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EAST MISSISSIPPI COMMUNITY COLLEGE
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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**EAST MISSISSIPPI COMMUNITY COLLEGE
INDEPENDENT AUDITORS' REPORT**



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INDEPENDENT AUDITORS' REPORT

TO DR RICK YOUNG PRESIDENT
AND BOARD OF TRUSTEES
EAST MISSISSIPPI COMMUNITY COLLEGE
SCOOBA MISSISSIPPI

We have audited the accompanying financial statements of East Mississippi Community College as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of East 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 U.S. generally accepted auditing standards 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.

As discussed in Note 1 to the financial statements, the College adopted the provisions of Governmental Accounting Standards Board Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 35 – *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, Statement No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and Statement No. 38 – *Certain Financial Statement Note Disclosures*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Mississippi Community College as of June 30, 2006 and the results of operations and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, East Mississippi Community College adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement No. 14*, for the year ended June 30, 2006.

In accordance with *Government Auditing Standards* we have also issued our report dated November 20, 2006 on our consideration of East Mississippi Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 are not required parts of the general purpose financial statements but are 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 supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of East Mississippi Community College taken as a whole. 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Rea, Shaw, Giffin & Stuart

REA, SHAW, GIFFIN & STUART, LLP

Meridian, Mississippi
November 20, 2006

**EAST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

EAST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006

This section of the East Mississippi Community College annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2006. This discussion, along with the financial statements and related footnote disclosures, have been prepared by management and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. Two years of financial data are presented. The financial statements, footnotes, and this discussion are the responsibility of management.

Using the Annual Report

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

One of the most important questions asked is whether the College as a whole is better or worse off because of the year's activities. The key to understanding this question is the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These Statements present financial information in a form similar to that 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 non-operating. The financial reporting model classifies State appropriations and gifts as non-operating revenues. The College's dependency on State aid and gifts results in an operating deficit. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Management's Discussion and Analysis (continued)

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

Condensed Statement of Net Assets

	June 30, 2006		June 30, 2005	
	Amount	Percent	Amount	Percent
ASSETS				
Current Assets	\$ 12,431,537	38.98	\$ 9,473,554	32.29
Noncurrent Assets:				
Capital, net	19,212,987	60.24	19,665,510	67.04
Other	249,823	.78	197,317	.67
Total assets	\$ 31,894,347	100.00	\$ 29,336,381	100.00
LIABILITIES				
Current Liabilities	\$ 2,202,726	39.19	\$ 1,945,064	31.98
Noncurrent Liabilities	3,417,579	60.81	4,133,920	68.02
Total liabilities	\$ 5,620,305	100.00	\$ 6,078,984	100.00
NET ASSETS				
Invested in Capital Assets, Net	\$ 15,092,105	57.44	\$ 14,856,857	63.88
Restricted:				
Nonexpendable	263,791	1.01	208,079	0.90
Expendable	1,664,336	6.33	1,398,334	6.00
Unrestricted	9,253,810	35.22	6,794,127	29.22
Total net assets	\$ 26,274,042	100.00	\$ 23,257,397	100.00

Management's Discussion and Analysis (continued)

ASSETS

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the College's bank accounts. The total amount of cash and cash equivalents reported as current assets on the College financial statements were \$9,399,804 at June 30, 2006, and \$6,855,219 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 revenue. The receivables are shown net of allowance for doubtful accounts. The College receivables totaled \$2,522,662 at June 30, 2006 and \$2,082,675 at June 30, 2005.

Inventories

The College maintains inventories of merchandise for resale to students. This inventory is made up of books, student supplies, and institutional memorabilia. Inventories totaled \$509,071 at June 30, 2006 and \$535,660 at June 30, 2005.

Non-current Assets

Cash and Cash Equivalents

Cash and cash equivalents are those funds that are on deposit in the College's 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 totaled \$83,028 at June 30, 2006 and \$31,722 at June 30, 2005.

Other Investments

Other long-term investments include certificates of deposit and marketable securities. These investments are recorded at fair market value. The fair market value was \$166,795 at June 30, 2006 and \$165,595 at June 30, 2005.

Capital Assets, Net

Capital assets, net, consists of land, infrastructure, buildings, equipment, and library holdings at June 30, 2006. The amount reported is net of accumulated depreciation. Capital assets, net, totaled \$19,212,987 at June 30, 2006 and \$19,665,510 at June 30, 2005.

Management's Discussion and Analysis (continued)

LIABILITIES

Current Liabilities

Accounts Payable and Accrued Liabilities

Accounts Payable and accrued liabilities represent amounts due at June 30, 2006 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$1,108,615 at June 30, 2006 and \$867,956 at June 30, 2005.

Deferred Revenue

Deferred revenue represents revenue that was received by the College during the fiscal year, but the College did not earn until the next fiscal year. The deferred revenue totaled \$378,848 at June 30, 2006 and \$389,337 at June 30, 2005.

