



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

**SOUTHWEST MISSISSIPPI
COMMUNITY COLLEGE**

**Audited Financial Statements
For the Year Ended June 30, 2005**

**Presented by:
Dribben & Associates, Ltd.
P. O. Box 1411
113 North Broadway Avenue
McComb, MS 39649-1411**

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL AUDIT REPORT	5
Independent Auditor's Report on the Basic Financial Statements and Supplemental Information	7
MANAGEMENT'S DISCUSSION AND ANALYSIS	9
Management's Discussion and Analysis	11
FINANCIAL STATEMENTS.....	19
Statement of Net Assets	21
Statement of Revenues, Expenses and Changes in Net Assets	22
Statement of Cash Flow	23
Notes to the Financial Statements	25
SUPPLEMENTAL INFORMATION	35
Schedule of Expenditure of Federal Awards	37
REPORTS OF COMPLIANCE AND INTERNAL CONTROL	39
Independent Auditor's Report on Compliance and Internal Control Over Financial Report Based on an Audit of the Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	41
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance with OMB Circular A-133	43
INDEPENDENT AUDITOR'S REPORT OF COMPLIANCE WITH STATE LAWS AND REGULATIONS	45
Independent Auditor's Report of Compliance with State Laws and Regulations.....	47
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	49
Schedule of Findings and Questioned Costs	51
AUDITEE'S CORRECTIVE ACTION PLAN	53

(This page was left blank intentionally.)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

FINANCIAL AUDIT REPORT

(This page was left blank intentionally.)

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

April 7, 2006

Board of Trustees of Southwest Mississippi Community College
College Drive
Summit, MS 39666

We have audited the accompanying financial statements of Southwest Mississippi 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 Southwest Mississippi Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

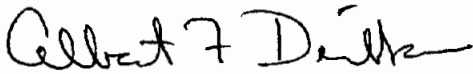
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Mississippi Community College, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 7, 2006 on our consideration of Southwest Mississippi Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

The Management's Discussion and Analysis on pages 9 through 17, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Southwest Mississippi Community College's basic financial statements.

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

Sincerely,



Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

(This page left blank intentionally)



College Drive
Summit, Mississippi 39866
601-276-2000

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Southwest Mississippi Community College annual financial report presents our discussion and analysis of the financial performance of the Community 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 Community College, the results of operations, and cash flows of the Community College as a whole.

One of the most important questions asked is whether the Community 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 Community College's net assets (the difference between assets and liabilities) are one indicator of the Community College's financial health. Over time, increases or decreases in net assets are one indicator of the improvement or erosion of the Community 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 Community 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 Community 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
FYE: June 30, 2005

	2005	Percent	2004	Percent
Assets				
Current and Other Assets	\$ 13,766,105	38%	14,484,753	41%
Noncurrent Assets				
Capital, Net	21,716,806	59%	19,710,697	56%
Other	939,903	3%	853,508	3%
Total Assets	\$ 36,422,814	100%	35,048,958	100%
Liabilities				
Current and Other Liabilities	417,272	98%	419,845	98%
Other Liabilities	9,238	2%	7,908	2%
Total Liabilities	426,510	100%	427,753	100%
Net Assets				
Invested in Capital Assets	21,716,806	60%	19,710,697	57%
Restricted:				
Nonexpendable	880,650	2%	826,888	2%
Expendable	3,088,963	9%	2,998,556	9%
Unrestricted:	10,309,885	29%	11,085,064	32%
Total Net Assets	35,996,304	100%	34,621,205	100%
Total Liability and Net Assets	\$ 36,422,814		35,048,958	

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the Community College's bank accounts. The total amount of cash and cash equivalents reported as current assets on the Community College financial statements were \$3,303,271 at June 30, 2005.

Short-term Investments

Short-term investments are amounts held in pooled fixed income accounts. The total amount of short-term investments reported as current assets were \$9,315,554 at June 30, 2005.

Accounts Receivable

Accounts receivable relate to several transactions including county appropriations, accrued interest, student tuition and fee billings, and auxiliary enterprise sales such as food service and bookstore. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The Community College receivables totaled \$539,480 at June 30, 2005.

Inventories

The Community 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 postage, fuel, and office supplies which make up the balance of the recorded inventory. Inventories totaled \$606,879 at June 30, 2005.

