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PEARL RIVER COMMUNITY COLLEGE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2005



**Nicholson &
Company, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS/FINANCIAL CONSULTANTS

PEARL RIVER COMMUNITY COLLEGE

CONTENTS

	<u>Page</u>
FINANCIAL AUDIT REPORT	
Independent Auditor's Report	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
AUDITED FINANCIAL STATEMENTS	
Exhibit A - Statement of Net Assets	12
Exhibit B - Statement of Financial Position - Pearl River Community College Development Foundation, Inc.	14
Exhibit C - Statement of Revenues, Expenses and Changes in Net Assets	16
Exhibit D - Statement of Activities - Pearl River Community College Development Foundation, Inc.	18
Exhibit E - Statement of Cash Flows	20
Exhibit F - Statement of Cash Flows - Pearl River Community College Development Foundation, Inc.	22
NOTES TO FINANCIAL STATEMENTS	23
NOTES TO FINANCIAL STATEMENTS - PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.	38
SUPPLEMENTARY INFORMATION	
Schedule 1 - Schedule of Expenditures of Federal Awards	44
Notes to Schedule of Expenditures of Federal Awards	48
REPORTS ON COMPLIANCE AND INTERNAL CONTROL	
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>	49
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	51
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	
Independent Auditor's Report on Compliance with State Laws and Regulations	54
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	55
AUDITEE'S CORRECTIVE ACTION PLAN AND SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	57

FINANCIAL AUDIT REPORT

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

Dr. William A. Lewis, President
And Board of Trustees
Pearl River Community College
Poplarville, Mississippi 39470

We have audited the accompanying financial statements of the business type activities and the discretely presented component unit of Pearl River 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 Pearl River Community College's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the discretely presented component unit of Pearl River Community College, 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.

Dr. William A. Lewis, President and
Board of Trustees
Pearl River Community College

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2006, on our consideration of Pearl River Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Pearl River Community College's basic financial statements. The accompanying 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. This supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nichelson & Company, P.A.

Hattiesburg, Mississippi
February 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Pearl River Community College annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 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. The financial statements, footnotes, and this discussion are the responsibility of management.

Using the Annual Report

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

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

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

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

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

**Condensed Statement of Net Assets
June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Assets		
Current Assets	\$ 23,454,724	\$ 12,573,314
Noncurrent Assets:		
Capital, Net	31,275,220	29,365,179
Other	<u>5,098,645</u>	<u>2,673,726</u>
Total Assets	<u>59,828,589</u>	<u>44,612,219</u>
Liabilities		
Current Liabilities	2,926,321	2,530,176
Noncurrent Liabilities	<u>14,860,563</u>	<u>2,975,004</u>
Total Liabilities	<u>17,786,884</u>	<u>5,505,180</u>
Net Assets		
Invested in Capital Assets, Net	26,839,318	26,731,953
Restricted:		
Nonexpendable	29,250	29,250
Expendable	5,049,796	3,125,870
Unrestricted	<u>10,123,341</u>	<u>9,219,966</u>
Total Net Assets	<u>\$ 42,041,705</u>	<u>\$ 39,107,039</u>

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the College's bank accounts, petty cash and certificates of deposit. The total amount of cash and cash equivalents reported as current assets on the College financial statements were \$13,632,883 at June 30, 2005, compared to the FY 2004 figure of \$4,731,320.

Accounts Receivables

Accounts receivables relate to several transactions including county appropriations, accrued interest, student tuition and fee billings, and auxiliary enterprise sales such as food service and bookstore. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College receivables totaled \$2,906,189 at June 30, 2005, compared to FY 2004, \$1,980,774.

Inventories

The College maintains inventories of resale merchandise as well as items for internal consumption. Books, student supplies, and institutional memorabilia make up the majority of the resale inventory. Inventories maintained for internal departmental use include paper goods. Inventories totaled \$458,510 at June 30, 2005, in comparison to \$441,848 for FY 2004.

Noncurrent assets

Cash and Cash Equivalents

Cash and cash equivalents are those funds that are held in the bank accounts. The cash and cash equivalents that are considered noncurrent are cash in endowment funds. The amount of cash and cash equivalents considered noncurrent at June 30, 2005 totaled \$2,848,847 in comparison to \$2,644,476 for FY 2004.

Other Investments

Other long-term investments include bank certificates of deposit held by F.D.I.C. insured banks. The value at June 30, 2005 was \$29,250. There was no change in this fund balance from FY 2004.

Capital Assets, Net

Capital assets, net, consist of land, infrastructure, buildings, equipment, and historical library holdings at June 30, 2005. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$31,275,220 at June 30, 2005, in comparison to \$29,365,179 for FY 2004. The growth in capital assets, net, can be attributed to the construction of the Lowery Woodall Advanced Technology Center, as well as other renovations.

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 \$2,023,128 at June 30, 2005, in comparison to \$1,753,206 for FY 2004.

Long-Term Liabilities-Current Portion

Long-term liabilities-current portion, bonds, notes and capital leases, represents the portion of accrued compensated balances that would be payable by the end of the June 30, 2005 fiscal year. The amount of the current portion of bonds, notes and capital leases at June 30, 2005, was \$447,940 compared to \$352,953 for FY 2004.

Noncurrent Liabilities

Long-Term Liabilities

This liability consists of accrued compensated balances, bonds, notes and capital leases. The total amount of the noncurrent portion of long-term liabilities was \$14,093,976 at June 30, 2005, compared to \$2,280,273 for FY 2004. The increase results from the issuance of bonds by the Pearl River Community College Student Housing Corporation.

Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2005 were \$42,041,705 compared to \$39,107,039 for FY 2004.