Long-term Liabilities-Current Portion

Long-term liabilities-current portion represents the portion of notes payable and lease purchases payable within the next fiscal year. The amount of the current portion was \$715,263 at June 30, 2006 and \$687,771 at June 30, 2005.

Noncurrent Liabilities

Long-term Liabilities

This liability consists of refundable housing deposits, and notes payable and lease purchases payable beyond the next fiscal year. The refundable deposits were \$11,960 and the noncurrent balance on debt was \$3,405,619 at June 30, 2006. The refundable deposits were \$13,038 and the noncurrent balance on debt was \$4,120,882 at June 30, 2005.

NET ASSETS

Net assets represents the difference between the College's assets and liabilities. Total net assets were \$26,274,042 at June 30, 2006 and \$23,257,397 at June 30, 2005.

Analysis of Net Assets

Restricted non-expendable net assets consists of endowment gifts with restrictions on spending the principal given, and an unemployment fund reserve.

Restricted expendable net assets consists of a debt service fund, balances in the Enlargement and Improvement tax fund, and balances dedicated for the Center for Manufacturing Technology Excellence.

Management's Discussion and Analysis (continued)

The following is a breakdown of the restricted net assets:

	June 30, 2006 Amount	June 30, 2005 Amount
Endowment funds	\$ 202,046	\$ 148,191
Unemployment reserve	61,745	59,888
Restricted for capital projects	326,415	223,929
Debt service funds	482,004	481,385
Other	88,457	896
Center for manufacturing technology	767,460	692,124
Total restricted net assets	<u>\$ 1,928,127</u>	<u>\$ 1,606,413</u>

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

The following is a breakdown of the unrestricted net assets:

	June 30, 2006 Amount	June 30, 2005 Amount
Unrestricted general fund	\$ 6,680,944	\$ 4,755,340
Unrestricted auxiliary fund	2,455,008	1,929,120
Other unrestricted funds	117,858	109,667
Total unrestricted net assets	<u>\$ 9,253,810</u>	<u>\$ 6,794,127</u>

Management's Discussion and Analysis (continued)

**Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006**

	June 30, 2006 <u>Amount</u>	June 30, 2005 <u>Amount</u>
Operating revenues:		
Tuition and fees	\$ 5,458,806	\$ 4,883,100
Grants and contracts	16,224,785	14,813,936
Auxiliary enterprises	2,360,241	2,198,697
Other operating revenues	<u>555,422</u>	<u>310,880</u>
Total operating revenues	<u>\$ 24,599,254</u>	<u>\$ 22,206,613</u>
Operating expenses	<u>\$ 33,468,307</u>	<u>\$ 29,958,112</u>
Operating loss	<u>\$ (8,869,053)</u>	<u>\$ (7,751,499)</u>
Non-operating revenues:		
State appropriations	\$ 9,102,644	\$ 8,763,347
County appropriations	2,710,858	2,712,971
Non-capital grants and gifts	-	-
Investment income, net	244,097	91,278
Other non-operating expenses	<u>(171,901)</u>	<u>(203,106)</u>
Net non-operating revenues	<u>\$ 11,885,698</u>	<u>\$ 11,364,490</u>
Income before other items	<u>\$ 3,016,645</u>	<u>\$ 3,612,991</u>
Capital appropriations	\$ -	\$ -
Capital grants	<u>-</u>	<u>-</u>
Total other revenues	<u>\$ -</u>	<u>\$ -</u>
Total increase in net assets	<u>\$ 3,016,645</u>	<u>\$ 3,612,991</u>
Net assets		
Net assets at beginning of year, as restated	<u>\$ 23,257,397</u>	<u>\$ 19,644,406</u>
Net assets at end of year	<u>\$ 26,274,042</u>	<u>\$ 23,257,397</u>

Total operating loss was \$8,869,053 for fiscal year 2006 and \$7,751,499 for fiscal year 2005. Since neither the State of Mississippi appropriation nor the appropriations from within the college district are included within operating revenue per GASB No. 35, the College shows an operating loss each year.

Management's Discussion and Analysis (continued)

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 2006 were \$24,599,254 and \$22,206,613 for 2005. Tuition and fees were \$5,458,806 for 2006 and \$4,883,100 for 2005. This is net of the tuition discount, which was \$2,984,504 in 2006 and \$3,005,903 in 2005. Operating expenses, including depreciation of \$1,097,309 totaled \$33,468,307 for 2006. Of the 2006 total \$13,092,625 or 39% was for instruction. Operating expenses, including depreciation of \$1,075,655, totaled \$29,958,112 for year 2005. Of the 2005 total \$10,878,180 or 36% was for instruction.

REVENUES

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes. The net total was \$5,458,806 for 2006. The tuition discount for the 2006 fiscal year was \$2,984,504. The net total was \$4,883,100 for 2005. The tuition discount for the 2005 fiscal year was \$3,005,903.