Noncurrent assets

Restricted Cash and Cash Equivalents

Cash and cash equivalents are those funds that are held in the bank accounts and in the State Treasurer's Short-Term Investment Pool (STIF). The restricted cash and cash equivalents that are considered noncurrent are cash in endowment funds and those funds held for student organizations' agency scholarships. The amount of cash and cash equivalents considered noncurrent at June 30, 2005 totaled \$109,273.

Other Investments

Other long-term investments include marketable securities held and managed by investment managers. These investments are recorded at fair market value. The fair market value at June 30, 2005 was \$830,630.

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 \$21,716,806 at June 30, 2005.

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 \$417,022 at June 30, 2005.

Noncurrent Liabilities

Deposits Refundable

Deposits refundable are monies held for room and key deposits. The total amount of deposits refundable was \$9,238 at June 30, 2005.

Net Assets

Net assets represent the difference between the Community College's assets and liabilities. Total net assets at June 30, 2005 were \$35,996,304.

Analysis of Net Assets

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

The following is a breakdown of the restricted net assets:

	<u>Amount</u>
Nonexpendable scholarships and fellowships	\$ 880,650
Total Restricted Net Assets	<u>\$ 880,650</u>

Unrestricted net assets represent those balances from operational activities that have not been restricted by parties external to the Community 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:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
 For the year ended June 30, 2005

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Tuition and Fees	\$ 3,450,337	3,062,601
Grants and Contracts	5,285,665	5,618,426
Sales and Services of Educational Departments	23,084	13,440
Auxiliary Enterprises	1,728,354	1,650,064
Other Operating Revenues	216,077	2,080,864
Total Operating Revenues	<u>10,703,517</u>	<u>12,425,395</u>
Operating Expenses	<u>18,735,021</u>	<u>19,605,243</u>
Operating Loss	<u>(8,031,504)</u>	<u>(7,179,848)</u>
Nonoperating Revenues:		
State & Local Appropriations	8,655,447	5,194,817
Noncapital Gifts	179,056	92,915
Other Nonoperating Revenues	378,397	545,507
Net Nonoperating Revenues	<u>9,212,900</u>	<u>5,833,239</u>
Change in Net Assets	<u>1,181,396</u>	<u>(1,346,609)</u>
Net Assets		
Net Assets at Beginning of Year, as Restated	<u>34,814,908</u>	<u>35,967,814</u>
Net Assets at End of Year	<u>\$ 35,996,304</u>	<u>34,621,205</u>

Total operating loss for the fiscal year 2005 was \$8,301,504. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, the Community College will show a significant operating loss.

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

The Community College strives to provide students with the opportunity to obtain a quality education. Future enrollments at the Community 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 \$10,703,517. Tuition and fees were \$3,450,337. Operating expenses, including depreciation of \$767,041, totaled \$18,735,021. Of this total, \$6,733,028 or 36% was for instruction.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$3,450,337.

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 Community College's grant and contract awards for the fiscal year ended June 30, 2005:

	<u>2005</u>	<u>2004</u>
Federal Sources:		
Department of Education	\$ 4,215,748	4,513,923
State Sources:		
Mississippi Community College System	1,069,917	1,104,503
Total All Sources	<u>\$ 5,285,665</u>	<u>5,618,426</u>

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$23,084 for the 2005 fiscal year.

Sales and Services, Net

Sales and services, net, consist of various enterprise entities that exist predominantly to furnish goods and services to students, faculty, staff, or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting. Sales and services, net, totaled \$1,728,354 for the 2005 fiscal year.

Auxiliary enterprises primarily include the Community College bookstore.

Operating Expenses

Operating expenses totaling \$18,735,021 include salaries and wages of \$7,245,084, fringe benefits of \$1,796,107, travel expense of \$128,973, contractual services of \$1,270,686, utilities of \$773,735, scholarships and fellowships of \$4,718,798, commodities of \$1,812,993, depreciation of \$767,041, and other expenditures of \$221,604.

	<u>2005</u>	<u>2004</u>
Expenses by Function:		
Instruction	6,733,028	6,694,592
Academic Support	578,180	576,534
Student Services	1,427,784	1,340,208
Institutional Support	1,406,723	1,425,567
Operations and Maintenance of Plant	1,324,344	2,374,616
Student Financial Aid	4,718,798	4,791,534
Auxiliary Enterprises	1,779,123	1,630,257
Depreciation	767,041	771,935
Total Operating Expenses by Function	<u>\$ 18,735,021</u>	<u>19,605,243</u>

Nonoperating Revenues (Expenses)

State Aid

The Community College's largest source of nonoperating revenue is the State of Mississippi appropriation. The Community College received \$9,212,900 for the 2005 fiscal year.