Analysis of Net Assets

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

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

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

The following is a breakdown of the unrestricted net assets:

	<u>2005</u>	<u>2004</u>
Unrestricted General Fund	\$ 8,772,751	\$ 7,709,470
Unrestricted Auxiliary Fund	<u>1,350,590</u>	<u>1,510,496</u>
<i>Total Unrestricted Net Assets</i>	<u>\$ 10,123,341</u>	<u>\$ 9,219,966</u>

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Operating Revenues		
Tuition and Fees	\$ 2,528,297	\$ 1,507,189
Grants and Contracts	13,861,080	12,866,760
Sales and Services of Educational	355,580	206,729
Auxiliary Enterprises	3,543,484	3,176,920
Other Operating Revenues	<u>150,265</u>	<u>438,035</u>
 Total Operating Revenues	 20,438,706	 18,195,633
 Operating Expenses	 <u>31,933,511</u>	 <u>29,467,113</u>
 Operating Loss	 <u>(11,494,805)</u>	 <u>(11,271,480)</u>
 Nonoperating Revenues		
State Appropriations	8,788,612	8,420,999
County Appropriations	3,890,345	3,710,134
Investment Income, Net	53,530	(21,998)
Other Nonoperating Expenses	<u>(4,977)</u>	<u>(62,407)</u>
 Net Nonoperating Revenues	 <u>12,727,510</u>	 <u>12,046,728</u>
 Income Before Other Revenues	 1,232,705	 775,248
 Capital Appropriations	 <u>1,701,961</u>	 <u>4,062,395</u>
 Total Increase in Net Assets	 2,934,666	 4,837,643
 Net Assets		
Net Assets - Beginning of Year	<u>39,107,039</u>	<u>34,269,396</u>
 Net Assets - End of Year	 <u>\$ 42,041,705</u>	 <u>\$ 39,107,039</u>

Total operating loss for the fiscal year 2005 was \$11,494,805 compared to \$11,271,480 for FY 2004. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, the College will continue to 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 \$20,438,706, compared to \$18,195,633 for FY 2004. Tuition and fees were \$2,528,297, compared to \$1,507,189 for FY 2004. Operating expenses, including depreciation of \$1,348,416 totaled \$31,933,511. Of this total \$13,488,405 or 42%, was for instruction. Operating expenses for FY 2004, including depreciation of \$1,600,415, totaled \$29,467,113. Of this total \$12,043,722, or 41%, was for instruction.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$2,528,297 for FY 2005, in comparison to \$1,507,189 for FY 2004. The difference is due to an increase in tuition, fees and enrollment.

Grants and Contracts

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

The following table details the College's grant and contract awards for the fiscal year ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Federal Sources:		
Department of Education	\$ 9,366,493	\$ 9,510,838
Other Sources	<u>4,494,587</u>	<u>3,355,922</u>
Total All Sources	<u><u>\$ 13,861,080</u></u>	<u><u>\$ 12,866,760</u></u>

Noncapital Gifts

This consists of gifts made to the College from a nongovernmental organization and/or individuals. The cash gifts totaled \$1,250,989 at June 30, 2005, compared to \$251,920 for FY 2004. The increase results from a \$1,000,000 estate settlement granted to the College.

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$355,580 for the 2005 fiscal year and \$206,729 for FY 2004.

Sales and Services, Net

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

Operating Expenses

Operating expenses for FY 2005 totaling \$31,933,511 include salaries and benefits of \$17,333,964, scholarships and fellowships of \$4,484,299, utilities of \$1,052,048, supplies of \$4,014,686, services of \$3,362,646, and depreciation of \$1,348,416. Operating expenses for FY 2004 totaling \$29,467,113 include salaries and benefits of \$12,905,988, scholarships and fellowships of \$4,196,138, utilities of \$902,085, supplies of \$3,316,156, services of \$3,117,639, and depreciation of \$1,600,415.

	<u>2005</u>	<u>2004</u>
Expenses by Function:		
Instruction	\$ 13,488,405	\$ 12,043,722
Academic Support	677,158	565,368
Student Services	6,296,502	5,701,564
Institutional Support	3,655,877	3,932,440
Operations and Maintenance of Plant	3,106,287	2,612,198
Auxiliary Enterprises	3,360,866	3,011,406
Depreciation	<u>1,348,416</u>	<u>1,600,415</u>
Total Operating Expenses by Function	<u>\$ 31,933,511</u>	<u>\$ 29,467,113</u>

Nonoperating Revenues (Expenses)

State Aid

The College's largest source of nonoperating revenue is the State of Mississippi appropriation. The College received \$10,490,573 for 2004-2005 fiscal year, of which \$8,788,612 was for operations. In addition, the College received \$1,701,961 in general obligation bonds of the State for capital improvements. During FY 2004, the College received \$12,483,394 of which \$8,420,999 was for operations. The College received \$4,062,395 in general obligation bonds of the State for capital improvements for FY 2004.

County Appropriations

The College also receives revenue from the six county district in which the school resides. The College uses the funding for salaries, benefits, and operational purposes. The College receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1st. The College received \$3,890,345 for the 2005 fiscal year from the counties and \$3,710,134 for FY 2004. This appropriation was fully recorded by the College during the fiscal year.

Investment Income, Net

This includes the interest income from the cash in the bank accounts. The investment income at June 30, 2005 was \$241,623 compared to the FY 2004 amount of \$144,397.

Other Nonoperating Expenses

This consists of the losses on the sale of fixed assets that the College incurred during the 2005 fiscal year. Total net other nonoperating revenues/expenses amounted to (\$4,977), compared to FY 2004 in the amount of (\$62,407).

Statement of Cash Flows

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

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

**Condensed Statement of Cash Flows (Direct Method)
Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents Provided (Used) by:		
Operating Activities	\$ (11,270,991)	\$ (9,401,556)
Noncapital Financing Activities	12,514,118	12,388,781
Capital and Related Financing Activities	10,312,270	(2,883,089)
Investing Activities	<u>(2,449,463)</u>	<u>97,457</u>
Net Increase in Cash and Cash Equivalents	9,105,934	201,593
Cash and Cash Equivalents:		
Beginning of the Year	<u>7,375,796</u>	<u>7,174,203</u>
End of the Year	<u>\$ 16,481,730</u>	<u>\$ 7,375,796</u>

The major sources of funds for FY 2005 included in operating activities include student tuition and fees \$2,335,310, auxiliary enterprises \$3,543,483, and grants and contracts \$13,288,634. The major uses of funds were payments made to employees \$17,189,116, and to suppliers \$7,908,194. During FY 2004, the major sources of funds included in operating activities include student tuition and fees \$1,507,353, auxiliary enterprises \$3,176,919, and grants and contracts \$13,726,885. The major uses of funds during FY 2004 were payments made to employees \$16,304,055, and to suppliers \$6,600,483.

The largest inflow of cash for FY 2005 in the noncapital financing activities group is the State appropriation of \$8,625,280. This figure compares to the FY 2004 amount of \$8,589,494.

Significant Capital Asset Transactions

None noted for the FY 2005 or FY 2004.

