



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.

HOLMES COMMUNITY COLLEGE

Goodman, Mississippi

Audited Financial Statements

Year Ended June 30, 2006

HOLMES COMMUNITY COLLEGE

TABLE OF CONTENTS

FINANCIAL AUDIT REPORT	1
Independent Auditor's Report on the Basic Financial Statements and Supplementary Information.....	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
AUDITED FINANCIAL STATEMENTS	14
Statement of Net Assets	15
Statement of Assets, Liabilities and Net Assets - Holmes Community College Development Foundation.....	16
Statement of Revenues, Expenses and Changes in Net Assets	17
Statement of Support, Revenue and Expenses – Holmes Community College Development Foundation.....	18
Statement of Cash Flows	19
Statement of Cash Flows – Holmes Community College Development Foundation	20
Notes to Financial Statements	21 - 29
Notes to Financial Statements – Holmes Community College Development Foundation.....	30 - 33
SUPPLEMENTARY INFORMATION	34
Schedule of Expenditures of Federal Awards.....	35 - 36
REPORTS ON COMPLIANCE AND INTERNAL CONTROL	37
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance With Government Auditing Standards.....	38 - 39
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	40 - 41
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS.....	42
Independent Auditor's Report on Compliance with State Laws and Regulations.....	43
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	44 - 46

HOLMES COMMUNITY COLLEGE

FINANCIAL AUDIT REPORT



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

Board of Trustees
Holmes Community College
Goodman, Mississippi

We have audited the accompanying financial statements of Holmes 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 Holmes Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Holmes Community College Development Foundation for the year ended December 31, 2005, a discretely presented component unit which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Holmes Community College Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Holmes Community College and of its discretely presented component unit, as of June 30, 2006, 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 September 24, 2007, on our consideration of Holmes Community College's internal control over

financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 5 through 13, 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 Holmes 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.

Home LLP

Jackson, Mississippi
September 24, 2007

HOLMES COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2006

This section of Holmes Community College's (the "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 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. A comparative analysis will be presented with figures from fiscal year ended June 30, 2005. 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*.

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

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

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

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

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2006

Condensed Statement of Net Assets
June 30, 2006 and 2005

	2006		2005 Restated	
	Amount	Percent	Amount	Percent
ASSETS				
Current assets	\$ 18,633,450	33.99%	\$ 21,030,535	40.07%
Noncurrent assets				
Capital, net	36,192,445	66.01	32,105,598	59.88
Other	-	-	26,452	.05
Total assets	54,825,895	100.00	53,162,585	100.00
LIABILITIES				
Current liabilities	2,324,401	15.24	1,562,629	10.23
Noncurrent liabilities	12,931,454	84.76	13,713,450	89.77
Total liabilities	15,255,855	100.00	15,276,079	100.00
NET ASSETS				
Invested in capital assets, net of related debt	22,452,476	56.74	17,647,634	45.61
Restricted				
Expendable	2,398,846	6.06	5,206,481	14.00
Unrestricted	14,718,718	37.20	15,032,391	40.39
Total net assets	\$ 39,570,040	100.00%	\$ 37,886,506	100.00%

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the College's bank accounts and certificates of deposits. The total amount of cash and cash equivalents reported as current assets on the College's financial statements were \$6,568,803 at June 30, 2006. This is a decrease compared to \$11,439,476 at June 30, 2005. This is partially due to the use of cash for construction of a training facility on the Ridgeland Campus.

Accounts Receivable

Accounts receivable relate to several transactions including local appropriations, student tuition and fees and auxiliary services vendor credits. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College's net receivables totaled \$2,099,910 at June 30, 2006, which is an increase compared to the June 30, 2005 figure of \$1,650,770.

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2006

Noncurrent Assets

Cash and Cash Equivalents

Cash and cash equivalents are those funds that are held in the bank accounts and certificates of deposits. The cash and cash equivalents that are considered noncurrent are cash held in a money market account to meet the requirements for an unemployment compensation fund. Unemployment claims are paid out of unrestricted funds of the college. This account is simply maintained for legal compliance purposes. The amount of cash and cash equivalents considered noncurrent at June 30, 2006 totaled \$26,519, which is a decrease compared to the \$26,452 from June 30, 2005.