County Appropriations

The Community College also receives revenue from the counties in the area of the school. The Community College uses the funding for salaries and benefits, for operational purposes. The Community College receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1st. The Community College received \$2,035,929 for the 2005 fiscal year from the counties. This appropriation was fully recorded by the Community College during the fiscal year.

Noncapital Gifts

This consists of gifts made to the Community College from a nongovernmental organization and/or individuals. The cash gifts totaled \$179,056 at June 30, 2005.

Investment Income, Net

This includes the interest income from the cash in the bank accounts, and the unrealized gains and losses on the investments held with an outside agency. A total of \$378,397 was earned during the 2005 fiscal year.

Statement of Cash Flows

Another way to assess the financial health of the Community 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 Community College during a period. The Statement of Cash Flows also helps users assess:

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

Condensed Statement of Cash Flows (Direct Method)

For the Fiscal Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents Provided (Used) by:		
Operating Activities	\$ (6,048,333)	\$ (6,415,821)
Noncapital Financing Activities	7,265,508	5,497,957
Capital and Related Financing Activities	(1,335,232)	(906,746)
Investing Activities	<u>494,945</u>	<u>545,507</u>
Net Increase in Cash and Cash Equivalents	376,888	(1,279,103)
Cash and Cash Equivalents - Beginning of the Year	<u>3,035,656</u>	<u>4,314,759</u>
Cash and Cash Equivalents - End of the Year	<u>\$ 3,412,544</u>	<u>3,035,656</u>

The major sources of funds included in operating activities include student tuition and fees, \$3,315,178, auxiliary enterprises, \$1,730,095, and grants and contracts, \$5,712,375. The major uses of funds were payments made to employees, \$9,022,293, and to suppliers, \$4,252,062.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$7,086,452.

Significant Capital Asset Transactions

Work has continued in 2005 on a new waste water treatment plant for the community college. During 2005, construction in progress expenditure of \$1,153,448 was spent on construction and engineering fees. A new construction project was started on the renovation of the Bryan Science building for fiscal year 2005. The amount expended on this project was \$17,618 for advertisement of bids and engineering fees. Other significant capital asset transaction included \$332,162 expended on the Energy management systems and \$437,535 was expended on the renovations to the Brumfield building. Capital Assets projects completion in fiscal year 2005 includes \$24,096 spent to complete the network to Gigabit Ethernet project and \$9,141 was spent to complete the reproofing of the Health Operations building.

Factors Impacting Future Periods

There are a number of issues of Southwest Mississippi Community College 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 Community College's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

State appropriations contribute approximately 33% of total revenues. The level of State support is therefore one of the key factors influencing the Community 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 Community College in the years to come.

Various committees and individuals are assessing the Community 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.

CONTACTING THE COMMUNITY COLLEGE'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Grady Smith, Dean of Business Affairs, Southwest Mississippi Community College, 1156 College Drive, Summit, MS 39666 or 601-276-2000.

(This page was left blank intentionally.)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

AUDITED FINANCIAL STATEMENTS

(This page was left blank intentionally.)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
Statement of Net Assets
For the Year Ending June 30, 2005

ASSETS

Current assets:

Cash and cash equivalents	\$ 3,303,271
Short-term investments	9,315,555
Accounts receivable, net	539,480
Inventories	606,879
Prepaid expenses	920

Total Current Assets	13,766,105
----------------------	------------

Noncurrent assets:

Restricted cash and cash equivalents	109,273
Endowment investments	830,630
Capital assets, net of accumulated depreciation	21,716,806

Total Noncurrent Assets	22,656,709
-------------------------	------------

Total Assets	36,422,814
--------------	------------

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	417,022
	250
Total Current Liabilities	417,272

Noncurrent liabilities:

Deposits refundable	9,238
Total Noncurrent Liabilities	9,238

Total Liabilities	426,510
-------------------	---------

NET ASSETS

Invested in capital assets, net of related debt	21,716,806
---	------------

Restricted for:

Nonexpendable:	
Scholarships and fellowships	880,650

Expendable:	
Scholarships and fellowships	165,954

Loans	2,923,009
-------	-----------

Unrestricted	10,309,885
--------------	------------

Total Net Assets	\$ 35,996,304
------------------	---------------

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

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

Operating Revenues:

