)
Investing Activities	<u>(1,946,006)</u>	<u>2,123,789</u>
Net Increase in Cash and Cash Equivalents	(2,009,830)	2,141,106
Cash and Cash Equivalents – Beg. of the Year	<u>4,932,202</u>	<u>2,791,096</u>
Cash and Cash Equivalents – End of the Year	<u>\$ 2,922,372</u>	<u>\$ 4,932,202</u>

The major sources of funds included in operating activities include student tuition and fees, \$2,285,861, auxiliary enterprises, \$3,115,592, and grants and contracts, \$10,030,034. The major uses of funds were payments made to and for employees, \$14,701,950 and to suppliers, \$2,678,209.

The largest inflow of cash in the non-capital financing activities group is the State appropriation of \$8,515,732.

Significant Capital Asset Transactions

The college made several significant capital asset transactions related to land during the 2005 fiscal year. The college completed construction of the Pool enclosure, completed a new parking lot on the north side of campus, and continued the renovations of Rush Hall. Rush Hall is a building leased to the college under a ten-year lease purchase arrangement for a cost of \$100 per year. The contractor has made significant progress on this facility that will provide much needed science laboratories and classrooms.

In addition, the College entered into a lease purchase agreement with Medical Foundation, Inc. for the Rush Senior Health Clinic located directly across from Ivy Hall on Highway 19. This facility was acquired for a ten-year, no interest loan of \$400,000 with annual payments of \$40,000. The college plans to develop this facility for a state-of-the-art childcare center. This would provide much needed childcare in the Meridian area and also allow the students in our Childcare Technology Program to qualify to become directors of childcare centers.

MERIDIAN COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2005

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 is the main issue that will continue to have an impact on our financial position. On August 29, 2005, the Mississippi Gulf Coast was hit hard by Katrina, a Category 5 Hurricane. This devastated the coastal region and has resulted in even more uncertainty about the availability of state funding. This is occurring at the same time we are experiencing increased pressure to provide increases in compensation in order to retain and attract quality faculty. In addition, there is uncertainty concerning the increases in rising utility costs. Although Meridian was in the direct path of this hurricane as it made its way into Mississippi, the damage sustained by the college was not material. We have two roofs damaged, athletic field lighting blown off course and numerous other minor issues. We do expect damages to be paid in large part by the property insurance of the college and FEMA. Our main concern at this time is the ability for the state of Mississippi to meet its revenue projections and meet the demands of assistance funding that will be needed to rebuild the damaged areas.

In addition to these 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. We are in the process of obtaining appraisals of the Myrtle Estes Dormitory that is rented from East Mississippi State Hospital. The hospital needs cash in order to build additional nursing home and group home facilities. During the 2005 legislative session, a bill was passed to allow the sale of this property at the selling price of the average of two appraisals. In addition, the college has the first right of refusal on the property.

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, 2005

ASSETS

Current assets:

Cash and cash equivalents	\$	2,922,372
Short-term investments		2,000,000
Accounts receivables, net		1,766,254
Inventories		532,372
Prepaid expenses		<u>136,217</u>

Total Current Assets 7,357,215

Noncurrent assets:

Other long-term investments		31,419
Capital assets, net of accumulated depreciation		<u>22,498,191</u>

Total Noncurrent Assets 22,529,610

Total Assets 29,886,825

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities		633,067
Deferred revenues		215,487
Accrued leave liabilities - current portion		26,123
Long-term liabilities - current portion		<u>588,245</u>

Total Current Liabilities 1,462,922

Noncurrent liabilities:

Deposits refundable		25,200
Accrued leave liabilities		353,613
Long-term liabilities		<u>4,900,464</u>

Total Noncurrent Liabilities 5,279,277

Total Liabilities 6,742,199

NET ASSETS

Invested in capital assets, net of related debt 17,009,482

Restricted for:

Expendable:

Scholarships and fellowships		78,503
Capital projects		5,905
Debt service		720,652
Loans		1,919
Other purposes		31,419