Factors Impacting Future Periods

There are a number of issues of Community College-wide importance that directly impacted the fiscal year 2005 financial situation. The level of State support, compensation increases, student tuition and fee increases, and energy cost increases impact the College's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

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

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

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

August 29, 2005, brought an entirely new and unexpected challenge to this institution with the event of Hurricane Katrina. The College experienced an estimated \$50 million in structural damage with upwards of several hundred students not returning the Fall 2005 semester following the storm. The College's enrollment continued to experience a decline through the Spring 2006 semester as well. Five months following the storm finds the College still undergoing reconstruction and recovery.

AUDITED FINANCIAL STATEMENTS

EXHIBIT A

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 13,632,883
Short-term investments	6,186,253
Accounts receivables, net	2,906,189
Inventories	458,510
Prepaid expenses	270,889
Total current assets	<u>23,454,724</u>

NONCURRENT ASSETS

Restricted cash and cash equivalents	2,848,847
Restricted short-term investments	1,597,332
Endowment investments	29,250
Debt issuance cost, net of accumulated amortization	623,216
Capital assets, net of accumulated depreciation	31,275,220
Total noncurrent assets	<u>36,373,865</u>

Total assets \$ 59,828,589

EXHIBIT A
PAGE TWO

PEARL RIVER COMMUNITY COLLEGE

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 2,023,127
Deferred revenues	429,253
Accrued leave liabilities - current portion	26,000
Long-term liabilities - current portion	447,940
Total current liabilities	<u>2,926,320</u>

NONCURRENT LIABILITIES

Deposits refundable	35,005
Accrued leave liabilities	731,582
Long-term liabilities	14,093,977
Total noncurrent liabilities	<u>14,860,564</u>

Total Liabilities

\$ 17,786,884

NET ASSETS

Invested in capital assets, net of related debt	\$ 26,839,318
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	29,250
Expendable:	
Scholarships and fellowships	10,339
Capital projects	3,083,039
Debt service	1,956,418
Unrestricted	<u>10,123,341</u>

Total net assets

\$ 42,041,705

EXHIBIT B

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF FINANCIAL POSITION
PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.
JUNE 30, 2005

	OPERATING FUNDS			Total All Funds 6/30/05
	Unrestricted	Temporarily Restricted	Permanently Restricted	
ASSETS				
Cash and cash equivalents	\$ 152,977	\$ 112,468	\$ 43,660	\$ 309,105
Certificates of deposit	285,000	100,000	1,140,791	1,525,791
Treasury notes	-	-	9,838	9,838
Prepaid insurance	4,539	-	-	4,539
Pledges receivable	7,000	6,000	-	13,000
Common fund investments	281,151	-	-	281,151
Total current assets	<u>730,667</u>	<u>218,468</u>	<u>1,194,289</u>	<u>2,143,424</u>
Common fund investments, restricted	-	687,142	53,642	740,784
Property and equipment at cost less accumulated depreciation of \$28,745	7,463	-	-	7,463
Construction in progress - Chapel	-	793,301	-	793,301
Total assets	<u>\$ 738,130</u>	<u>\$ 1,698,911</u>	<u>\$ 1,247,931</u>	<u>\$ 3,684,972</u>

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

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF FINANCIAL POSITION
PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.
JUNE 30, 2005

	<u>OPERATING FUNDS</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total All Funds 6/30/05</u>
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 10,667	\$ 12,597	\$ -	\$ 23,264
Accrued expenditures	-	5,925	-	5,925
Total current liabilities	<u>10,667</u>	<u>18,522</u>	<u>-</u>	<u>29,189</u>
NET ASSETS				
Unrestricted	727,463	-	-	727,463
Temporarily restricted	-	1,680,389	-	1,680,389
Permanently restricted	-	-	1,247,931	1,247,931
Total net assets	<u>727,463</u>	<u>1,680,389</u>	<u>1,247,931</u>	<u>3,655,783</u>
Total liabilities and net assets	<u>\$ 738,130</u>	<u>\$ 1,698,911</u>	<u>\$ 1,247,931</u>	<u>\$ 3,684,972</u>

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

EXHIBIT C

PEARL RIVER COMMUNITY COLLEGE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005**

OPERATING REVENUES

Tuition and fees (net of scholarship allowances of \$5,025,126)	\$ 2,528,297
Federal grants and contracts	9,366,493
State grants and contracts	3,243,598
Nongovernmental grants and contracts	1,250,989
Sales and services of educational departments	355,580
Auxiliary enterprises:	
Student housing	362,835
Food services	1,154,872
Bookstore	2,025,777
Other operating revenues	<u>150,265</u>
Total operating revenues	<u>20,438,706</u>

OPERATING EXPENSES

Salaries and wages	13,970,711
Fringe benefits	3,363,254
Travel	337,451
Contractual services	3,362,645
Utilities	1,052,048
Scholarships and fellowships	4,484,299
Commodities	4,014,687
Depreciation expense	<u>1,348,416</u>
Total operating expenses	<u>31,933,511</u>

OPERATING INCOME (LOSS) (11,494,805)

NONOPERATING REVENUES (EXPENSES)

State appropriations	8,788,612
Local appropriations	3,890,345
Investment income	241,623
Interest expense on capital asset-related debt	(188,093)
Other nonoperating revenues (expenses)	<u>(4,977)</u>
Total net nonoperating revenues (expenses)	<u>12,727,510</u>

***INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND
LOSSES*** 1,232,705

EXHIBIT C
PAGE TWO

PEARL RIVER COMMUNITY COLLEGE

**STATEMENT REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005**

State appropriations restricted for capital purposes	<u>\$ 1,701,961</u>
CHANGE IN NET ASSETS	2,934,666
NET ASSETS	
<i>Net Assets - Beginning of year</i>	<u>39,107,039</u>
<i>Net Assets - End of year</i>	<u><u>\$ 42,041,705</u></u>

EXHIBIT D

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF ACTIVITIES
PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.
YEAR ENDED JUNE 30, 2005

	OPERATING FUNDS			Total All Funds 6/30/05
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 98,387	\$ 306,845	\$ 191,479	\$ 596,711
Gifts in-kind	-	15,375	-	15,375
Other	154,434	-	-	154,434
Fund raising	69,039	-	-	69,039
Interest income	27,066	42,618	3,166	72,850
Loss on sale of investments	(357)	-	-	(357)
Unrealized gain (loss) on investments	31,130	31,130	3,436	65,696
Net assets released from restriction:				
Expiration of usage restrictions	294,665	(297,150)	2,485	-
Total revenues, gains, and other support	<u>674,364</u>	<u>98,818</u>	<u>200,566</u>	<u>973,748</u>
EXPENSES				
Program services:				
Scholarships	187,903	-	-	187,903
Educational departments	100,289	-	-	100,289
Service awards	4,215	-	-	4,215
Special projects	950	-	-	950
Total program services	<u>293,357</u>	<u>-</u>	<u>-</u>	<u>293,357</u>