Tuition and fees (net of scholarship allowances of \$2,362,711)	\$ 3,450,337
Federal grants and contracts	4,219,131
State grants and contracts	1,066,534
Sales and services of educational departments	23,084
Auxiliary enterprises:	
Student housing (Net of scholarship allowances of \$224,446.)	296,015
Food services (Net of scholarship allowances of \$279,449.)	641,223
Bookstore	768,243
Athletics	13,399
Other auxiliary revenues	9,474
Other operating revenues	216,077
Total Operating Revenues	<u>10,703,517</u>

Operating Expenses:

Salaries and wages	7,245,084
Fringe benefits	1,796,107
Travel	128,973
Contractual services	1,270,686
Utilities	773,735
Scholarships and fellowships	4,718,798
Commodities	1,812,993
Depreciation expense	767,041
Other operating expense	221,604
Total Operating Expenses	<u>18,735,021</u>
Operating Income (Loss)	<u>(8,031,504)</u>

Nonoperating Revenues (Expenses):

State appropriations	6,619,518
Local appropriations	2,035,929
Gifts	179,056
Investment income	378,397
Total Net Nonoperating revenues (expenses)	<u>9,212,900</u>
Change in Net Assets	<u>1,181,396</u>

Net Assets:

Net Assets - Beginning of Year, as Originally Reported	34,621,205
Prior period adjustments	193,703
Net Assets- Beginning of Year, as Restated	<u>34,814,908</u>
Net Assets - End of Year	<u>\$ 35,996,304</u>

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

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

Cash Flows From Operating Activities:	
Tuition and fees	\$ 3,315,178
Grants and contracts	5,712,375
Sales and services of educational departments	23,084
Payments to suppliers	(4,252,062)
Payments to employees for salaries and benefits	(9,022,293)
Payments for utilities	(773,735)
Payments for scholarships and fellowships	(4,718,798)
Auxiliary enterprise charges:	
Student housing	295,777
Food services	644,323
Bookstore receipts	768,034
Athletic receipts	13,399
Other auxiliary receipts	9,362
Other receipts (payments)	1,937,023
Net Cash Provided (Used) by Operating Activities	<u>(6,048,333)</u>
Cash Flows from NonCapital Financing Activities:	
State appropriations	7,086,452
Private gifts for endowment purposes	179,056
Net Cash Provided (Used) by Noncapital Financing Activities	<u>7,265,508</u>
Cash Flows from Capital and Related Financing Activities:	
Cash paid for capital assets	(1,335,232)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,335,232)</u>
Cash Flows from Investing Activities:	
Interest received on investments	494,945
Net Cash Provided (Used) by Investing Activities	<u>494,945</u>
Net Increase (Decrease) in Cash and Cash Equivalents	376,888
Cash and Cash Equivalents - Beginning of the Year	<u>3,035,656</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,412,544</u>

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

Operating Income (Loss) \$ (8,031,504)

Adjustments to reconcile net income (loss) to net cash
 provided (used) by operating activities:

Depreciation expense	767,041
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Receivables, net	1,392,263
Inventories	(180,983)
Prepaid expenses	6,342
Increase (decrease) in assets:	
Accounts payables and accrued liabilities	(2,822)
Deposits refundable	1,330

Total adjustments 1,983,171

Net Cash Provided (Used) by Operating Activities \$ (6,048,333)

Noncash Investing, Capital and Financing Activities:

Bureau of Buildings and Grounds construction in progress \$ 1,171,067

RECONCILIATION OF CASH AND CASH EQUIVALENTS
 TO THE STATEMENT OF NET ASSETS

Cash and cash equivalents classified as current assets	\$ 3,303,271
Cash and cash equivalents classified as non-current assets	109,273
	<u>\$ 3,412,544</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

(1) Summary of Significant Accounting Policies.

- A. Reporting Entity - Southwest Mississippi Community College was founded in 1932 and is one of Mississippi's 15 public Community Colleges. The legal authority for the establishment of Southwest Mississippi Community College is found in Section 37-29-31, Miss. Code Ann. (1972).