Grants and Contracts

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

The following table contains details of the College's grant and contract awards for the fiscal years ended June 30, 2006 and June 30, 2005:

	<u>June 30, 2006</u> Amount	<u>June 30, 2005</u> Amount
Federal sources:		
Department of Education	\$ 11,686,441	\$ 11,689,168
State sources:		
State Board for Community & Junior Colleges	4,424,149	2,913,735
Other sources	<u>114,195</u>	<u>211,033</u>
Total all sources	<u>\$ 16,224,785</u>	<u>\$ 14,813,936</u>

Management's Discussion and Analysis (continued)

Sales and Services from Educational Activities

Other operating revenues consists of income from educational activities that totaled \$321,129 for the 2006 fiscal year and \$117,504 for the 2005 fiscal year.

Sales and Services from Auxiliary Services, Net

Sales and services from Auxiliary Services, net, consists 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 include the College's bookstore, as well as student housing, and food services.

Operating Expenses

Operating expenses for fiscal year 2006, totaling \$33,468,307, include salaries and benefits of \$14,985,122, scholarships and fellowships of \$6,853,206, utilities of \$814,586, services of \$5,173,866, supplies of \$4,356,594, travel of \$187,624, and depreciation of \$1,097,309. Operating expenses for fiscal year 2005, totaling \$29,958,112 included salaries and benefits of \$13,673,673, scholarships and fellowships of \$7,251,266, utilities of \$712,331, services of \$3,860,200, supplies of \$3,190,320, travel of \$183,475, depreciation of \$1,075,655, and other expenses of \$11,192.

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
	Amount	Amount
Expenses by functions:		
Instruction	\$ 12,289,644	\$ 10,878,180
Academic support	355,401	339,904
Student services	2,356,526	2,030,219
Institutional support	3,258,824	2,968,644
Operations and maintenance of plant	4,453,196	2,552,672
Student financial aid	6,853,206	7,251,266
Auxiliary enterprises	2,804,201	2,861,572
Depreciation	<u>1,097,309</u>	<u>1,075,655</u>
Total operating expenses by function	<u>\$ 33,468,307</u>	<u>\$ 29,958,112</u>

Management's Discussion and Analysis (continued)

Non-operating Revenues (Expenses)

State Aid

The College received \$9,102,644 for 2005-2006 fiscal year, of which \$8,952,644 was used for operations, and \$150,000 was earmarked for the Center for Manufacturing Technology Excellence. The College received \$8,763,347 for 2004-2005 fiscal year, of which \$8,613,347 was used for operations, and \$150,000 was earmarked for the Center for Manufacturing Technology Excellence. The College's largest source of non-operating revenue is the State of Mississippi appropriation.

County Appropriations

The College also receives revenue from the six counties that comprise the college district. The College uses the maintenance levy for operational purposes, including salaries and benefits. The enlargement and improvement levy is accounted for in the College's plant fund. Also, the College receives a special levy dedicated for debt service. The appropriation is received monthly, beginning in July of each year, since the fiscal year begins July 1. The College received \$1,458,872 for maintenance funds and \$1,251,986 for plant funds and debt service for the 2006 fiscal year from the counties. The College received \$1,445,386 for maintenance funds and \$1,267,585 for plant funds and debt service for the 2005 fiscal year from the counties. This appropriation was fully recorded by the College during the fiscal year.

Investment Income, Net

This includes the interest income from the cash in the College's bank accounts, and the unrealized gains and losses on the investment held with an outside agency. The investment income for the year ended June 30, 2006 was \$244,097. The investment income for the year ended June 30, 2005 was \$91,278.

Other Non-Operating Expenses

This consists of the interest paid on scheduled debt service during the 2006 fiscal year. The amount paid in fiscal year 2005 totaled \$171,901. The amount paid in fiscal year 2005 totaled \$203,106.

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.

Management's Discussion and Analysis (continued)

Condensed Statement of Cash Flows (Direct Method)

For the Fiscal Year Ended June 30, 2006

	June 30, 2006 <u>Amount</u>	June 30, 2005 <u>Amount</u>
Cash and Cash Equivalents Provided by (used in):		
Operating activities	\$ (7,968,598)	\$ (7,141,279)
Non-capital financing activities	11,221,127	10,663,045
Capital and related financing activities	(897,537)	(1,340,369)
Investing activities	<u>240,899</u>	<u>88,669</u>
Net decrease in cash and cash equivalents	\$ 2,595,891	\$ 2,270,066
Cash and cash equivalents - beginning of the year	<u>6,886,941</u>	<u>4,616,875</u>
Cash and cash equivalents - end of the year	<u>\$ 9,482,832</u>	<u>\$ 6,886,941</u>

In fiscal year 2006 the major sources of funds included in operating activities were: student tuition and fees, \$5,589,321; auxiliary enterprises, \$2,145,676; and grants and contracts, \$15,826,934. The major uses of funds were payments made to employees, \$15,039,045, scholarships and fellowships of \$6,853,206 and payments to suppliers, \$10,193,700.