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

PEARL RIVER COMMUNITY COLLEGE

**STATEMENT OF ACTIVITIES
PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.
YEAR ENDED JUNE 30, 2005**

	OPERATING FUNDS			Total All Funds 6/30/05
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Supporting services:				
General administration	\$ 208,917	\$ -	\$ -	\$ 208,917
Fund raising expense	40,165	-	-	40,165
Alumni activities	21,215	-	-	21,215
Transfers to Pearl River Community College	11,712	-	-	11,712
Total supporting services	<u>282,009</u>	<u>-</u>	<u>-</u>	<u>282,009</u>
Total expenses	<u>575,366</u>	<u>-</u>	<u>-</u>	<u>575,366</u>
Change in net assets	98,998	98,818	200,566	398,382
NET ASSETS:				
Beginning of year	628,465	1,581,571	1,047,365	3,257,401
Transfers	-	-	-	-
End of year	<u>\$ 727,463</u>	<u>\$ 1,680,389</u>	<u>\$ 1,247,931</u>	<u>\$ 3,655,783</u>

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

EXHIBIT E

PEARL RIVER COMMUNITY COLLEGE

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 2,335,310
Grants and contracts	13,288,634
Sales and services of educational departments	355,580
Other sales and services	170,052
Payments to suppliers	(7,908,194)
Payments to employees for salaries and benefits	(17,189,116)
Payments for travel	(333,734)
Payments for utilities	(1,048,707)
Payments for scholarships and fellowships	(4,484,299)
Auxiliary enterprise charges:	
Student housing	362,835
Food services	1,154,871
Bookstore	2,025,777
Net cash used by operating activities	<u>(11,270,991)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	8,625,280
Local appropriations	3,888,838
Net cash provided by noncapital financing activities	<u>12,514,118</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(3,173,243)
Capital appropriations received	1,701,961
Proceeds from bonds	12,255,000
Principal paid on capital debt and leases	(346,310)
Interest paid on capital debt and leases	(125,138)
Net cash provided by capital and related financing activities	<u>10,312,270</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	133,737
Purchases of investments	(2,583,200)
Net cash used by investing activities	<u>(2,449,463)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

9,105,934

CASH AND CASH EQUIVALENTS BALANCES

Beginning of year	<u>7,375,796</u>
End of year	<u>\$ 16,481,730</u>

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

EXHIBIT E
PAGE TWO

PEARL RIVER COMMUNITY COLLEGE

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2005**

***RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES***

Operating income (loss)	<u>\$ (11,533,829)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	1,348,416
Amortization	3,482
(Increase) decrease in assets:	
Receivables, net	(736,158)
Inventories	(16,662)
Debt issuance cost	(626,698)
Prepaid expenses	31,567
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	223,970
Deferred revenues	28,244
Deposits refundable	6,677
Total adjustments	<u>262,838</u>
Net cash used by operating activities	<u>\$ (11,270,991)</u>

EXHIBIT F

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS
PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.
YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets	\$	398,382
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation		2,355
Loss on sale of investments		357
Unrealized gains on investments		(65,554)
Contributions of stock		(47,585)
(Increase) decrease in:		
Pledges receivable		(5,750)
Prepaid insurance		(3,714)
Increase (decrease) in:		
Accounts payable		(73,379)
Accrued expenditures		(15,822)
Contributions restricted for permanent investment		(191,479)
Net cash provided by (used by) operating activities		<u>(2,189)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Construction and purchase of assets		(62,954)
Proceeds from sale of investments		47,228
Investment in certificates of deposit		(250,000)
Investment in common fund		(39,003)
Net cash provided by (used by) investing activities		<u>(304,729)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Contributions restricted for permanent investment		<u>191,479</u>
Net cash provided by financing activities		<u>191,479</u>

NET INCREASE (DECREASE) IN CASH

(115,439)

CASH BALANCES

Beginning of year		<u>424,544</u>
End of year	\$	<u><u>309,105</u></u>

NOTES TO FINANCIAL STATEMENTS

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Pearl River Community College is locally-governed by a sixteen-member Board of Trustees, selected by the Board of Supervisors of Forrest, Hancock, Jefferson Davis, Lamar, Marion, and Pearl River Counties who support the district through locally assessed ad valorem tax millage. One of the trustees from each of the supporting counties must be the County Superintendent of Education, unless the Superintendent chooses not to serve, in which case the county Board of Supervisors shall fill the vacancy in accordance with Section 37-29-65, Miss. Code Ann. (1972). Each board member is appointed for a five-year term. In addition, Pearl River Community College works jointly with the Mississippi State Board for Community and Junior Colleges, which coordinates the efforts of all 15 community colleges as they serve the taxpayers of the State of Mississippi.

Pearl River Community College reports the following discretely presented component unit:

Pearl River Community College Development Foundation, Inc. (Foundation) - The Foundation is a legally separate, tax-exempt nonprofit organization founded in 1987. The Foundation acts primarily as a fund raising organization to supplement the resources available to Pearl River 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 \$11,712 to the College.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- 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 (3) months or less to be cash equivalents.
- E. Short-term Investments - Investments that are not cash equivalents but mature within the next fiscal year are classified as short-term investments.
- F. Accounts Receivables, Net - Accounts receivables consist of tuition and fees charged to students, state appropriations, amounts due from state and federal grants and contracts, local governments and credits due to the College from vendors. Accounts receivables are recorded net of an allowance for doubtful accounts.
- G. Student Notes Receivables, Net - Student notes receivables consist of federal, state and institutional loans made to students for the purpose of paying tuition and fee charges. Loan balances expected to be paid during the next fiscal year are presented on the Statement of Net Assets as current assets. Those balances that are either in deferment status or expected to be paid back beyond the next fiscal year are presented as noncurrent assets on the Statement of Net Assets.
- H. Inventories - Inventories consist of the bookstore and printing supplies. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out ("FIFO") basis or the average cost basis.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- I. Restricted Cash and Cash Equivalents - Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as restricted cash and cash equivalents on the Statement of Net Assets.
- J. Endowment Investments - Endowment investments are generally subject to the restrictions of donor gift instruments. They include true endowment funds, which are funds received from a donor with the restrictions that only the income is to be utilized.
- K. Capital Assets, Net of Accumulated Depreciation - Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See Note 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.
- L. Deferred Revenues - Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- M. Compensated Absences - Twelve-month employees earn annual personal leave at a rate of eighteen (18) days per year for three (3) months to three (3) years of service, twenty-one (21) days per year for three (3) to eight (8) years of service, twenty-four (24) days per year for eight (8) to fifteen (15) years of service and twenty-seven (27) days per year for over fifteen (15) years of service. Personal leave accrual is also provided for eleven (11) month, ten (10) month, nine and one-half (9.5) month and nine (9) month employees. Part-time regular employees working twenty (20) hours or more per week shall accrue the same personal leave benefits as full-time employees on a pro rata basis as full-time employees with a comparable length of contract. There is no requirement that annual leave be taken and there is no maximum accumulation. Upon retirement from employment, each employee shall be paid for not more than thirty days of unused