Capital Assets, Net

Capital assets, net, consist of land, improvements, buildings, equipment, historical library holdings and construction in progress at June 30, 2006. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$36,165,926 at June 30, 2006 which is an increase over \$32,105,598 at June 30, 2005.

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 \$1,502,408 at June 30, 2006, an increase of \$800,786 over the balance of \$701,622 at June 30, 2005.

Long-Term Liabilities-Current Portion

Long-term liabilities-current portion represents the portion of long-term debt that would be payable by the end of the June 30, 2007 fiscal year. The amount of the current portion of long-term debt at June 30, 2006 was \$781,996. This was greater than the \$744,514 at June 30, 2005.

HOLMES COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2006

Noncurrent Liabilities

Long-Term Liabilities

This liability consists of long-term debt for outstanding bonds, notes, and capital leases. The total amount of the noncurrent portion of long-term debt was \$12,931,454 at June 30, 2006. This is a decrease of \$781,996 over the balance of \$13,713,450 reported June 30, 2005.

Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2006 were \$39,570,040, which is an increase of \$1,683,534 over the balance of \$37,886,506 at June 30, 2005.

Analysis of Net Assets

Restricted expendable net assets consist of unemployment funds, grants from third party agencies with expenditure restrictions, local appropriations restricted for capital projects or debt retirement and loan funds.

The following is a breakdown of the restricted net assets with comparative figures:

June 30, 2006

	2006	2005 Restated
Scholarships and fellowships	\$ 1,172,236	\$ 1,033,889
Capital projects	1,194,680	4,043,494
Debt obligations	5,411	102,646
Unemployment funds	26,519	26,452
Total restricted net assets	<u>\$ 2,398,846</u>	<u>\$ 5,206,481</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 with comparative figures:

June 30, 2006

	2006	2005 Restated
Unrestricted general fund	\$ 11,000,345	\$ 11,707,988
Unrestricted auxiliary fund	3,718,373	3,324,403
Total unrestricted net assets	<u>\$ 14,718,718</u>	<u>\$ 15,032,391</u>

HOLMES COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2006

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2006 and 2005**

	June 30, 2006	June 30, 2005 Restated
Operating revenues		
Tuition and fees (net of scholarship allowance)	\$ 3,799,685	\$ 1,051,421
Federal appropriation	82,253	96,558
Grants and contracts	14,820,319	14,321,838
Sales and services	54,090	45,335
Auxiliary enterprises (Net of scholarship allowance)	966,741	1,008,942
Other operating revenue	253,449	206,712
Total operating revenues	<u>19,976,537</u>	<u>16,730,806</u>
Operating expenses	<u>33,332,711</u>	<u>28,648,643</u>
Operating loss	<u>(13,356,174)</u>	<u>(11,917,837)</u>
Nonoperating revenues		
State appropriations	10,026,599	9,025,789
Local appropriations	1,943,956	1,919,447
Investment income, net	443,001	409,097
Other nonoperating revenue	-	-
Other nonoperating expenses	<u>(591,562)</u>	<u>(521,355)</u>
Net nonoperating revenues	<u>11,821,994</u>	<u>10,832,978</u>
Income (loss) before other revenues	<u>(1,534,180)</u>	<u>(1,084,859)</u>
State appropriations restricted for capital purposes	1,866,819	567,075
Local appropriations for capital purposes	<u>1,350,895</u>	<u>1,240,648</u>
Total other revenues	<u>3,217,714</u>	<u>1,807,723</u>
Total increase in net assets	<u>1,683,534</u>	<u>722,864</u>
Net assets		
Net assets at beginning of year (as originally reported)	37,886,506	36,475,927
Prior period adjustment (See note 2)	-	687,715
Net assets – beginning of year (as restated)	<u>-</u>	<u>37,163,642</u>
Net assets at end of year	<u>\$ 39,570,040</u>	<u>\$ 37,886,506</u>

HOLMES COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2006

Total operating loss for the fiscal year 2006 was \$13,356,174, which was an increase of \$1,452,372 over the loss for the fiscal year 2005. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, beginning in fiscal year 2003 and going forward, the College will show a significant operating loss.