In fiscal year 2005 the major sources of funds included in operating activities were: student tuition and fees, \$4,648,938; auxiliary enterprises, \$2,219,979; and grants and contracts, \$14,702,848. The major uses of funds were payments made to employees, \$13,674,415, scholarships and fellowships of \$7,251,266, and payments to suppliers, \$8,087,049.

The largest inflow of cash in the non-capital financing activities group is the State appropriation which was \$9,142,543 in fiscal year 2006 and \$8,605,003 in fiscal year 2005.

Significant Capital Asset Transactions

East Mississippi Community College embarked on a capital projects building program early in fiscal 2001-2002. Financing for the building projects came from a ten-year note issue and state capital project funding. This building program is continuing.

The capital project funding that was approved for fiscal year 2004 during the special session of the Legislature in November, 2004 was approximately \$3,100,000. Construction of the Humanities and Fine Arts complex at the Golden Triangle Campus began in 2006. Construction on this project during the 2006 fiscal year amounted to \$21,523. The College will put an additional \$350,000 of local funds into this project during fiscal year 2007. The project should be completed before the beginning of the 2007-2008 school year. Also completed from these capital project funds during fiscal year 2006 was the replacement of a portion of the roof at the Golden Triangle Campus for \$343,968 and demolition of the old gymnasium at the Scooba Campus in the amount of \$46,610.

Management's Discussion and Analysis (continued)

Factors Impacting Future Periods

There are a number of issues of Community College-wide importance that directly impacted the fiscal year 2006 financial situation, number one being Hurricane Katrina.

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. Damage sustained from the hurricane was repaired using federal emergency funds and private funds.

State appropriations contribute approximately thirty-seven 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.

The College intends to purchase new administrative computing hardware and software during the 2007 fiscal year at an expense of approximately \$1.2 million. The College plans to pay for the system from local funds over a period of 3 years. This should meet the needs of the college for the next 10 -15 years. Plans are being made to upgrade library holdings during the 2007 fiscal year. This cost should be approximately \$200,000 from local funds.

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

**EAST MISSISSIPPI COMMUNITY COLLEGE
BASIC FINANCIAL STATEMENTS**

EAST MISSISSIPPI COMMUNITY COLLEGE

STATEMENT OF NET ASSETS

June 30, 2006

EAST MISSISSIPPI COMMUNITY COLLEGE

STATEMENT OF NET ASSETS

June 30, 2006

ASSETS

Current Assets:

Cash and cash equivalents	\$ 9,399,804
Accounts receivables, net	2,522,662
Inventories	<u>509,071</u>

Total current assets \$ 12,431,537

Noncurrent Assets:

Restricted cash and cash equivalents	\$ 83,028
Endowment investments	119,128
Other long-term investments	47,667
Capital assets, net of accumulated depreciation	<u>19,212,987</u>

Total noncurrent assets \$ 19,462,810

Total assets \$ 31,894,347

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	\$ 1,108,615
Deferred revenues	378,848
Long-term liabilities-current portion	<u>715,263</u>

Total current liabilities \$ 2,202,726

Noncurrent Liabilities:

Deposits refundable (housing)	\$ 11,960
Long-term liabilities	<u>3,405,619</u>

Total noncurrent liabilities \$ 3,417,579

Total liabilities \$ 5,620,305

NET ASSETS

Invested in capital assets, net of related debt \$ 15,092,105

Restricted for:

Nonexpendable:

Endowment funds	\$ 202,046
Unemployment fund	61,745

Expendable:

Capital projects	326,415
Debt service	482,004
Other	88,457
CMTE funds	767,460

Unrestricted 9,253,810

Total net assets \$ 26,274,042

See Accompanying Notes to Financial Statements.

EAST MISSISSIPPI COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

EAST MISSISSIPPI COMMUNITY COLLEGE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

Operating Revenues

Tuition and fees (net of scholarship allowances of \$2,984,504)	\$ 5,458,806
Federal appropriations	
Federal grants and contracts	11,686,441
State grants and contracts	4,424,149
Nongovernmental grants and contracts	114,195
Sales and services of educational departments	321,129
Auxiliary enterprises:	
Student housing and food (net of scholarship allowances of \$327,967)	599,869
Bookstore (net of scholarship allowances of \$944,996)	1,760,372
Other operating revenues	<u>234,293</u>
Total operating revenues	<u>\$ 24,599,254</u>

Operating Expenses

Salaries and wages	\$ 12,028,051
Fringe benefits	2,957,071
Travel	187,624
Contractual services	5,173,866
Utilities	814,586
Scholarships and fellowships	6,853,206
Commodities	4,356,594
Depreciation expense	<u>1,097,309</u>
Total operating expenses	<u>\$ 33,468,307</u>
Operating loss	<u>\$ (8,869,053)</u>

Nonoperating Revenues (Expenses)