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

accumulated personal leave. This payment shall be made based on the remaining number of days (up to 30) after the employee has banked all applicable unused personal leave as creditable service for the purposes of the retirement system. Such payment shall be made by the College at a rate equal to fifty percent (50%) of the employee's daily rate of pay based on their annual primary contract. The liability for accrued leave at June 30, 2005, as reported in the Statement of Net Assets is \$757,582 with \$26,000 of this amount estimated as current.

- N. 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.

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.

- O. State Appropriations - Pearl River Community College receives funds from the State of Mississippi based on the number of full-time students actually enrolled and in attendance on the last day of the sixth week of the fall semester of the previous year, counting only those students who reside within the State of Mississippi. Beginning with the 2004 fiscal year, a new funding formula is being phased in over a five-year period which will shift the funding calculation from a predominantly full-time student formula, weighted by type of student, to a full-time equivalent formula which is based on total credit hours generated by all students with special consideration given only to high cost programs.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. 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.

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

The unrestricted net asset balance of \$10,123,341 at June 30, 2005, includes \$458,510 reserved for inventories, \$1,350,590 reserved for auxiliaries, and a remaining amount of \$8,314,241.

R. Blended Component Unit - The Pearl River Community College Student Housing Corporation, although legally separate from the College, is so intertwined with the College that is, in substance, the same as the College. Therefore, this component unit is reported as if it is part of the College.

S. Changes in Accounting Standards - As required, the 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. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED JUNE 30, 2005

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Policies:

- A. 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.

The carrying amount of the College's deposits with financial institutions reported in the accompanying financial statements was \$16,481,730. The Bank balance was \$17,240,570.

The College has money fund accounts with balances of \$9,444,679 at June 30, 2005, none of which is insured or collateralized. These accounts are the funds established by the issuances of bonds by the Pearl River Community College Student Housing Corporation.

Custodial Credit Risk - Deposits

Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the College's deposits may not be returned to it. The College does not have a deposit policy for custodial credit risk. As of June 30, 2005, the College's bank balance was not exposed to custodial credit risk.

- B. Investments

As of June 30, 2005, the College had the following investments.

(See Table on Next Page)

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED JUNE 30, 2005

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont.)

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
Short Term Investments			
Certificates of Deposit	Less than 1	\$ 6,186,253	AAA
Restricted Short Term Investments			
Certificates of deposit	Less than 1	\$ 2,848,847	AAA
Endowment Investments			
Certificates of deposit	Less than 1	\$ 29,250	AAA

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.

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 investments choices or one that addresses credit risk.

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 investments. The College does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2005, the College's investment balance was not exposed to custodial credit risk.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED JUNE 30, 2005

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont.)

Concentration of Credit Risk

Disclosures of investments by amount and issuer for any issuer that represents five percent (5%) 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 had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Bank Plus Certificate of Deposit	\$ 507,104	6%
Bank Plus Certificate of Deposit	513,052	6%
Hancock Bank Certificate of Deposit	3,400,500	38%
Hancock Bank Certificate of Deposit	515,598	6%
Priority One Bank Certificate of Deposit	1,000,000	11%
Hancock Bank Certificate of Deposit	1,597,332	18%

NOTE 3 - ACCOUNTS RECEIVABLE

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

Student tuition	\$ 3,081,891
Federal, state, and private grants and contracts	2,027,117
Local appropriations	139,326
Other	33,279
Total accounts receivable	<u>5,281,613</u>
Less allowance for doubtful accounts	<u>2,375,424</u>
Net accounts receivable	<u><u>\$ 2,906,189</u></u>

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS
PAGE NINE
YEAR ENDED JUNE 30, 2005

NOTE 4 - NOTES RECEIVABLE FROM STUDENTS

Notes receivable from students are payable in installments over a period of up to ten (10) years, commencing three (3) to twelve (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:

	<u>Interest Rates</u>	<u>June 30, 2005</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Nursing student loans	3% to 5%	\$ 18,719	-	\$ 18,719
Total notes receivable		<u>18,719</u>	<u>-</u>	<u>18,719</u>
Less allowance for doubtful accounts		<u>18,719</u>	<u>-</u>	<u>18,719</u>
Net notes receivable		<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

NOTE 5 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 458,882	-	-	\$ 458,882
Construction in progress	5,790,467	2,856,114	116,124	8,530,457
Total nondepreciable capital assets	<u>6,249,349</u>	<u>2,856,114</u>	<u>116,124</u>	<u>8,989,339</u>

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE TEN

YEAR ENDED JUNE 30, 2005

NOTE 5 - CAPITAL ASSETS (Cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
Depreciable Capital Assets:				
Improvements other than buildings	\$ 17,338,181	\$ 116,124	-	\$ 17,454,305
Buildings	15,228,880	-	-	15,228,880
Equipment	5,621,566	308,469	64,277	5,865,758
Library Books	1,340,673	98,850	137,236	1,302,287
Leased property under capital leases	1,028,679	-	-	1,028,679
Total depreciable capital assets	<u>40,557,979</u>	<u>523,443</u>	<u>201,513</u>	<u>40,879,909</u>
Less accumulated depreciation for:				
Improvements other than buildings	6,546,731	372,194	-	6,918,925
Buildings	5,700,345	297,575	-	5,997,920
Equipment	4,179,535	497,497	59,300	4,617,732
Library books	811,856	130,228	137,236	804,848
Leased property under capital leases	203,682	50,921	-	254,603
Total accumulated depreciation	<u>17,442,149</u>	<u>1,348,415</u>	<u>196,536</u>	<u>18,594,028</u>
Total depreciable capital assets, net	<u>23,115,830</u>	<u>(824,972)</u>	<u>4,977</u>	<u>22,285,881</u>
Capital assets, net	<u>\$ 29,365,179</u>	<u>\$ 2,031,142</u>	<u>\$ 121,101</u>	<u>\$ 31,275,220</u>

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE ELEVEN

YEAR ENDED JUNE 30, 2005

NOTE 5 - CAPITAL ASSETS (Cont.)