Unrestricted: 5,296,746

Total Net Assets \$ 23,144,626

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

MERIDIAN COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004

	2005	2004
ASSETS		
Cash	\$ 204,973	\$ 227,064
Certificates of deposit	37,745	37,096
Accounts receivable	8,596	13,054
Pledge receivables	125,799	132,385
Prepaid expense	1,000	1,000
Construction in progress	130,769	88,385
Property and equipment, net	394,736	404,111
Investments -- (at market)	7,673,753	6,988,121
Other investments -- (at cost)	41,088	41,151
Other assets	157,147	52,647
Total assets	\$ 8,775,606	\$ 7,985,014
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 31,417	\$ 26,311
Notes payable - BankPlus	50,000	50,000
Annuity liabilities	175,722	158,469
Total liabilities	257,139	234,780
Net assets:		
Unrestricted	841,141	750,028
Temporarily restricted	1,224,163	999,398
Permanently restricted	6,453,163	6,000,808
Total net assets	8,518,467	7,750,234
Total liabilities and net assets	\$ 8,775,606	\$ 7,985,014

MERIDIAN COMMUNITY COLLEGE
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2005

Operating Revenues:	
Tuition and fees (net of scholarship allowances of \$3,292,195)	\$ 2,214,614
Federal grants and contracts	6,930,120
State grants and contracts	1,858,147
Nongovernmental grants and contracts	854,338
Sales and services of educational departments	215,532
Auxiliary enterprises:	
Student housing	559,981
Food services	443,594
Bookstore	2,092,233
Other auxiliary revenues	18,184
Other operating revenues	<u>88,082</u>
 Total Operating Revenues	 <u>15,274,825</u>
Operating Expenses:	
Salaries and wages	11,717,205
Fringe benefits	3,077,744
Travel	295,108
Contractual services	2,191,637
Utilities	656,380
Scholarships and fellowships	3,546,277
Commodities	2,575,607
Depreciation expense	791,341
Other operating expenses	<u>679,840</u>
 Total Operating Expenses	 <u>25,531,139</u>
 Operating Income (Loss)	 <u>(10,256,314)</u>
Nonoperating Revenues (Expenses):	
State appropriations	8,617,587
Local appropriations	1,437,922
Investment income	<u>53,994</u>
 Total Net Nonoperating Revenues (Expenses)	 <u>10,109,503</u>
 Income (Loss) before Other Revenues, Expenses, Gains and Losses	 <u>(146,811)</u>
State appropriations restricted for capital purposes	172,895
Local appropriations restricted for capital purposes	837,654
Capital gifts	600,000
Other additions (deletions), net	<u>(231,243)</u>
 Change in Net Assets	 <u>1,232,495</u>
Net Assets:	
Net Assets - Beginning of Year	<u>21,912,131</u>
 Net Assets - End of Year	 \$ <u><u>23,144,626</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, 2005
(With comparative totals for the year ended June 30, 2004)

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTALS	
				2005	Memo 2004
Public Support, Revenues, and Reclassifications					
Contributions	\$ 395,025	236,838	84,635	\$ 716,498	\$ 1,184,227
Interest and dividends	8,869	34,012	133,323	176,204	128,268
Gain (loss) on sale of assets	(105)	12,099		11,994	12,198
Net assets released from restrictions (note 2)					
Satisfaction of purpose restrictions	400,048	(400,048)	-	-	-
Total public support, revenues, and reclassification	803,837	(117,099)	217,958	904,696	1,324,693
Expenses:					
Scholarships	292,524	-	-	292,524	276,978
Awards	3,790	-	-	3,790	4,040
Faculty/staff programs	38,697	-	-	38,697	39,306
Annuity interest expense	38,451	-	-	38,451	34,105
Other program expenses	57,948	-	-	57,948	38,251
Management and general	74,178	-	-	74,178	58,174
Donations to Meridian Community College	111,895	-	-	111,895	2,750
Total expenses	617,483	-	-	617,483	453,604
Other income:					
Unrealized holding gains (losses) on marketable securities available for sale	22,382	49,759	-	72,141	77,346
Excess (deficiency) of revenues over expenses before capital additions	208,736	(67,340)	217,958	359,354	948,435
Capital additions:					
Unrealized holding gains (losses) on marketable securities available for sale - endowment funds	-	-	408,879	408,879	656,763
Excess (deficiency) of revenues over expenses after capital additions	208,736	(67,340)	626,837	768,233	1,605,198
Net assets, beginning of year	750,028	999,398	6,000,808	7,750,234	6,145,036
Fund transfers in (out)	(117,623)	292,105	(174,482)	-	-
Net assets, end of year	\$ 841,141	\$ 1,224,163	\$ 6,453,163	\$ 8,518,467	\$ 7,750,234