State appropriations	\$ 9,102,644
Local appropriations	2,710,858
Investment Income	244,097
Interest expense on capital asset-related debt	<u>(171,901)</u>
Total Net Nonoperating revenues (expenses)	<u>\$ 11,885,698</u>
Income before other revenues, expenses, gains and losses	\$ 3,016,645
Change in net assets	<u>\$ 3,016,645</u>

Net Assets

Net assets - beginning of year	<u>\$ 23,257,397</u>
Net assets - end of year	<u>\$ 26,274,042</u>

EAST MISSISSIPPI COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

EAST MISSISSIPPI COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

Cash Flows from Operating Activities

Tuition and fees	\$ 5,589,321
Grants and contracts	15,826,934
Sales and services of educational departments	321,129
Payments to suppliers	(9,398,364)
Payments to employees for salaries and benefits	(15,039,045)
Payments for utilities	(795,336)
Payments for scholarships and fellowships	(6,853,206)
Auxiliary enterprise charges:	
Student housing and food service	598,792
Bookstore	1,546,884
Other receipts	<u>234,293</u>

Net cash used in operating activities \$ (7,968,598)

Cash Flows from Noncapital Financing Activities

State appropriations	\$ 9,142,543
County appropriations	<u>2,078,584</u>

Net cash provided by noncapital financing activities \$ 11,221,127

Cash Flows from Capital and Related Financing Activities

Cash paid for capital assets	\$ (662,585)
Capital appropriations received	624,720
Principal paid on capital debt and leases	(687,771)
Interest paid on capital debt and leases	<u>(171,901)</u>

Net cash used in capital and related financing activities \$ (897,537)

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	\$ (1,199)
Interest received on investments	<u>242,098</u>

Net cash provided by investing activities \$ 240,899

Net increase in cash and cash equivalents \$ 2,595,891

Cash and cash equivalents - beginning of the year	<u>6,886,941</u>
Cash and cash equivalents - end of year	<u>\$ 9,482,832</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating loss	\$ (8,869,053)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation expense	1,097,309
Changes in assets and liabilities:	
Receivables, net	(470,334)
Inventories	26,589
Accounts payables and accrued liabilities	258,458
Deferred revenues	(10,489)
Deposits refundable	(1,078)
Cash Flows Reported in Other Categories	
Interest in investments	<u>-</u>
Net cash used in operating activities	<u>\$ (7,968,598)</u>

See Accompanying Notes to Financial Statements.

EAST MISSISSIPPI COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

Note 1. Summary of Significant Accounting Policies

Reporting entity

The financial statements presented are for the East Mississippi Community College (the College), which is a state and locally supported institution of higher learning. Included within the community college system are the main campus located at Scooba, the Golden Triangle campus located at Mayhew and the centers located at Columbus Air Force Base and Meridian Naval Air Station.

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 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.

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.

Cash equivalents

For the purpose of the statement of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

The College accounts for their investments at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

Note 1. Summary of Significant Accounting Policies (continued)

Accounts receivable, net

Accounts receivable consists of tuition and fee charges to students. Accounts receivable also includes amounts due from federal and state governments and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the College's grants and contracts. Accounts receivable is recorded net of an allowance for doubtful accounts.

Inventories

Inventories consists of books and supplies. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out (FIFO) basis.

Non-current cash and investments

Cash and investments that are restricted for endowment fund purposes and for the unemployment reserve are classified as non-current assets in the statement of net assets.

Capital assets

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 are charged to operating expense in the year in which the expense incurred. Depreciation is computed using the straight line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See Note 6 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred.

Deferred revenues

Deferred revenues include amounts received for tuition and fees prior to the end of the fiscal year but relate to the subsequent accounting period.

Accrued leave

Full-time staff employees and certain faculty and administrators earn twelve days vacation per year. The College does not provide for the accumulation or payment of sick leave or vacation beyond one fiscal year; therefore, no liability has been accrued in the financial statements.

Note 1. Summary of Significant Accounting Policies (continued)

Classification of Revenues

The College has classified its revenues as either operating or non-operating 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) federal, state and local grants and contracts and federal appropriations.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating 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 and investment income.

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, 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 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.

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 obligations. Non-expendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended and unemployment reserve investment. Expendable restricted net assets represent funds for capital projects, debt service and the Center for Manufacturing Technology Excellence.

The unrestricted net asset balance of \$9,253,809 at June 30, 2006, includes \$2,455,008 for auxiliary operations, \$117,858 designated for student groups, and a remaining amount of \$6,680,943.

Note 1. Summary of Significant Accounting Policies (continued)

Changes in accounting standards

The College has implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement No. 14*, in the current fiscal year 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.

Note 2. Cash and Investments

The College's policy on cash and short-term investments are set forth by the Board of Trustees which authorizes the investment 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 as permitted by state law.

For purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the College's endowments are included in non-current investments.