Southwest Mississippi Community College is governed by a seventeen member board of trustees, selected by the board of supervisors of Amite, Pike, Walthall, and Wilkinson counties who support the college through locally assessed ad valorem tax millage. One of the trustees from each of the supporting counties must be the county superintendent of education, unless the superintendent chooses not to serve, in which case the county board of supervisors shall fill the vacancy in accordance with Section 37-29-65, Miss. Code Ann. (1972). Each board member is appointed for a 5-year term. In addition, Southwest Mississippi 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.

Southwest Mississippi Community College has implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment to GASB Statement No. 14*, as required. However, the Community College Foundation does not meet the significance requirement and has not been incorporated into the financial statements and accompanying notes.

- 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 of Public College and Universities*, issued in June and November, 1999, respectively. The Community College now follows the "business-type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Community College's financial activities.
- C. Basis of Accounting - The financial statements of the Community 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 Community College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- E. Short-term Investments - Investments that are not cash equivalents but mature within the next fiscal year are classified as short-term investments.
- F. Accounts Receivables, Net - Accounts receivables consist of tuition and fees charged to students, state appropriations, amounts due from state and federal grants and contracts, local governments and credits due to the Community College from vendors. Accounts receivables are recorded net of an allowance for doubtful accounts.
- G. Inventories - Inventories consist of bookstore and food service supplies. These inventories are generally valued at cost, on the first-in, first-out ("FIFO") basis.
- H. 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.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

- I. 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; term endowment funds, which are funds for which the donor has stipulated that the principal may be expended after a stated period or on the occurrence of a certain event, and quasi endowment funds, which are funds established by the governing board to function like an endowment fund but may be totally expended at any time at the discretion of the governing board.
- J. Capital Assets, Net of Accumulated Depreciation - Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See note 5 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose.
- K. Compensated Absences - The Community College does not provide for the accumulation of leave beyond one year. Therefore, no accrual for compensated absences has been recorded in the financial statements.
- L. Classification of Revenues - The Community College has classified its revenues as either operating or nonoperating revenues according to the following criteria:
- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on institutional student loans. Gifts (pledges) that are received on an installment basis are recorded at net present value. 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.
- M. State Appropriations - Southwest Mississippi 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. A new funding formula is being phased in over a 5-year period which will shift the funding calculation from a predominantly full-time student formula, weighted by type of student, to a full-time equivalent formula which is based on total credit hours generated by all students with special consideration given only to high cost programs.
- N. 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.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

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

The unrestricted net asset balance was \$10,309,885 at June 30, 2005.

(2) Changes in Accounting Standards.

As required, the College has implemented Governmental Accounting Standards Board (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.

(3) Prior Period Adjustments.

For the year ended June 30, 2005, the community college recorded prior period adjustments of \$193,703.

(4) Cash and Cash Equivalents, Short-term Investments and Investments.

Policies:

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

The collateral for public entities' deposits in financial institutions are 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 Community 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.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the college's deposits may not be returned to it. The college does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the college. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the college. As of June 30, 2005, \$0 of the institution's bank balance was exposed to custodial credit risk.

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

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

	June 30, 2005	June 30, 2004
Endowment investments	\$ 830,630	784,474
Other short-term investments	9,315,555	9,153,229
Total investments	\$ 10,146,185	9,937,703

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

Investment Type	Maturity(in Years)	Fair Value	Rating
Equity Securities	Less than 1	\$ 78,910	Not rated
Real Estate	N/A	376,978	Not rated
Money Market Funds	Less than 1	1,030,342	Not rated
Investment Management Funds	More than 10	19,272	Not rated
Federal Home Loan Bank	1 to 9	2,361,715	AAA
Federal National Mortgage Association	1 to 4	1,982,035	AAA
Federal Home Loan Mortgage Corporation	Less than 1	501,405	AAA
Municipal Bonds	1 to 10	3,795,528	AA to AAA
Total Investments		\$10,146,185	

Interest Rate Risk. The college does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses; however, the policy does not address interest rate risk.

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 have a formal investment policy that would further limit its investments choices but it does not address credit risk. The credit risk ratings above are issued upon standards set by Standards and Poor's or Moody's Ratings Services.

Custodial Credit Risk - Investments. Per GASB Statement No. 40, custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the college will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered with securities held by the counterparty's trust department or agent, but not held in the government's name. As of June 30, 2005, none of the college's investment balance of \$10,141,185 was exposed to custodial credit risk.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

Concentration of Credit Risk. Per GASB Statement No. 40, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The college does not presently have a formal policy that addresses concentration of credit risk.