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

The College strives to provide students with the opportunity to obtain a quality education. Future enrollments at the College may be affected by a number of factors including any material increases in tuition and other mandatory charges stemming from any material decrease in appropriation funding from the State of Mississippi.

Total operating revenues for fiscal year 2006 were \$19,976,537. Tuition and fees were \$7,739,666. The tuition discount was \$3,939,981. Operating expenses, including depreciation of \$1,349,392, totaled \$33,332,711.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$7,739,666. The tuition discount for the 2006 fiscal year was \$3,939,981.

Grants and Contracts

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

The following table details the College's grant and contract awards for the fiscal year ended June 30, 2006 with prior year figures:

	2006	2005 Restated
Federal	\$ 11,421,752	\$ 11,343,345
State	3,053,897	2,635,351
Nongovernmental	344,670	343,142
Total all sources	<u>\$ 14,820,319</u>	<u>\$ 14,321,838</u>

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2006

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$253,449 for the 2006 fiscal year, an increase of \$46,737 over the balance for fiscal year 2005.

Sales and Services, Net

Auxiliary enterprises consist of housing and meal plans.

Operating Expenses

Operating expenses totaling \$33,332,711 include salaries and benefits of \$17,280,024, utilities of \$1,459,069, supplies of \$1,710,171, contractual services of \$2,702,186, and depreciation of \$1,349,392.

Operating Expenses by Function with prior year figures:

	June 30, 2006	June 30, 2005 Restated
Instruction	\$ 14,727,916	\$ 13,684,635
Academic support	558,979	489,077
Student services	2,143,764	2,105,765
Institutional support	3,742,228	3,707,011
Operations and maintenance of plant	3,366,135	3,031,702
Student financial aid (net of scholarship allowance)	6,769,011	3,629,957
Auxiliary enterprises	675,286	702,253
Depreciation	1,349,392	1,298,243
	\$ 33,332,711	\$ 28,648,643

Nonoperating Revenues (Expenses)

State Appropriations

The College's largest source of nonoperating revenue is the State of Mississippi appropriation. The College received \$10,026,599 for fiscal year ended June 30, 2006. This represents an increase from \$9,025,789 for the year ended June 30, 2005.

Local Appropriations

The College also receives revenue from the nine counties that make up its local district. They include Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Yazoo and Webster counties. The College received \$3,294,851 for the 2006 fiscal year from the local appropriations of which \$1,943,956 was for nonoperating purposes and \$1,350,895 for capital projects or retirement of debt.

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2006

Investment Income, Net

This includes the interest income from the cash in the bank accounts. \$443,001 was earned during the 2006 fiscal year.

Other Nonoperating Expenses

Other nonoperating expenses consisting of interest expense on capital related debt for fiscal year 2006 totaled \$591,562.

Other Revenues

Local Appropriations for Capital Purposes

This includes revenue received from the nine county support district for capital projects during the fiscal year. The amount of this revenue totaled \$1,350,895 for the 2006 fiscal year.

State Appropriations for Capital Purposes

\$1,866,819 is the amount of revenue received from the State of Mississippi to purchase, construct, renovate, or repair capital assets during the 2006 fiscal year.