The accompanying notes are an integral part of these financial statements

MERIDIAN COMMUNITY COLLEGE
Statement of Cash Flows
For the Year Ended June 30, 2005

Cash Flows from Operating Activities:

Tuition and fees	\$ 2,285,861
Grants and contracts	10,030,034
Sales and services of educational departments	215,532
Payments to suppliers	(2,678,209)
Payments to employees for salaries and benefits	(14,701,950)
Payments for contractual services	(2,173,768)
Payments for travel	(295,108)
Payments for other expenses	(894,064)
Payments for utilities	(656,380)
Payments for scholarships and fellowships	(3,546,277)
Student housing	551,174
Food services	454,001
Bookstore	2,092,233
Other auxiliary enterprises	18,184
Other receipts (payments)	<u>85,668</u>
Net Cash Provided (Used) by Operating Activities	<u>(9,213,069)</u>

Cash Flows from Noncapital Financing Activities:

State appropriations	8,515,732
Local appropriations	1,437,922
Agency transfers-in	1,140,890
Agency transfers-out	(1,107,730)
Federal loan program receipts	3,097,124
Federal loan program disbursements	<u>(3,097,124)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>9,986,814</u>

Cash Flows from Capital and Related Financing Activities:

Cash paid for capital assets	(1,046,640)
Capital appropriations received	1,010,549
Principal paid on capital debt and leases	(570,238)
Interest paid on capital debt and leases	<u>(231,240)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(837,569)</u>

Cash Flows from Investing Activities:

Proceeds from sales and maturities of investments	500,000
Interest received on investments	53,994
Purchases of investments	<u>(2,500,000)</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,946,006)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	<u>(2,009,830)</u>
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MERIDIAN COMMUNITY COLLEGE
Statement of Cash Flows
For the Year Ended June 30, 2005

Cash and Cash Equivalents - Beginning of the Year	<u>4,932,202</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>2,922,372</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ <u>(10,256,314)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	791,341
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Receivables, net	267,770
Inventories	(100,276)
Prepaid expenses	(15,000)
Increase (decrease) in liabilities:	
Accounts payables and accrued liabilities	28,528
Deferred revenues	175,822
Deposits refundable	1,600
Accrued leave liability	<u>(106,540)</u>
Total adjustments	<u>1,043,245</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>(9,213,069)</u></u>
Noncash Capital and Related Financing and Investing Activities	
Donation of capital asset	\$ 600,000
Capital lease acquisition of Rush Senior Health Clinic	400,000
Capital lease acquisition of Rush Hall	1,000

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, 2005
(With comparative totals for the year ended June 30, 2004)

	2005	Memo 2004
Cash flows from operating activities:		
Excess revenues over expenses	\$ 768,233	\$ 1,605,199
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:		
Depreciation	1,721	-
(Gain)/loss on sale of assets	(11,994)	(12,198)
(Increase)/decrease in accounts receivable	4,458	(10,302)
Increase in prepaid expense	-	(1,000)
(Increase)/decrease in pledge receivables	6,587	(28,034)
Increase in accounts payable	5,105	920
Interest and dividends restricted for reinvestment	(34,012)	(23,223)
Interest and dividends restricted for long-term investment	(133,323)	(100,323)
Unrealized holding (gains)/losses on securities -- available for sale	(481,020)	(734,109)
Cash contributions restricted for endowments	(84,635)	(391,657)
Non-cash contributions	<u>(194,293)</u>	<u>(629,097)</u>
Net cash used by operating activities	<u>(153,173)</u>	<u>(323,824)</u>
Cash flows from investing activities:		
Proceeds from sale of assets	235,348	630,629
Interest and dividends restricted for reinvestment	34,012	23,223
Purchase of investments	(203,199)	(628,084)
Construction in progress costs	(130,769)	(88,385)
Purchase of assets	<u>(22,268)</u>	<u>(14,837)</u>
Net cash used by investing activities	<u>(86,876)</u>	<u>(77,454)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investments in endowments	<u>84,635</u>	<u>391,657</u>
	<u>84,635</u>	<u>391,657</u>
Other financing activities:		
Interest and dividends restricted for long-term investments	133,323	100,323
Proceeds from issuance of debt	50,000	50,000
Payments on notes payable	<u>(50,000)</u>	<u>(50,000)</u>
	<u>133,323</u>	<u>100,323</u>
Net cash provided by financing activities	<u>217,958</u>	<u>491,980</u>
Net increase (decrease) in cash	(22,091)	90,702
Cash at beginning of year	<u>227,064</u>	<u>136,362</u>
Cash at end of year	<u>\$ 204,973</u>	<u>\$ 227,064</u>