The collateral for public entities' deposits in financial institutions is now 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 of the Mississippi Code Annotated (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.

Custodial Credit Risk – Deposits – Custodial risk is the risk that in the event of a depository failure, the District's deposits may be returned to it. The District does not have a formal policy for custodial credit risk. However, state law permits the Mississippi State Treasurer's office to manage that risk on behalf of the District. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the District. By signed agreement, the Mississippi State Treasurer's office is acting on behalf of the District.

Interest Rate Risk – The District does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Note 3. Investments

The District had the following investments at June 30, 2006:

<u>Investment</u>	<u>Credit Rating</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificates of deposit	N/A	Less than 1 year	\$ 72,326
Mutual Funds	AAA	Less than 1 year	<u>94,469</u>
			<u>\$ 166,795</u>

At year end, the District's investments included \$4,566,104 of Certificates of Deposits held by Merchants and Planters Bank. This amount represents more than 5% of the District's investments.

The following table summarizes the classification of the District's investments reported on the statement of net assets at June 30, 2006:

Endowment investments	\$ 119,128
Other investments	<u>47,667</u>
	<u>\$ 166,795</u>

Note 4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2006

Student tuition	\$ 1,229,645
Auxiliary enterprises and other operating activities	404,008
Federal, state and private grants and contracts	965,175
State and county appropriations	345,599
Accrued interest	<u>2,758</u>
Total accounts receivable	\$ 2,947,185
Less allowance for doubtful accounts	<u>424,523</u>
Net accounts receivable	<u>\$ 2,522,662</u>

Note 5. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2006, is presented as follows:

Changes in Capital Assets For the Fiscal Year Ended June 30, 2006	07/01/05 Beginning Balances	Increases	Decreases	06/30/06 Year-end Balance
Capital assets, non-depreciable:				
Land	\$ 381,842	\$ 2,500	\$ 87,332	\$ 297,010
Construction in progress	<u>14,067</u>	<u>412,100</u>	<u>404,644</u>	<u>21,523</u>
Total capital assets, non-depreciable	<u>\$ 395,909</u>	<u>\$ 414,600</u>	<u>\$ 491,976</u>	<u>\$ 318,533</u>
Capital assets, depreciable:				
Buildings	\$ 23,634,645	\$ 350,366	\$ -	\$ 23,985,011
General infrastructure	1,471,739	44,591	-	1,516,330
Furniture, fixtures and equipment	4,333,419	265,179	53,986	4,544,612
Vehicles	425,597	25,700	35,750	415,547
Books and film	<u>1,151,421</u>	<u>48,629</u>	<u>25,524</u>	<u>1,174,526</u>
Total capital assets, depreciable	<u>\$ 31,016,821</u>	<u>\$ 734,465</u>	<u>\$ 115,260</u>	<u>\$ 31,636,026</u>
Total capital assets	<u>\$ 31,412,730</u>	<u>\$ 1,149,065</u>	<u>\$ 607,236</u>	<u>\$ 31,954,559</u>
Less accumulated depreciation for:				
Buildings	\$ 7,023,301	\$ 530,652	\$ -	\$ 7,553,953
General infrastructure	392,275	58,499	-	450,774
Furniture, fixtures and equipment	3,163,604	409,529	52,422	3,520,711
Vehicles	285,146	32,882	25,011	293,017
Books and film	<u>882,894</u>	<u>65,747</u>	<u>25,524</u>	<u>923,117</u>
Total accumulated depreciation	<u>\$ 11,747,220</u>	<u>\$ 1,097,309</u>	<u>\$ 102,957</u>	<u>\$ 12,741,572</u>
Capital assets, net of depreciation	<u>\$ 19,665,510</u>	<u>\$ 51,756</u>	<u>\$ 504,279</u>	<u>\$ 19,212,987</u>

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

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

Note 6. Long-term Liabilities

Long-term liabilities of the College consist of notes payable and capital lease obligations that are expected to be liquidated at least one year from June 30, 2006. Information regarding original issue amounts, interest rates and maturity dates for notes and capital lease included in the long-term liabilities balance at June 30, 2006 is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Note Issue	Beginning Balances		Reductions	Ending Balances 6/30/2006	Analysis of Year-end Balance	
	7/1/2005	Additions			Due Within One Year	Noncurrent Portion
Notes Payable:						
\$1,500,000 Trustmark						
Fixed rate, 4.70% \$5,100,000 BanCorp South	\$ 671,000	\$ -	\$ 159,000	\$ 512,000	\$ 164,000	\$ 348,000
Fixed rate, 4.11%	<u>3,805,000</u>	<u>-</u>	<u>480,000</u>	<u>3,325,000</u>	<u>500,000</u>	<u>2,825,000</u>
Total Notes Payable	<u>\$ 4,476,000</u>	<u>\$ -</u>	<u>\$ 639,000</u>	<u>\$ 3,837,000</u>	<u>\$ 664,000</u>	<u>\$ 3,173,000</u>
Lease-Purchase:						
Energy Impr. Trustmark						
Fixed Rate, 5.11% Original amount, \$507,618	\$ 332,653	\$ -	\$ 48,771	\$ 283,882	\$ 51,263	\$ 232,619
Total Debt	<u>\$ 4,808,653</u>	<u>\$ -</u>	<u>\$ 687,771</u>	<u>\$ 4,120,882</u>	<u>\$ 715,263</u>	<u>\$ 3,405,619</u>