Statement of Cash Flows

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

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

Condensed Statement of Cash Flows (Direct Method)
For the Fiscal Years Ended June 30, 2006 and 2005

	June 30, 2006	June 30, 2005 Restated
Cash and cash equivalents provided (used) by		
Operating activities	\$ (11,799,075)	\$ (11,447,755)
Noncapital financing activities	12,075,933	10,919,346
Capital and related financing activities	(3,542,045)	(2,685,235)
Investing activities	(1,605,419)	409,097
Net decrease in cash and cash equivalents	(4,870,606)	(2,804,547)
Cash and cash equivalents - beginning of year	11,465,928	14,270,475
Cash and cash equivalents - end of year	<u>\$ 6,595,322</u>	<u>\$ 11,465,928</u>

HOLMES COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2006

The major sources of funds included in operating activities include student tuition and fees, \$2,839,423, auxiliary enterprises, \$966,741, and grants and contracts, \$14,849,055. The major uses of funds were payments made to employees, \$17,063,290 and to scholarships and fellowships \$6,934,770 and to suppliers, \$17,063,290 for materials and to suppliers, \$2,702,186 for services.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$10,200,593. In addition, the college received \$3,294,851 from the nine counties that make up its district.

Prior Period Adjustment

For the year ended June 30, 2005, the College recorded a prior period adjustment of \$687,715, which consisted of an adjustment to record the 2004 donation of the College's chapel from Holmes Community College Development Foundation in the amount of \$701,750 net of the related accumulated depreciation of \$14,035.

Factors Impacting Future Periods

There are a number of issues that are directly impacting the community college system as a whole. The continuing decline of state revenues and therefore, state funding is the main issue which will continue to have an impact on our financial position. This is occurring at the same time we are experiencing an increase in enrollment and increases in compensation for quality faculty personnel and utility cost.

In addition to operating challenges, our need for deferred maintenance funds and new construction for the increases in enrollment continue to challenge our ability to maintain reserve funds. These expenditures will continue to increase as our buildings age.

The College enjoys strong support from the local community both in individual and business support of our foundation and in local support for expansion and addition of existing programs. This support has helped the college to weather the decreases in state funding and yet continue to serve the citizens of its nine county district.

HOLMES COMMUNITY COLLEGE

AUDITED FINANCIAL STATEMENTS

HOLMES COMMUNITY COLLEGE

Statement of Net Assets

June 30, 2006

ASSETS

Current assets

Cash and cash equivalents	\$ 6,568,803
Short-term investments	9,964,737
Accounts receivable, net (Note 4)	2,099,910
Total current assets	<u>18,633,450</u>

Noncurrent assets

Restricted cash and cash equivalents	26,519
Capital assets, net of accumulated depreciation (Note 5)	36,165,926
Total noncurrent assets	<u>36,192,445</u>

Total assets \$ 54,825,895

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	\$ 1,502,408
Deferred revenues	39,997
Long-term liabilities - current portion (Note 6)	781,996
Total current liabilities	<u>2,324,401</u>

Noncurrent liabilities

Long-term liabilities (Note 6)	<u>12,931,454</u>
--------------------------------	-------------------

Total liabilities 15,255,855

NET ASSETS

Invested in capital assets, net of related debt 22,452,476

Restricted for

Expendable	
Scholarships and fellowships	1,172,236
Capital projects	1,194,680
Debt service	5,411
Other purposes	26,519
Unrestricted	<u>14,718,718</u>

Total net assets 39,570,040

Total liabilities and net assets \$ 54,825,895

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

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

Statement of Assets, Liabilities and Net Assets

December 31, 2005

ASSETS

Current assets

Cash and cash equivalents (Note A)

Holmes County Bank & Trust

\$ 100,327

The Common Fund (Note B and Note C)

2,533,392

Total cash and cash equivalents

2,633,719

Total current assets

2,633,719

Total assets

\$ 2,633,719

LIABILITIES AND NET ASSETS

Current liabilities

Accrued salaries and benefits

\$ -

Total current liabilities

-

NET ASSETS

Unrestricted

711,374

Temporarily restricted

1,409,667

Permanently restricted

512,678

Total net assets

2,633,719

Total liabilities and net assets

\$ 2,633,719

See accompanying auditor's notes to financial statements.