The accompanying notes are an integral part of these
financial statements

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2005

(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 coordinates 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 for 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, 2005, the Foundation distributed \$111,895 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, 2005

- 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 ten to 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, 2005, as reported in the Statement of Net Assets is \$379,736 with \$26,123 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, 2005

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 began to 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 \$5,296,746 at June 30, 2005, includes \$288,938 reserved for designations, \$1,181,101 reserved for auxiliaries, and a remaining amount of \$3,826,707.

- Q. Changes in Accounting Standards - Meridian Community College has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an Amendment of GASB Statement No. 3* for the current fiscal year. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The provisions of this new standard have been incorporated into the financial statements and accompanying notes.

(2) Cash and Cash Equivalents, Short-term Investments 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, 2005

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, 2005</u>
Short-term investments	\$ 2,000,000
Other long-term investments	<u>31,419</u>
Total	<u>\$ 2,031,419</u>

The following table summarizes the categorization of investments at June 30, 2005:

<u>Investment Type</u>	<u>Maturities (in Years)</u>	<u>Fair Value</u>	<u>Rating</u>
Certificates of deposit	Less than 1	\$ 1,000,000	Not Rated
Certificates of deposit	1 to 5	<u>1,031,419</u>	Not Rated
Subtotal		<u>2,031,419</u>	
Total Investments		<u>\$ 2,031,419</u>	

Interest Rate Risk. The college does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the college's investment management policy states that "Investments of current funds needed immediately for operating purposes, and other funds earmarked for use or needed for debt repayment, construction, or capital improvements, are made for relatively short period for maximum current return and safety of principal, combined with sufficient liquidity to permit cash withdrawals for expenditures. The President and Vice-President for Finance are authorized to invest any and all excess funds of the college to met the goal stated above."

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2005

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The college does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk. However, the college's investment management policy states that "Excess funds expected to be available for more than ninety days or special funds known to be available for investment for a specific period of time are invested in either bank certificates of deposit or treasury notes insured by the federal treasury system. Written quotes are obtained prior to investment from those financial institutions maintaining offices in the community college district. Under no circumstances are these funds invested in mutual funds or other such high-risk investments. Investments under this category are brought to the board for information and ratification."

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the college will not be able to recover the value of its investment. The college does not have a formal investment policy that addresses custodial credit risk. However, the college's investment management policy states that "...funds are invested in bank certificates of deposit in multiples not to exceed the amount of insurance provided by the FDIC. Care is taken, however, to ensure that the total deposits (checking and investments) do not exceed the additional collateral provided as required by law."

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2005, the college did not have any investments to which this would apply.

(3) Accounts Receivable.

Accounts receivable consisted of the following at June 30, 2005:

Student tuition	\$	1,880,918
Federal, state, and private grants and contracts		701,315
State appropriations		253,443
Other		<u>234,445</u>
Total Accounts Receivable		3,070,121
Less allowance for doubtful accounts		<u>1,303,867</u>
Net Accounts Receivable	\$	<u><u>1,766,254</u></u>

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2005

(4) Notes Receivable from Students.

Notes receivable from students are payable in installments over a period of up to ten years, commencing three to 12 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, 2005:

	Interest Rates	June 30, 2005	Current Portion	Non-Current Portion
Perkins student loans	3% to 9%	\$ 22,530	0	22,530
Total Notes Receivable		22,530		22,530
Less allowance for doubtful accounts		<u>22,530</u>		<u>22,530</u>
Net Notes Receivable		\$ <u>0</u>	<u>0</u>	<u>0</u>

(5) Capital Assets.