Fiscal Year	Note Payable \$1,500,000 Trustmark	Note Payable \$5,100,000 BanCorp South	Lease Payable \$507,618 Trustmark	Total
	2007	\$ 164,000	\$ 500,000	\$ 51,263
2008	171,000	525,000	53,882	749,882
2009	177,000	540,000	56,637	773,637
2010		565,000	59,530	624,530
2011-2013	-	1,195,000	62,570	1,257,570
Total	<u>\$ 512,000</u>	<u>\$ 3,325,000</u>	<u>\$ 283,882</u>	<u>\$ 4,120,882</u>

Note 7. Operating Lease

Leased property under operating leases is composed of office equipment. The following is a schedule by years of the future minimum rental payments required under those operating leases:

Year ending June 30

2007	\$ 30,739
2008	11,946
2009	<u>5,736</u>

Total minimum payments required \$ 48,421

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, 2006 was \$41,952.

Note 8. Natural Classification with Functional Classifications

The College's operating expenses by functional classification were as follows for the year ended June 30, 2006:

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Other	Total
Instruction	\$ 8,221,531	\$ 1,874,596	\$ 81,130	\$ 1,617,991	\$ 295	\$ -	\$ 494,101	\$ -	\$ -	\$ 12,289,644
Research	-	-	-	-	-	-	-	-	-	-
Public Service	-	-	-	-	-	-	-	-	-	-
Academic Support	221,436	63,975	361	53,591	-	-	16,038	-	-	355,401
Student Services	1,414,770	398,314	43,025	321,774	-	-	178,643	-	-	2,356,526
Institutional Support	1,306,356	367,708	61,837	1,249,646	-	-	273,277	-	-	3,258,824
Operation of Plant	668,384	215,938	1,230	1,348,732	814,291	-	1,404,621	-	-	4,453,196
Student Aid	-	-	-	-	-	6,853,206	-	-	-	6,853,206
Auxiliary Enterprises	195,574	36,540	41	582,132	-	-	1,989,914	-	-	2,804,201
Depreciation	-	-	-	-	-	-	-	1,097,309	-	1,097,309
Hospital	-	-	-	-	-	-	-	-	-	-
Loan Fund Expenses	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-
Plant and Endowment Ops.	-	-	-	-	-	-	-	-	-	-
Total operating expenses	\$ 12,028,051	\$ 2,957,071	\$ 187,624	\$ 5,173,866	\$ 814,586	\$ 6,853,206	\$ 4,356,594	\$ 1,097,309	\$ -	\$ 33,468,307

Note 9. Construction Commitments and Financing

The College is constructing a new Humanities and Fine Arts building at the Golden Triangle campus through the Mississippi Bureau of Buildings at a cost of \$753,857. This project is scheduled to be completed in fiscal year 2007.

Note 10. Pension Plan

Plan description - East Mississippi Community College contributes to 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 State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to 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 East Mississippi Community College is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. East Mississippi Community College's contributions to PERS for the years ending June 30, 2006, 2005, and 2004 were \$1,157,683, \$963,509, and \$925,589, respectively, equal to the required contributions for each year.

Note 11. Foundation

East Mississippi Community College Foundation, Inc. is an independent corporation formed for the purpose of receiving funds for the sole benefit of the College. This foundation is separately audited and has not been included in these financial statements.

**EAST MISSISSIPPI COMMUNITY COLLEGE
SUPPLEMENTAL INFORMATION**

EAST MISSISSIPPI COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

EAST MISSISSIPPI COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2006

Schedule 1

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Agency or Pass-through Number	Federal Expenditures	State/Local Expenditures	Total Expenditures
Student Financial Aid:					
<u>U.S. Department of Education</u>					
PELL Grant Program	84.063		\$ 9,509,310	-	\$ 9,509,310
College Work-study	84.033		151,473	-	151,473
SEOG	84.007		182,195	-	182,195
Federal Family Education Loans (FFEL)	84.032		10,932,675	-	10,932,675
Total student financial aid			\$ 20,775,653	-	\$ 20,775,653
Other Programs:					
Direct Programs					
TRIO Grant	84.082		\$ 199,728	-	\$ 199,728
MSEIP Grant (3 Yr)	84.120		66,524	-	66,524
MSEIP Grant (2 Yr)	84.120		14,667	-	14,667
Passed through Three Rivers PDD					
WIA Grant	17.207	Three Rivers PDD	\$ 157,931	-	\$ 157,931
WIA Construction Skills Grant	17.207	Three Rivers PDD	49,225	-	49,225
Rapid Response Grant	17.207	Three Rivers PDD	65,000	-	65,000
Passed through State					
Department of Education					
Adult Basic Education	84.002	V002A6005	\$ 338,733	\$ 90,383	\$ 429,116
Basic Grants to States	84.048	V0000718830	581,087	-	581,087
Tech Prep	84.243	V0000718830	103,324	-	103,324
Institution of Higher Learning					
LEAP (SSIG)	84.069		\$ 4,688	-	\$ 4,688
SLEAP (Katrina Relief)	84.938F		16,500	-	16,500
Total other programs			\$ 1,597,407	\$ 90,383	\$ 1,687,790
Total expenditures of federal awards			\$ 22,373,060	\$ 90,383	\$ 22,463,443