HOLMES 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 \$3,939,981)	\$ 3,799,685
Federal appropriations	82,253
Federal grants and contracts	11,421,752
State grants and contracts	3,053,897
Nongovernmental grants and contracts	344,670
Sales and services of educational departments	54,090
Auxiliary enterprises	
Student housing (net of scholarship allowances of \$70,708)	260,895
Food services (net of scholarship allowances of \$85,344)	390,097
Athletics	9,654
Other auxiliary revenues	306,095
Other operating revenues	253,449
Total operating revenues	<u>19,976,537</u>
Operating expenses	
Salaries and wages	13,857,725
Fringe benefits	3,422,299
Travel	219,788
Contractual services	2,702,186
Utilities	1,459,069
Scholarships and fellowships	6,934,770
Commodities	1,710,171
Depreciation expense	1,349,392
Other operating expense	1,677,311
Total operating expenses	<u>33,332,711</u>
Net operating loss	<u>(13,356,174)</u>
Nonoperating revenues (expenses)	
State appropriations	10,026,599
Local appropriations	1,943,956
Investment income	443,001
Interest expense on capital asset-related debt	(591,562)
Total nonoperating revenues (expenses)	<u>11,821,994</u>
Other revenues	
State appropriations restricted for capital purposes	1,866,819
Local appropriations restricted for capital purposes	1,350,895
Total other revenues	<u>3,217,714</u>
Net assets	
Increase in net assets	<u>1,683,534</u>
Net assets - beginning of year, as originally reported	37,212,826
Prior period adjustment	673,680
Net assets - beginning of year, as restated	<u>37,886,506</u>
Net assets - end of year	<u>\$ 39,570,040</u>

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

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

Statement of Support, Revenue and Expenses

Year Ended December 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains				
Contributions	\$ 1,400	\$ -	\$ 55,500	\$ 56,900
Interest income (Note B)	-	-	1,257	1,257
Short-term investment earnings (Note B)	32,572	19,725	4,876	57,173
Unrealized market gains	71,070	43,038	10,640	124,748
Unrealized market losses	(3,585)	(2,171)	(537)	(6,293)
Total revenue and gains	101,457	60,592	71,736	233,785
Expenses				
Scholarships and program expenses	12,420	1,454	35,231	49,105
Common Fund fees	5,041	3,052	755	8,848
Mini grant expenses	36,350	-	-	36,350
Total expenses and inter-fund transfers out	53,811	4,506	35,986	94,303
Changes in net assets	47,646	56,086	35,750	139,482
Net assets at the beginning of the year	66,325	1,946,581	481,331	2,494,237
Corrections for beginning of year (Note D)	590,836	(594,453)	3,617	-
Corrected net assets at beginning of year	657,161	1,352,128	484,948	2,494,237
Close out old scholarships to unrestricted funds	6,567	1,453	(8,020)	-
Net assets at end of year	\$ 711,374	\$ 1,409,667	\$ 512,678	\$ 2,633,719

See accompanying auditor's notes to financial statements.

HOLMES COMMUNITY COLLEGE
Statement of Cash Flows
For the Year Ended June 30, 2006