A summary of changes in capital assets for the year ended June 30, 2005, is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 421,679	125,000		546,679
Construction in progress	<u>824,331</u>	<u>726,133</u>	<u>1,058,448</u>	<u>492,016</u>
Total Nondepreciable Capital Assets	<u>1,246,010</u>	<u>851,133</u>	<u>1,058,448</u>	<u>1,038,695</u>
Depreciable Capital Assets:				
Improvements other than buildings	3,851,559	186,656		4,038,215
Buildings	22,648,500	1,820,191		24,468,691
Equipment	2,317,047	232,147	478,942	2,070,252
Library books	<u>1,198,764</u>	<u>40,291</u>	<u>17,591</u>	<u>1,221,464</u>
Total Depreciable Capital Assets	<u>30,015,870</u>	<u>2,279,285</u>	<u>496,533</u>	<u>31,798,622</u>
Less Accumulated Depreciation for:				
Improvements other than buildings	1,260,901	152,206		1,413,107
Buildings	5,902,604	479,951		6,382,555
Equipment	1,794,334	174,672	472,200	1,496,806
Library books	<u>1,062,146</u>	<u>(15,488)</u>		<u>1,046,658</u>
Total Accumulated Depreciation	<u>10,019,985</u>	<u>791,341</u>	<u>472,200</u>	<u>10,339,126</u>
Total Depreciable Capital Assets, Net	<u>19,995,885</u>	<u>1,487,944</u>	<u>24,333</u>	<u>21,459,496</u>
Capital Assets, Net	\$ <u>21,241,895</u>	<u>2,339,077</u>	<u>1,082,781</u>	<u>22,498,191</u>

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2005

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, 2005. 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, 2005, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2005	Due Within One Year
Bonded Debt								
Limited-tax refunding bonds, Series 2002	\$ 1,905,000	1.7%-3.2%	2009	\$ 1,570,000		325,000	1,245,000	335,000
Total Bonded Debt				<u>1,570,000</u>	<u>0</u>	<u>325,000</u>	<u>1,245,000</u>	<u>335,000</u>
Notes Payable								
Student housing facility refunding note, Series 1998	3,280,000	4%-5.5%	2018	2,715,000		130,000	2,585,000	135,000
Total Notes Payable				<u>2,715,000</u>	<u>0</u>	<u>130,000</u>	<u>2,585,000</u>	<u>135,000</u>
Capital Leases								
Copier				577		577		
Energy master lease				1,372,370		74,561	1,297,809	78,145
Rush Hall lease					1,000	100	900	100
Rush senior clinic lease					400,000	40,000	360,000	40,000
Total Capital Leases				<u>1,372,947</u>	<u>401,000</u>	<u>115,238</u>	<u>1,658,709</u>	<u>118,245</u>

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2005

Description and Purpose	Original Annual		Maturity	Beginning			Balance June 30, 2005	Due Within One Year
	Issue	Int. Rate		Balance	Additions	Deletions		
Other Long-term Liabilities								
Accrued leave liabilities				486,276	54,925	161,465	379,736	26,123
Deposits refundable				23,600	91,050	89,450	25,200	
Total Other Long-term Liabilities				<u>509,876</u>	<u>145,975</u>	<u>250,915</u>	<u>404,936</u>	<u>26,123</u>
Total				\$ <u>6,167,823</u>	<u>546,975</u>	<u>821,153</u>	<u>5,893,645</u>	<u>614,368</u>
Due within one year							<u>614,368</u>	
Total Long-term Liabilities							\$ <u>5,279,277</u>	

		Bonded Debt	Notes Payable	Capital Leases	Interest	Total
2006	\$	335,000	135,000	118,245	218,618	806,863
2007		340,000	140,000	122,000	201,007	803,007
2008		210,000	145,000	125,937	183,477	664,414
2009		215,000	150,000	130,062	166,346	661,408
2010		145,000	160,000	134,386	149,229	588,615
2011-2015			925,000	704,325	532,460	2,161,785
2016-2020			<u>930,000</u>	<u>323,754</u>	<u>129,028</u>	<u>1,382,782</u>
Totals	\$	<u>1,245,000</u>	<u>2,585,000</u>	<u>1,658,709</u>	<u>1,580,165</u>	<u>7,068,874</u>

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2005

(7) Natural Classifications with Functional Classifications.