Issuer	Fair Value	Percentage
BancorpSouth Investments	\$ 1,014,782	10.51%
Mississippi General Obligation Bonds	3,795,528	39.31%
Federal Home Loan Mortgage Corporation	501,405	5.19%
Federal National Mortgage Association	1,982,035	20.53
Federal Home Loan Bank	2,361,715	24.46%
 Total	 \$ 9,655,465	

(5) Accounts Receivable.

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

Student tuition	\$ 704,484
Auxiliary enterprises and other operating activities	4,782
Federal, state, and private grants and contracts	233,892
State appropriations	150,164
Other	2,645
	<hr/>
Total Accounts Receivable	1,120,956
Less allowance for doubtful accounts	(581,476)
	<hr/>
Net Accounts Receivable	\$ 539,480

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

(6) Capital Assets.

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

	Beginning Balance	Additions	Deletions	Adjustment	Completed Construction	Ending Balance
<u>Non-depreciable Capital Assets:</u>						
Land	\$ 49,443					49,443
Construction in progress	593,983	2,609,414		63,039	(290,882)	2,975,554
Total Non-depreciable Capital Assets	<u>643,426</u>	<u>2,609,414</u>	<u>-</u>	<u>63,039</u>	<u>(290,882)</u>	<u>3,024,997</u>
<u>Depreciable Capital Assets:</u>						
Improvements other than buildings	3,416,898				224,457	3,641,355
Buildings	22,534,183					22,534,183
Building improvement	1,738,500				66,425	1,804,925
Equipment	1,809,773	51,879	(71,587)			1,790,065
Library Books	935,769	49,032	(5,009)			979,792
Total Depreciable Capital Assets	<u>30,435,123</u>	<u>100,911</u>	<u>(76,596)</u>	<u>-</u>	<u>290,882</u>	<u>30,750,320</u>
<u>Less Accumulated Depreciation for:</u>						
Improvements other than buildings	(1,362,317)	(118,918)				(1,481,235)
Buildings	(7,288,545)	(443,705)				(7,732,250)
Building improvement	(467,956)	(63,729)				(531,685)
Equipment	(1,504,571)	(97,774)	70,870			(1,531,475)
Library Books	(744,463)	(42,915)	5,512			(781,866)
Total Accumulated Depreciation	<u>(11,367,852)</u>	<u>(767,041)</u>	<u>76,382</u>	<u>-</u>	<u>-</u>	<u>(12,058,511)</u>
Total Depreciable Capital Assets, Net	<u>19,067,271</u>	<u>(666,130)</u>	<u>(214)</u>	<u>-</u>	<u>290,882</u>	<u>18,691,809</u>
Capital Assets, Net	<u>\$ 19,710,697</u>	<u>1,943,284</u>	<u>(214)</u>	<u>63,039</u>	<u>-</u>	<u>21,716,806</u>

Adjustments:

An adjustment was made to construction in progress to include costs from prior years.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

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

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

(7) Natural Classifications with Functional Classifications.

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

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation	Other	Total
Instruction	\$ 4,897,106	1,107,516	38,458	129,245	7,995	-	434,090	-	118,618	6,733,028
Academic support	362,824	82,881	3,509	17,576	-	-	75,686	-	35,704	578,180
Student services	755,370	289,563	21,293	246,013	3,623	-	97,956	-	13,966	1,427,784
Institutional support	585,433	163,553	32,501	420,114	75,711	-	88,410	-	41,001	1,406,723
Operation of plant	255,189	80,978	33,212	440,636	441,588	-	72,696	-	45	1,324,344
Student financial aid	-	-	-	-	-	4,718,798	-	-	-	4,718,798
Auxiliary enterprise	389,162	71,616	-	17,102	244,818	-	1,044,155	-	12,270	1,779,123
Depreciation	-	-	-	-	-	-	-	767,041	-	767,041
Total Operating Expenses	\$ 7,245,084	1,796,107	128,973	1,270,686	773,735	4,718,798	1,812,993	767,041	221,604	18,735,021

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

(8) Construction Commitments and Financing.

Commitments under contract:

Project Title	Total Cost to Complete	Funded By	
		State Funds	Institutional Funds
Wastewater Treatment Plant	\$ 49,601	49,601	-
Re-roof & HVAC Project - Vo-Tech Building	99,052		99,052
Renovate Brumfield Building	1,328,645		1,328,645
Entergy Management System - Johnson Controls	124,451		124,451
Total	\$ 1,601,749	49,601	1,552,148

*Bryan Science Building project not under contract as of June 30, 2005.