<p>Cash flows from operating activities</p> <p>Tuition and fees \$ 2,839,423</p> <p>Federal appropriations 82,253</p> <p>Grants and contracts 14,849,055</p> <p>Sales and services of educational departments 54,090</p> <p>Payments to suppliers (1,661,616)</p> <p>Payments to employees for salaries and benefits (17,063,290)</p> <p>Payments for utilities (1,459,069)</p> <p>Payments to travel (219,788)</p> <p>Payments to contractual services (2,702,186)</p> <p>Payments for scholarships and fellowships (6,934,770)</p> <p>Auxiliary enterprise charges</p> <p style="padding-left: 20px;">Student housing 260,895</p> <p style="padding-left: 20px;">Food services 390,097</p> <p style="padding-left: 20px;">Athletics 9,654</p> <p style="padding-left: 20px;">Other auxiliary enterprises 306,095</p> <p>Other receipts (payments) (549,918)</p> <p style="padding-left: 40px;">Net cash used by operating activities <u>(11,799,075)</u></p> <p>Cash flows from noncapital financing activities</p> <p>State appropriations 10,200,593</p> <p>Local appropriations 1,875,340</p> <p>Federal loan program receipts 8,902,112</p> <p>Federal loan program disbursements (8,902,112)</p> <p style="padding-left: 40px;">Net cash provided by noncapital financing activities <u>12,075,933</u></p> <p>Cash flows from capital and related financing activities</p> <p>Cash paid for capital assets (5,423,683)</p> <p>Capital assets acquired 3,217,714</p> <p>Principal paid on capital debt and leases (744,514)</p> <p>Interest paid on capital debt and leases (591,562)</p> <p style="padding-left: 40px;">Net cash used by capital and related financing activities <u>(3,542,045)</u></p> <p>Cash flows from investing activities:</p> <p>Proceeds from sales and maturities of investments 11,279,589</p> <p>Interest received on investments 443,001</p> <p>Purchases of investments (13,328,009)</p> <p style="padding-left: 40px;">Net cash used by investing activities <u>(1,605,419)</u></p> <p style="padding-left: 80px;">Net decrease in cash and cash equivalents (4,870,606)</p> <p>Cash and cash equivalents - beginning of the year <u>11,465,928</u></p> <p>Cash and cash equivalents - end of year <u>\$ 6,595,322</u></p>	<p>Reconciliation of cash and cash equivalents to the statement of net assets</p> <p>Cash and cash equivalents classified as current assets \$ 6,568,803</p> <p>Cash and cash equivalents classified as non-current assets <u>26,519</u></p> <p style="padding-left: 40px;">\$ 6,595,322</p> <p>Reconciliation of operating loss to net cash used by operating activities</p> <p>Operating loss \$ (13,356,174)</p> <p>Adjustments to reconcile operations loss to net cash used by operating activities</p> <p style="padding-left: 20px;">Depreciation expense 1,349,392</p> <p style="padding-left: 20px;">Changes in assets and liabilities</p> <p style="padding-left: 40px;">Receivables, net (454,280)</p> <p style="padding-left: 40px;">Accounts payables and accrued liabilities <u>661,987</u></p> <p style="padding-left: 40px;">Total adjustments <u>1,557,099</u></p> <p style="padding-left: 80px;">Net cash used by operating activities <u>\$ (11,799,075)</u></p> <p>Supplemental disclosure of cash flow information</p> <p>Capital assets purchased by the Bureau of Building <u>\$ 3,217,714</u></p> <p>Capital assets donated by Foundation <u>\$ 701,750</u></p>
--	---

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

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

Statement of Cash Flows Year Ended December 31, 2005

Cash flows from operating activities	
Cash received from contributors	\$ 56,900
Interest received	1,257
Decrease in accruals	(39,280)
Scholarships, mini grants and program expenses	<u>(85,455)</u>
Net cash used in operating activities	<u>(66,578)</u>
Cash flows from investing activities	
Interest from reinvestment	57,173
Unrealized market gains	118,455
Common Fund fees	<u>(8,848)</u>
Net cash provided by investing activities	<u>166,780</u>
Net increase in cash and cash equivalents	100,202
Cash and cash equivalents at beginning of year	<u>2,533,517</u>
Cash and cash equivalents at end of year	<u>\$ 2,633,719</u>
Reconciliation of change in net assets to net cash provided by operating activities	
Change in net assets	\$ 139,482
Deduct	
Interest for reinvestment	(57,173)
Unrealized market gains	(118,455)
Decrease in accrual	(39,280)
Common Fund fees	<u>8,848</u>
Net cash used in operating activities	<u>\$ (66,578)</u>

See accompanying auditor's notes to financial statements.

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2006

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Holmes Community College (the "College") was founded in 1925 and is one of Mississippi's 15 public community colleges. The legal authority for the establishment of the College is found in Section 37-29-31, Miss. Code Ann. (1972).