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:

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

NOTE 6 - LONG-TERM LIABILITIES

Long-term liabilities of the College consists of notes and bonds payable, capital lease obligations and certain other liabilities that are expected to be liquidated at least one (1) year from June 30, 2005. The various leases cover a period not to exceed five (5) 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.

(See Schedule on Next Page)

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS
PAGE TWELVE
YEAR ENDED JUNE 30, 2005

NOTE 6 - LONG-TERM LIABILITIES (Cont.)

Description and Purpose	Original Issue	Annual Interest Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2005	Due Within One Year
Bonded Debt:								
Housing Revenue Bonds of 1967	\$ 150,000	3.00%	2007	\$ 24,000	\$ -	\$ 6,000	\$ 18,000	\$ 6,000
District building notes, Series 1994	825,000	5.00% to 5.9%	2009	350,000	-	60,000	290,000	65,000
Educational facilities notes, Series 1995	1,600,000	4.3% to 6.125%	2011	910,000	-	110,000	800,000	115,000
Educational facilities notes, Series 2004	1,660,000	3.00% to 4.20%	2019	-	1,660,000	-	1,660,000	85,000
Student Housing Corporation, Series 2005	10,595,000	3.75% to 5.35%	2036	-	10,595,000	-	10,595,000	-
Total bonded debt				<u>1,284,000</u>	<u>12,255,000</u>	<u>176,000</u>	<u>13,363,000</u>	<u>271,000</u>
Capital Leases:								
Engery Lease 2000	1,020,130	5.50%	2015	823,362	-	56,235	767,127	59,370
Total capital leases				<u>823,362</u>	-	<u>56,235</u>	<u>767,127</u>	<u>59,370</u>
Other Long-Term Liabilities:								
Revenue shortfall note	225,245	2.70%	2006	152,155	-	75,064	77,091	77,091
CAPS loan	600,000	3.70%	2012	373,710	-	39,011	334,699	40,479
Total other long-term liabilities				<u>525,865</u>	-	<u>114,075</u>	<u>411,790</u>	<u>117,570</u>
Total				<u>\$ 2,633,227</u>	<u>\$ 12,255,000</u>	<u>\$ 346,310</u>	<u>14,541,917</u>	<u>\$ 447,940</u>
Due within one year							<u>447,940</u>	
Total long-term liabilities							<u>\$ 14,093,977</u>	

	Bonded Debt	Capital Leases	Notes Payable	Interest	Total
2006	\$ 271,000	\$ 59,370	\$ 117,570	\$ 202,395	\$ 650,335
2007	451,000	62,680	42,004	149,897	705,581
2008	481,000	66,175	43,583	131,549	722,307
2009	490,000	69,865	45,224	112,095	717,184
2010	430,000	73,763	46,925	91,345	642,033
2011 - 2015	1,760,000	435,274	116,484	2,703,854	5,015,612
2016 - 2020	2,000,000	-	-	2,227,258	4,227,258
2021 - 2025	1,720,000	-	-	1,771,263	3,491,263
2026 - 2030	-	-	-	1,256,581	1,256,581
2031 - 2035	-	-	-	579,806	579,806
2036 - 2040	5,760,000	-	-	17,923	5,777,923
Totals	<u>\$ 13,363,000</u>	<u>\$ 767,127</u>	<u>\$ 411,790</u>	<u>\$ 9,243,966</u>	<u>\$ 23,785,883</u>

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTEEN

YEAR ENDED JUNE 30, 2005

NOTE 7 - OPERATING LEASES

Leased property under operating leases is composed of twenty-six (26) copiers, one (1) mail machine, and one (1) risograph machine. The following is a schedule by years of the future minimum rental payments required under those operating leases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 100,887
2007	62,344
2008	31,334
2009	-
2010	-
Thereafter	-
<i>Total minimum payments required</i>	<u><u>\$ 194,565</u></u>

The total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the fiscal year ending June 30, 2005, was \$98,545.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS
PAGE FOURTEEN
YEAR ENDED JUNE 30, 2005

NOTE 8 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

Functional Classification	Salaries and Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships and Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$ 8,956,205	\$ 2,042,999	\$ 145,794	\$ 490,900	\$ 5,137	\$ 777,103	\$ 1,070,267	\$ -	\$ 13,488,405
Academic support	468,368	120,136	493	38,545	-	-	49,616	-	677,158
Student services	1,654,095	392,678	146,315	262,878	703	3,419,337	420,496	-	6,296,502
Institutional support	1,678,132	428,065	39,070	890,776	1,150	251,194	367,490	-	3,655,877
Operation of plant	909,182	295,650	1,450	346,206	1,014,810	-	538,989	-	3,106,287
Auxiliary enterprises	304,729	83,726	4,329	1,333,340	30,248	36,665	1,567,829	-	3,360,866
Depreciation	-	-	-	-	-	-	-	1,348,416	1,348,416
Total operating expenses	\$ 13,970,711	\$ 3,363,254	\$ 337,451	\$ 3,362,645	\$ 1,052,048	\$ 4,484,299	\$ 4,014,687	\$ 1,348,416	\$ 31,933,511

NOTE 9 - 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		
		Federal Sources	State Sources	Institutional Funds
Student housing	\$ 8,835,188	\$ -	\$ -	\$ -
Forrest County addition	1,476,269	-	-	-
Huff Hall - stair renovation	44,321	-	-	-
Total	\$ 10,355,778	\$ -	\$ -	\$ 10,355,778

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED JUNE 30, 2005

NOTE 10 - PENSION PLAN

Plan Description - Pearl River Community College participates in the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the Mississippi State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy- PERS members are required to contribute 7.25% of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the Mississippi State Legislature. The College's contributions to PERS for the years ending June 30, 2005, 2004 and 2003 were \$1,228,092, \$1,247,222, and \$1,082,670, respectively, equal to the required contributions for each year.