Notes to Schedule

- (1) This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
- (2) For purposes of this schedule, loans made to students under the Federal Family Education Loan Program (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 federal lending institutions.

Federal grants per this schedule	\$ 22,373,060
Federal family education loans	<u>10,932,675</u>
Federal grants and contracts	<u>\$ 11,440,385</u>

EAST MISSISSIPPI COMMUNITY COLLEGE

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



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

TO DR RICK YOUNG PRESIDENT
AND BOARD OF TRUSTEES
EAST MISSISSIPPI COMMUNITY COLLEGE
SCOOBA MISSISSIPPI

We have audited the financial statements of East Mississippi Community College as of and for the year ended June 30, 2006 and have issued our report thereon dated November 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 East Mississippi 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 disclosed no instances of noncompliance and 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 East Mississippi 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 general purpose 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.

This report is intended solely for the information and use of management, entities with accreditation overview and 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.

Rea, Shaw, Giffin & Stuart

REA, SHAW, GIFFIN & STUART, LLP

Meridian, Mississippi
November 20, 2006

EAST MISSISSIPPI COMMUNITY COLLEGE

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

TO DR RICK YOUNG PRESIDENT
AND BOARD OF TRUSTEES
EAST MISSISSIPPI COMMUNITY COLLEGE
SCOOBA MISSISSIPPI

Compliance

We have audited the compliance of East 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 the major federal programs for the year ended June 30, 2006. East Mississippi Community College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal program is the responsibility of East Mississippi Community College's management. Our responsibility is to express an opinion on East Mississippi Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 East Mississippi 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 East Mississippi Community College's compliance with those requirements.

In our opinion, East Mississippi Community College complied, in all material aspects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of East 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 East Mississippi 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 noted no matters involving the 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 management, entities with accreditation overview and 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.

Rea, Shaw, Giffin & Stuart

REA, SHAW, GIFFIN & STUART, LLP

Meridian, Mississippi
November 20, 2006

**EAST MISSISSIPPI COMMUNITY COLLEGE
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

TO DR RICK YOUNG PRESIDENT
AND BOARD OF TRUSTEES
EAST MISSISSIPPI COMMUNITY COLLEGE
SCOOPA MISSISSIPPI

We have audited the financial statements of East Mississippi Community College as of and for the year ended June 30, 2006 and have issued our report thereon dated November 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, 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 management, entities with accreditation overview and 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.

Rea, Shaw, Giffin & Stuart

REA, SHAW, GIFFIN & STUART, LLP

Meridian, Mississippi
November 20, 2006

EAST MISSISSIPPI COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

EAST MISSISSIPPI COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section I. Summary of Auditors' Results

1. Type of auditors' report issued on the financial statements
Unqualified
2. Internal control - GAS audit
No reportable conditions
3. Compliance - GAS audit
No noncompliance reported
4. Internal control - major federal program
No reportable conditions
5. Type of auditors' report issued on compliance for major programs
Unqualified - The College complied in all material aspects with the requirements for major programs
6. Compliance - major federal program
There were no audit findings or questioned costs required to be reported, as defined in OMB Circular A-133, Section 510
7. Audit findings required to be reported
There were no audit findings or questioned costs required to be reported, as defined in OMB Circular A-133, Section 510
8. Identification of major program
East Mississippi Community College had three major programs:
 1. Student Financial Aid Cluster- Department of Education

Pell Grant Program	CFDA #84.063
College Workstudy	CFDA #84.033
SEOG	CFDA #84.007
Federal Family Education Loans (FFEL)	CFDA #84.032
 2. Adult Basic Education - Department of Education
CFDA #84.002
 3. Basic Grants to States – Department of Education
CFDA #84.048

Schedule of findings and questioned costs (continued)
For the year ended June 30, 2006

9. Type A dollar threshold statement

The dollar threshold used to distinguish a Type A Program was \$343,211.

10. Low-risk auditee statement

The auditee did qualify as a low-risk auditee.

Section II. Reporting in Accordance with Government Auditing Standards

We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses or reportable conditions.

Section III. Reporting on Federal Awards

No findings.