The college's operating expenses by functional classification were as follows for the year ended June 30, 2005:

<u>Functional Classification</u>	<u>Salaries & Wages</u>	<u>Fringe Benefits</u>	<u>Travel</u>	<u>Contractual Services</u>	<u>Utilities</u>	<u>Scholarships & Fellowships</u>	<u>Commodities</u>	<u>Depreciation Expense</u>	<u>Other</u>	<u>Total</u>
Instruction	\$ 6,877,284	1,706,273	53,115	279,235			290,146			9,206,053
Academic support	1,176,038	319,334	38,723	315,822			75,282			1,925,199
Student services	1,362,940	355,156	170,509	179,877			133,775			2,202,257
Institutional support	1,230,116	371,504	25,585	452,831			286,929		40,620	2,407,585
Operation of plant	770,978	235,349	3,592	266,129	656,380		217,619		639,220	2,789,267
Student aid						3,546,277				3,546,277
Auxiliary enterprises	299,849	90,128	3,584	697,743			1,571,856			2,663,160
Depreciation								791,341		791,341
Total Operating Expenses	\$ <u>11,717,205</u>	<u>3,077,744</u>	<u>295,108</u>	<u>2,191,637</u>	<u>656,380</u>	<u>3,546,277</u>	<u>2,575,607</u>	<u>791,341</u>	<u>679,840</u>	<u>25,531,139</u>

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2005

(8) Construction Commitments and Financing.

The college has contracted for various construction projects as of June 30, 2005. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Project Title	Total Costs to Complete	Funded by			Other
		Federal Sources	State Sources	Institutional Funds	
Rush Hall renovation	\$ 526,940			526,940	
Total	\$ 526,940	0	0	526,940	0

(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, 2005, 2004 and 2003 were \$1,068,934, \$1,026,696 and \$977,279, respectively, equal to the required contributions for each year.

(10) Risk Management.

The college is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The college carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Subsequent Events.

There are a number of issues that are directly impacting the community college system as a whole. The continuing decline in state revenues is the main issue that will continue to have an impact on our financial position. On August 29, 2005, the Mississippi Gulf Coast was hit hard by Katrina, a Category 5 Hurricane. This devastated the coastal region and has resulted in even more uncertainty about the availability of state funding. This is occurring at the same time we are experiencing increased pressure to provide increases in compensation in order to retain and attract quality faculty. In addition, there is uncertainty concerning the increases in rising utility costs. Although Meridian was in the direct path of this hurricane as it made its way into Mississippi, the damage sustained by the college was not material. We have two roofs damaged, athletic field lighting blown off course and numerous minor issues. We do expect damages to be paid in large part by the property insurance of the college and FEMA. Our main concern at this time is the ability for the State of Mississippi to meet its revenue projections and meet the demands of assistance funding that will be needed to rebuild damaged areas.

MERIDIAN COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2005

In addition to these operating challenges, our need for deferred maintenance funds and new construction for the increases in enrollment continue to increase. 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. We are in the process of obtaining appraisals of the Myrtle Estes Dormitory that is rented from East Mississippi State Hospital. The hospital needs cash in order to build additional nursing home and group home facilities. During the 2005 legislative session, a bill was passed to allow the sale of this property at the selling price of the average of two appraisals. In addition, the college has the first right of refusal on the property.

**MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2005 and 2004**

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.

Reporting Entity

For financial reporting purposes, the Foundation is considered to be a component unit of Meridian Community College.

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, 2005 and 2004**

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. Property and equipment consisted of the following at June 30:

	<u>2004</u>	<u>2005</u>
Land	\$319,189	\$349,111
Land improvements	14,500	-
Buildings and improvements	<u>62,768</u>	<u>55,000</u>
	396,457	404,111
Less: accumulated depreciation	<u>(1,721)</u>	<u>-</u>
	<u>\$394,736</u>	<u>\$404,111</u>

Depreciation is recorded on all depreciable capital assets on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Land Improvements	20
Buildings and improvements	40

Investments

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

<u>June 30, 2005</u>	<u>Cost</u>	<u>Market</u>
The Common Fund - Intermediate	\$ 16,593	\$ 5,976
The Common Fund - Equity	3,430,672	6,912,353
Vanguard Wellesley	398,768	440,078
Vanguard Morgan Growth	10,000	9,850
Corporate Stocks and Stock Gifts	78,140	88,914
Mutual Funds	16,026	17,043
AmSouth Shared Investment	<u>193,333</u>	<u>199,539</u>
	<u>\$4,143,532</u>	<u>\$7,673,753</u>

**MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2005 and 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

<u>June 30, 2004</u>	<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>

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

<u>June 30, 2005</u>	<u>Cost</u>	<u>Market</u>
Zero coupon bonds	\$14,983	\$ 51,455
Corporate stocks	<u>26,105</u>	<u>61,944</u>
	<u>\$41,088</u>	<u>\$113,399</u>

<u>June 30, 2004</u>	<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>

Other assets

Other assets at June 30, 2005, and 2004 consist of the following:

	<u>2005</u>	<u>2004</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>124,851</u>	<u>20,351</u>
	<u>\$157,147</u>	<u>\$52,647</u>

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.

**MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2005 and 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications

Certain financial statement amounts for 2004 have been reclassified to be consistent with the 2005 presentation.

NOTE 2 TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows at June 30:

	<u>2005</u>	<u>2004</u>
Purpose restriction accomplished:		
Scholarship programs	\$163,346	\$137,443
Awards	1,850	2,100
Faculty/staff programs	38,697	39,306
Annuity interest expense	38,451	34,105
Other program services	47,704	27,431
Management and general	-	227
Donations to Meridian Community College	<u>110,000</u>	<u>-</u>
	<u>\$400,048</u>	<u>\$240,612</u>

Net assets were temporarily restricted for the following purposes at June 30:

	<u>2005</u>	<u>2004</u>
Scholarships	\$ 167,363	\$152,996
Awards	3,135	2,185
Faculty/staff programs	142,026	106,917
Annuity liabilities	334,975	244,768
Capital support – Meridian Community College	434,466	351,228
Other program services	<u>142,198</u>	<u>141,304</u>
	<u>\$1,224,163</u>	<u>\$999,398</u>

NOTE 3 PERMANENTLY RESTRICTED NET ASSETS

Net assets were temporarily restricted for the following purposes at June 30:

	<u>2005</u>	<u>2004</u>
Scholarships	\$3,234,202	\$2,975,721
Awards	26,029	23,981
Faculty/staff programs	1,341,709	1,266,645
Other program services	<u>1,851,223</u>	<u>1,734,461</u>
	<u>\$6,453,163</u>	<u>\$6,000,808</u>

MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2005 and 2004

NOTE 4 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.

The Foundation is obligated pursuant to the terms of a fifth charitable remainder annuity trust agreement established by a donor-program of the Foundation to pay the donor annual sums of \$6,500 per trust agreement (paid quarterly) for the life of the donor. Pursuant of this agreement a \$100,000 gift was made in October 2004. The donor's charitable deduction for federal income tax purposes was \$76,658 in 2004. 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.

At June 30, 2005, the annuity liabilities amounted to \$175,722 (annuity #1: \$27,815; annuity #2: \$29,219; annuity #3: \$69,432; annuity #4: \$25,914 and annuity #5: \$23,342). At June 30, 2004 the annuity liabilities amounted to \$158,469.

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.

MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2005 and 2004

NOTE 5 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, 2005 and 2004 the Foundation had cash in excess of the insurance limit in the amount of \$56,283 and \$0.

The Foundation maintains a significant portion of it's investments with one brokerage firm.

NOTE 6 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, 2005 the Foundation had earmarked \$10,000 to be contributed to the plan, however, the Board of Directors of the Foundation elected not to follow the guidelines established in the plan document and contributed \$22,000 to the plan. Third party contributions of \$3,000 (as allowed by the plan) were transferred to the plan. For the year ended June 30, 2004, \$25,000 was contributed to the plan (\$10,000 earmarked in accordance with the plan document and \$15,000 from third party contributions). At June 30, 2005 and 2004 the balance in the plan amounted to \$87,566 and \$55,823, respectively.

NOTE 7 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 \$69,130 for the year ended June 30, 2005, and \$77,445 for the year ended June 30, 2004. 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 \$49,050 for the year ended June 30, 2005 and \$53,750 for the year ended June 30, 2004.

NOTE 8 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.

MERIDIAN COMMUNITY COLLEGE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the years ended June 30, 2005 and 2004

NOTE 9 COMMITMENTS

The Board of Directors approved a commitment of \$10,000 to Meridian Community College to be paid during fiscal year June 30, 2006. The \$10,000 contribution to the College is to assist the College in paying for a new electronic sign. The contribution to the College will be made after an analysis of available funds is prepared.