(9) Pension Plan.

Plan description - The 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 Community College's contributions to PERS for the years ending June 30, 2005, 2004 and 2003 were \$673,828, \$676,407 and \$638,624, respectively, equal to the required contributions for each year.

(10) Subsequent Events.

On August 29, 2005, Hurricane Katrina caused damages to properties owned by Southwest Mississippi Community College. While damages to buildings were not material, the college did sustain significant losses to timber on college lands. At the end of fieldwork on this audit, no determination had been made as to the final settlement from insurance proceeds and from the Federal Emergency Management Agency (FEMA) assistance.

On December 13, 2005, the college was notified of a grant from the Bush-Katrina Fund of \$170,000 to assist students in the Hurricane Katrina affected areas.

On February 14, 2006, the college approved a bid for administrative software to include a financial package for \$645,682.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

(11) Litigation.

The college is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the college with respect to various proceedings. However, there are no lawsuits or threatened proceedings at the present that will have a material adverse effect on the financial condition of the college.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

SUPPLEMENTAL INFORMATION

(This page was left blank intentionally.)

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

Schedule 1

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Education</u>		
Student Financial Aid - Cluster:		
Direct programs:		
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	\$ 57,773
Federal Work-Study Program (FWS)	84.033	81,409
Federal Pell Grant Program	84.063	3,498,504
Total Student Financial Aid Cluster		<u>3,637,686</u>
Pass through programs from:		
Board of Trustees of Institutions of Higher Learning - Leveraging Educational Assistance Partnership	84.069	3,383
State Department of Education - Adult Education - State Grant Program	84.002	59,922
State Department of Education - Vocational Education Basic Grants	84.048	123,929
State Department of Education - Tech-Prep Education	84.243	40,480
Total U. S. Department of Education		<u>227,714</u>
Total U.S. Department of Education		<u>3,865,400</u>
<u>U. S. Department of Labor</u>		
Passed-through programs from:		
Mississippi Department of Education - WIA Youth Activities	17.259	131,141
Total U. S. Department of Labor		<u>131,141</u>
<u>U. S. Department of Agriculture</u>		
Direct programs:		
Distance Learning and Telemedicine Loans and Grants	10.855	59,769
Total U. S. Department of Agriculture		<u>59,769</u>
Total Expenditures of Federal Awards		<u>\$ 4,056,310</u>

NOTES TO SCHEDULE

This schedule was prepared using the same basis of accounting and the same basis of accounting policies, as applicable used for the general purpose financial statements.

(This page left blank intentionally.)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

(This page left blank intentionally)

April 7, 2006

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

Board of Trustees of Southwest Mississippi Community College
College Drive
Summit, MS 39666

We have audited the financial statements of Southwest Mississippi 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 April 7, 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.

Compliance and Other Matters

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the Community College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 05-01 and 05-02.

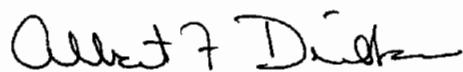
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the finding referred to above is not a material weakness.

Albert F. Dribben, CPA

P. O. Box 1411 113 North Broadway Avenue McComb, MS 39649-1411
Phone: (601) 684-4819 (601) 684-4870 1-888-299-4829 Toll Free Fax: (601) 684-4818
Email: dribbencpa@cableone.net Web: www.dribbencpa.com

This report is intended solely for the information and use of the community 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.

Sincerely,

A handwritten signature in cursive script that reads "Albert F. Dribben".

Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

**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**

Board of Trustees of Southwest Mississippi Community College
College Drive
Summit, MS 39666

Compliance

We have audited the compliance of Southwest Mississippi Community College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Community 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 Community College's management. Our responsibility is to express an opinion on the Community College's compliance based on our audit.

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

In our opinion, Southwest Mississippi Community College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

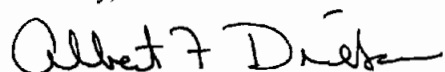
Internal Control Over Compliance

The management of the Southwest Mississippi 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 Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the community college, Members of the Legislature, and 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.

Sincerely,

A handwritten signature in black ink that reads "Albert F. Dribben". The signature is written in a cursive style with a large, prominent "A" and "D".

Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

(This page left blank intentionally)

April 7, 2006

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

Board of Trustees of Southwest Mississippi Community College
College Drive
Summit, MS 39666

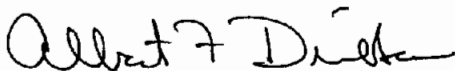
We have audited the financial statements of Southwest Mississippi Community College as of and for the year ended June 30, 2005, and have issued our report thereon dated April 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the community 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.

Sincerely,



Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

(This page was left blank intentionally.)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(This page left blank intentionally)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section I: Summary of Auditor's Results

Financial Statements

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

Federal Awards:

- | | | |
|----|--|-------------|
| 4 | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5 | Internal control over major programs: | |
| a. | Material weakness identified? | No |
| b. | Reportable condition identified that are not considered to be material weaknesses? | No |
| 6 | Any audit finding reported as required by Section ____,510(a) of Circular A-133? | No |
| 7 | Federal programs identified as major programs: | |
| | Cluster: | |
| | Federal Supplemental Educational Opportunity Grants (FSEOG) | 84.007 |
| | Federal Work Study Program | 84.033 |
| | Federal Pell Grant Program (PELL) | 84.063 |
| 8 | The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9 | Auditee qualified as low-risk auditee? | Yes |
| 10 | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____,315(b) of OMB Circular A-133? | No |

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Section 2: Financial Statement Findings

Reportable Condition(s) Not Considered To Be Material Weaknesses

05-1 Finding

As reported in the prior year's audit report, in our test of general fixed assets, we noted several instances of purchased equipment without identification tags and asset numbers.

Recommendation

We recommend that all assets meeting the criteria for property identification be labeled with a property tag to denote college ownership and giving an asset identification number.

05-2 Finding

The following internal control weakness was noted during our examination of general expenditures selected for testing purposes:

- We noted two instances of expenditures having purchase order dates after invoice dates.

Recommendation

We recommend that policies and procedures be implemented to correct the above noted weaknesses. At a minimum, the college should implement the following procedure:

- Purchase orders should be prepared and approved by college personnel prior to the ordering of the goods and services. Only by so doing can personnel determine if funds are available and within budget. Exceeding fund, cash balance, or budgeted amount are all state law violations; therefore, this internal control mechanism is important.

Section 3: Federal Award Findings and Questioned Costs

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

AUDITEE'S CORRECTIVE ACTION PLAN

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

(This page was left blank intentionally.)



College Drive
Summit, Mississippi 39666
601-276-2000

June 5, 2006

Dribben & Associates, Ltd.
P. O. Box 1411
McComb, MS 39649-1411

As required by Section ____ .315© of OMB Circular A-133, Southwest Mississippi Community College has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

Finding

Corrective Action Plan Details

05-01

a. Name(s) of Contact Person(s) Responsible or Corrective Action:

Judy R. Davis, Comptroller, 601-276-2514.
Grady E. Smith, Dean of Business Affairs. 601-276-3704.

b. Corrective Action Planned:

The responsibility of maintaining the equipment inventory for items costing more than \$500 but not meeting threshold amounts or description for inclusion as capital assets was transferred to the Comptroller effective July 1, 2005. Procedures for maintaining inventory were reviewed and revised. All property acquired subsequent to that date has been identified and appropriately tagged with an inventory number. Several items acquired after June 30, 2004 but before July 1, 2005 remain untagged. All of the items have been identified and the college is in the process of having them tagged as required.

05-02

c. Anticipated Completion Date:

The tagging of all equipment inventory will be completed by September 30, 2006.

a. Name(s) of Contact Person(s) Responsible or Corrective Action:

Judy Davis, Comptroller, 601-276-2841.
Grady E. Smith, Dean of Business Affairs, 601-276-3704.

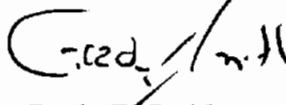
b. Corrective Action Planned:

The college already includes in its purchasing policies and procedures steps adhering to the practice of obtaining the appropriate approval and authority before committing college resources to a vendor. We will continue to ensure workshops are conducted annually to make all employees aware of the procedures. Too, the purchasing manual will be posted on the portion of the school's website dedicated to the business office. Finally, the procedures will be strengthened by adding an addendum stating that the college cannot be obligated without the appropriate issuance of a purchase order; mitigating that obligation to the employee.

c. Anticipated Completion Date:

The corrective measures will be implemented immediately.

Sincerely yours,



Grady E. Smith
Dean of Business Affairs