NOTE 11 - SUBSEQUENT EVENT

On August 29, 2005, Hurricane Katrina caused extensive damage to portions of the southeast United States, including the area where the College's campuses are located. It is estimated the College received \$50 million in structural damage. The College carries property and casualty insurance. The College is working with its insurance companies and federal and state agencies to obtain funding necessary to rebuild and recover. The College also lost revenues from tuition due to displaced students and revenues from local governments. The total impact of damages net of reimbursement and lost revenues cannot be reasonably estimated at this time.

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS**

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pearl River Community College Development Foundation, Inc., a nonprofit organization, was founded in 1987. The Foundation's mission is to raise funds in order to provide scholarships, faculty awards, teacher grants and endowments for the students and faculty of Pearl River Community College. Revenue is derived primarily from outside contributors.

The accounting policies of Pearl River Community College Development Foundation, Inc. conform to accounting principles generally accepted in the United States of America applicable to non-profit organizations. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting - The financial statements of the Foundation have been prepared using the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

The accounts of the Foundation are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined and presented for the Foundation as a whole in accordance with the provisions of Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations".

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donations of property, equipment, marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose.

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
PAGE TWO
YEAR ENDED JUNE 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Fair Value of Financial Instruments - The carrying amount at June 30, 2005 for cash and cash equivalents, certificates of deposit, treasury notes, investments, pledges receivable, accounts payable, and accrued expenditures are a reasonable estimate of their fair values.

Income Taxes - The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Investments - The Foundation accounts for investments in accordance with SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increase in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Cash and Cash Equivalents - For purposes of the Statement of Financial Position and the Statement of Cash Flows, cash and cash equivalents are considered to be all unrestricted highly liquid investments with maturities of three months or less at the time of acquisition.

Contributed Facilities - The Foundation occupies without charge certain premises located in Pearl River Community College owned buildings. The Foundation does not have a lease with the College for the office space and office furniture which is for future benefits to be received from the Foundation. The College also provides other operating expenses, such as staff payroll and benefits, which have been shown on the Statement of Activities as both support and general administration expenses. The value of the office space, office furniture and utilities has not been included in the Statement of Activities because they cannot be reasonably determined.

Fixed Assets - The Foundation's fixed assets consist of computer equipment and office furniture. All assets are valued at cost and depreciated using the straight-line method over the estimated useful life of the asset. Office furniture and equipment are being depreciated over 5-7 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations. Depreciation charged to expense in the current year totaled \$2,355.

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
PAGE THREE
YEAR ENDED JUNE 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Net Assets - Net assets of the Foundation consist of the following:

Unrestricted - These amounts are available for general obligations of the Foundation and for operating activities such as general scholarships, awards, projects, administration, etc.

Temporarily restricted - These amounts are restricted by donors to be used for a specific purpose or scholarship.

Permanently restricted - (Scholarship endowments) - These amounts are permanently restricted by donors and cannot be used by the Foundation. Income and capital gains may or may not be used depending on the endowment agreement.

NOTE 2 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 3 - FUND RAISING

The Foundation had one major fund-raising event during the year. The event consisted of a food festival and auction known as the Extravaganza. The Foundation sold tickets and auctioned donated items. This event has been shown in the Statement of Activities as a source of unrestricted revenue and expense. The following is a summary of the event.

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
PAGE FOUR
YEAR ENDED JUNE 30, 2005**

NOTE 3 - FUND RAISING (Cont.)

Revenues earned (exclusive of contributions)	\$	66,399
Less: Expenses		<u>23,386</u>
Net funds raised	\$	<u>43,013</u>

The fund raising expenses included under supporting services in the Statement of Activities are for expenses incurred in inducing others to contribute money for which the contributor will receive no direct economic benefit, such as printing, mailing and maintaining mailing lists.

NOTE 4 - CONCENTRATIONS OF CREDIT RISK

The Foundation receives a substantial amount of its support from Pearl River Community College. A significant reduction in the level of this support, if this were to occur, may have an effect on the Foundation's programs and activities.

Financial instruments that potentially subject the Foundation to credit risk include cash and investments.

Deposits are maintained at several financial institutions. The FDIC provides up to \$100,000 coverage at each institution. At June 30, 2005, \$218,639 of cash deposits were uninsured. Because the Foundation is classified as a private non-profit foundation, many financial institutions will not pledge securities for deposits in excess of FDIC coverage. However, management feels there is minimal risk exposure as a result of this uninsured balance.

The Foundation's investments are not collateralized. Future changes in market prices may make such investments less valuable.

NOTE 5 - COMMON FUND INVESTMENTS

During the year ended June 30, 1996, the Foundation received a \$250,000 Endowment Challenge Grant. This grant, along with the funds raised during the Endowment Challenge period, was invested with "The Common Fund - Investment Management for Educational Institutions."

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
PAGE FIVE
YEAR ENDED JUNE 30, 2005**

NOTE 5 - COMMON FUND INVESTMENTS (Cont.)

The activity in the Common Fund for the year ended June 30, 2005, was as follows:

Market Value at June 30, 2004	\$ 917,236
Purchases	20,000
Income	23,860
Market gains	65,840
Expenses	<u>(5,000)</u>
Market value at June 30, 2005	<u>\$ 1,021,936</u>
Cost basis at June 30, 2005	<u>\$ 673,370</u>

The Foundation is restricted from spending the fund corpus for twenty (20) years from the grant date. The Foundation is allowed to spend fifty percent (50%) of the income earned each year; however, it is not the Foundation's intent to do so.

NOTE 6 - PLEDGES RECEIVABLE

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

Unrestricted	\$ 7,000
Temporarily restricted	<u>6,000</u>
Total	<u>\$ 13,000</u>

These pledges are due as follows:

Due in less than one year	\$ 2,000
Due in one to five years	<u>11,000</u>
Total	<u>\$ 13,000</u>

No provision has been made for uncollectible amounts as management believes that all will be collected.