The Board also approved a commitment up to \$70,000 from the Capital Campaign fund to assist the College in completing a chapel being constructed at the College. The funds are to be transferred on an "as needed" basis

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SUPPLEMENTAL INFORMATION

MERIDIAN COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

<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>			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		\$ 116,438
Federal Family Education Loans (FFEL)	{1} 84.032		1,872,792
Federal Work-study Program (FWS)	84.033		164,706
Federal Pell Grant Program	84.063		<u>5,392,414</u>
Total U.S. Department of Education			<u>7,546,350</u>
Total Student Financial Aid Cluster			<u>7,546,350</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>73,968</u>
Total U.S. Department of Agriculture			<u>73,968</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>67,399</u>
Total U.S. Department of Defense			<u>67,399</u>
<u>U.S. Department of Labor</u>			
Pass-through programs from:			
WIA Cluster:			
Mississippi Employment Security Commission - WIA Adult Program	17.258		221,684
Mississippi Employment Security Commission - WIA Dislocated Worker	17.260		<u>107,359</u>
Total WIA Cluster			<u>329,043</u>
Mississippi Employment Security Commission - Trade Adjustment Assistance Workers (TAA)	17.245		<u>42,252</u>
Total U.S. Department of Labor			<u>371,295</u>

MERIDIAN COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

<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>National Aeronautics and Space Administration</u>			
Pass-through program from:			
University of Mississippi - Aerospace Education Services Program	43.001		3,754
Total National Aeronautics and Space Administration			3,754
<u>U.S. Department of Veterans Affairs</u>			
Veteran's Aid Administration	64.Unknown		131,178
Total U.S. Department of Veterans Affairs			131,178
<u>U.S. Department of Education</u>			
Pass-through programs from:			
State Department of Education - Adult Education - State Grant Program	84.002	EV048A700248	212,592
State Department of Education - Vocational Education Basic Grants to States	84.048	EV243A60095	329,878
State of Mississippi Institutions of Higher Learning - Leveraging Educational Assistance Partnership (LEAP)	84.069		2,925
State Department of Education - Tech-Prep Education	84.243		79,612
State Department of Education - Gaining Early Awareness & Readiness for Undergraduate Program	84.334		20,307
Mississippi State University - Teacher Quality Enhancement Grants	84.336		13,174
Tribe of Choctaw Indians - Trio - Upward Bound	84.047A		54,620
Total U.S. Department of Education			713,108
<u>Department of Homeland Security</u>			
Pass-through program from:			
Mississippi Emergency Management Agency - Community Emergency: State Domestic Preparedness Equipment Support Program	97.004		34,296
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		18,393
Hazard Mitigation Grant Program	97.039		10,283
Community Emergency Response Teams	97.054		6,317
Total Department of Homeland Security			69,289
Total Other Programs			1,427,066
Total Expenditures of Federal Awards			\$ 8,976,341

Notes to Schedule of Expenditures of Federal Awards

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

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

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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, Mississippi 39307

We have audited the financial statements of Meridian Community College as of and for the year ended June 30, 2005, as listed in the table of contents and have issued our report thereon dated June 15, 2006. 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 institution'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 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 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.

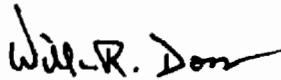
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the institution'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 institution, 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

June 15, 2006



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, Mississippi 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 its major federal program for the year ended June 30, 2005. The institution's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the institution's management. Our responsibility is to express an opinion on the institution'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 institution'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 institution'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 its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

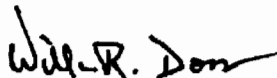
The management of the Meridian Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the institution's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

June 15, 2006

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, Mississippi 39307

We have audited the financial statements of Meridian Community College as of and for the year ended June 30, 2005, and have issued our report thereon dated June 15, 2006. 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 unit. Those financial statements were audited by an other auditor whose report 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. 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 cursive.

PHIL BRYANT
State Auditor

Handwritten signature of William R. Dooss in cursive.

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

June 15, 2006

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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, 2005

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 program: | Unqualified |
| 5. | Internal control over major program: | |
| | 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 program: | |
| | Student financial aid cluster: | |
| | CFDA #84.007 | |
| | CFDA #84.032 | |
| | CFDA #84.033 | |
| | CFDA #84.063 | |
| 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, 2005

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.