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
PAGE SIX
YEAR ENDED JUNE 30, 2005**

NOTE 7 - RESTRICTIONS ON NET ASSETS

Net assets were released from donor restrictions by meeting the time restrictions or by incurring expenses satisfying the purpose restrictions specified by donors as follows:

Restriction accomplished:	
Scholarships	\$ 187,904
Educational departments	100,289
Other	<u>6,472</u>
	<u>\$ 294,665</u>

Temporarily and permanently restricted net assets at June 30, 2005, were restricted as follows:

Temporarily restricted:	
Scholarships and grants	\$ 928,668
Chapel campaign	<u>751,721</u>
	<u>\$ 1,680,389</u>
Permanently restricted:	
Endowment scholarships and grants	<u>\$ 1,247,931</u>

**PEARL RIVER COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION**

SCHEDULE 1

PEARL RIVER COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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		\$ 120,000
Federal Family Education Loans (FFEL)	84.032	{1}	3,073,372
Federal Work-study Program (FWS)	84.033		139,189
Federal Pell Grant Program	84.063		7,207,344
Pass-through program from: Board of Trustees of the Institution's of Higher Learning - Leveraging Educational Assistance Partnership	84.069		<u>5,656</u>
Total U.S. Department of Education			<u>10,545,561</u>
Total Student Financial Aid Cluster			
			<u>10,545,561</u>
Other Programs			
<u>U.S. Department of Agriculture</u>			
Pass-through programs from: Mississippi Community College Foundation - Mississippi Rural Health Corporation Program - Cooperative Extension Service	10.500		61,507
Direct programs: Conservative Resource Program	10.069		<u>1,537</u>
Total U.S. Department of Agriculture			<u>63,044</u>

PEARL RIVER COMMUNITY COLLEGE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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>U.S. Department of Justice</u>			
Public Safety Partnership & Community Policing Grants	16.710		\$ 49,293
Total U.S. Department of Justice			49,293
<u>U.S. Department of Labor</u>			
WIA Cluster:			
Southern Mississippi Planning and Development - WIA Adult Programs	17.258		60,748
Southern Mississippi Planning and Development - WIA Youth Programs	17.259		21,690
Mississippi Employment Security Commission - WIA Dislocated Workers	17.260		131,198
Total WIA Cluster			213,636
Total U.S. Department of Labor			213,636
<u>National Aeronautics and Space Administration</u>			
Pass-through program from:			
University of Mississippi - Aerospace Education Services Program	43.001		3,692
Total National Aeronautics and Space Administration			3,692

PEARL RIVER COMMUNITY COLLEGE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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 Science Foundation</u>			
Pass-through program from:			
Brevard Community College - SpaceTEC Program	47.076		\$ 12,575
USM Partnership/Math Education	47.076		2,497
Total National Science Foundation			<u>15,072</u>
<u>U.S. Department of Education</u>			
Trio - Student Support Services	84.042		<u>281,492</u>
Pass-through programs from:			
Mississippi State Board for Community & Junior Colleges - Adult Education - State Grant Program	84.002		271,111
Mississippi Department of Education - Vocational Education - Basic Grants to States	84.048	EV048A99024	218,217
Mississippi Department of Education - Tech-Prep Education	84.243	EV048A990295	43,665
Subtotal pass-through programs			<u>532,993</u>
Total U.S. Department of Education			<u>814,485</u>

PEARL RIVER COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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>U.S. Department of Health & Human Services</u>			
Pass-through program from:			
Mississippi Department of Mental Health Developmental Disabilities	93.630		\$ 68,781
Basic Support and Advocacy Grants			
Total U.S. Department of Health & Human Services			<u>68,781</u>
<u>Federal Emergency Management Agency</u>			
Pass-through program from:			
Mississippi Emergency Management Agency Community Emergency Response Team Grant	83.565		233
Weather Alert/Hazard Mitigation	83.548		11,069
Total Federal Emergency Management Agency			<u>11,302</u>
Total other programs			<u>1,239,305</u>
Total Expenditures of Federal Awards			<u>\$ 11,784,866</u>

PEARL RIVER COMMUNITY COLLEGE

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

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.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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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. William A. Lewis, President
And Board of Trustees
Pearl River Community College
Poplarville, Mississippi 39470

We have audited the financial statements of the business type activities of Pearl River 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 February 3, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Dr. William A. Lewis, President
And Board of Trustees
Pearl River Community College

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Nicholson & Company, P.A.

Hattiesburg, Mississippi
February 3, 2006

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

Dr. William A. Lewis, President
And Board of Trustees
Pearl River Community College
Poplarville, Mississippi 39470

Compliance

We have audited the compliance of Pearl River Community College with types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The College's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis,

Dr. William A. Lewis, President
And Board of Trustees
Pearl River Community College

evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, Pearl River Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

We noted one matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Pearl River Community College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs at item 2005-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Dr. William A. Lewis, President
And Board of Trustees
Pearl River Community College

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.

Nichelson & Company, P.A.

Hattiesburg, Mississippi
February 3, 2006

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

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

Dr. William A. Lewis, President
And Board of Trustees
Pearl River Community College
Poplarville, Mississippi 39470

We have audited the financial statements of Pearl River Community College as of and for the year ended June 30, 2005, and have issued our report thereon dated February 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

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

Nicholson & Company, P.A.

Hattiesburg, Mississippi
February 3, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PEARL RIVER COMMUNITY COLLEGE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major federal programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section __.510(a)?	Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007	Student Financial Aid Cluster
84.032	Student Financial Aid Cluster
84.033	Student Financial Aid Cluster
84.063	Student Financial Aid Cluster
84.069	Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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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 OMB Circular A-133, Section __.315(b)?	No
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PEARL RIVER COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE TWO

YEAR ENDED JUNE 30, 2005

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

Reportable Condition Not Considered To Be Material Weakness

2005-01.

Finding

The College did not submit Pell disbursement data timely to the U.S. Department of Education.

Recommendation

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

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

PEARL RIVER COMMUNITY COLLEGE

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

YEAR ENDED JUNE 30, 2005

As required by Section_.315(b) of OMB Circular A-133, the Pearl River Community College has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2005.

Finding:	Status:
2004-1	Corrective action implemented
2004-2	Corrective action implemented



PEARL RIVER COMMUNITY COLLEGE

MISSISSIPPI'S PIONEER COMMUNITY COLLEGE

Pearl River Community College Auditee's Corrective Action Plan

As required by Section .315b of OMB Circular A-133, the Pearl River Community College has prepared and hereby submits the following corrective action plan for the finding included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005.

Finding 2005-1

- A) Contact Person(s): Roger Knight, Peggy Shoemake
- B) Corrective Action Planned:

The institution has implemented the procedure of weekly submitting the Pell disbursement data to the U.S. Department of Education. In an effort to protect the financial integrity of the institution, however, no Pell refunds are issued without adequate drawn downs having been made through the institution's Financial Aid Department to fund such Pell refunds.

- C) Anticipated Completion Date:

Immediate.