The College is locally-governed by a 22 member board of trustees, selected by the board of supervisors of Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Webster and Yazoo Counties who support the district through locally assessed ad valorem tax millage. One of the trustees from each of the supporting counties must be the 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, the 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.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"), including Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis -for Public Colleges 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 basic financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting 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, which is in accordance with accounting principles generally accepted in the United States of America.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College applies the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB") issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. FASB statements issued subsequent to November 30, 1989 are not applicable.

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2006

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Cash Equivalents

For purposes of the Statement of Cash Flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Short-Term Investments

Investments that are not cash equivalents but mature within the next fiscal year are classified as short-term investments.

Accounts Receivable, Net

Accounts receivable consist of tuition and fees charged to students, state appropriations, amounts due from state and federal grants and contracts, local governments and credits due to the College from vendors. Accounts receivables are recorded net of an allowance for doubtful accounts.

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 Statements of Net Assets.

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. 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. See Note 4 for additional details concerning useful lives, salvage values and capitalization thresholds.

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2006

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Compensated Absences

The 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.

Classification of Revenues

The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowance, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances and (3) most federal and state grants and contracts.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues 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 and investment income.

State and Local Appropriations

The College receives funds from the State of Mississippi based on the number of full-time students actually enrolled and in attendance on the last day of the sixth week of the fall semester of the previous year, counting only those students who reside within the State of Mississippi. Beginning with the 2004 fiscal year, a new funding formula is being phased in over a 5-year period which will shift the funding calculation from a predominantly full-time equivalent formula which is based on total credit hours generated by all students with special consideration given only to high cost programs. The College also receives income from the nine counties that make up its local district. They include Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Yazoo and Webster counties.

Scholarship Discounts and Allowance

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

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2006

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

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.

Net Assets

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 of \$14,718,718 at June 30, 2006, includes \$3,718,373 reserved for auxiliaries and a remaining amount of \$11,000,345.

Note 2. Prior Period Adjustment

For the year ended June 30, 2006, the College recorded a prior period adjustment of \$673,680, which consisted of an adjustment to record the 2004 donation of the College's chapel from Holmes Community College Development Foundation in the amount of \$701,750 net of the related accumulated depreciation of \$28,070.

Note 3. Cash and Investments

Policies

Cash, Cash Equivalents and Short-term Investments - Investment policies as set forth by policy and state statute authorize the College to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market funds, U.S. Treasury bills and notes, and repurchase agreements. In 2006, short-term investments were comprised of certificates of deposit with maturities greater than three months. Investment income related to these short-term investments is included in non-operating income when earned.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the College's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2006

NOTES TO FINANCIAL STATEMENTS**Note 4. Accounts Receivable**

Accounts receivable consisted of the following at June 30, 2006:

Student tuition	\$ 2,419,400
Federal, state, and private grants and contracts	594,894
State appropriations	592,751
Other	172,312
	<hr/>
Total accounts receivable	3,779,357
Less allowance for doubtful accounts	1,679,447
	<hr/>
Net accounts receivable	\$ 2,099,910

Note 5. Capital Assets

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

	Beginning Balance	Additions	Deletions	Beginning Balance
Nondepreciable capital assets				
Land	\$ 2,999,007	\$ -	\$ -	\$ 2,999,007
Construction in progress	3,571,211	4,830,182	1,130,540	7,270,853
Total nondepreciable capital assets	6,570,218	4,830,182	1,130,540	10,269,860
Depreciable capital assets				
Buildings	30,738,840	1,032,210	-	31,771,050
Improvements other than buildings	2,301,349	1,000,488	-	3,301,837
Equipment	5,491,974	335,952	376,827	5,451,099
Library books	1,318,555	57,141	28,186	1,347,510
Total depreciable capital assets	39,850,718	2,425,791	405,013	41,871,496
Less accumulated depreciation for				
Buildings	9,343,025	644,815	-	9,987,840
Improvements other than buildings	890,997	102,340	-	993,337
Equipment	3,732,653	569,849	362,864	3,939,638
Library books	1,022,343	60,458	28,186	1,054,615
Total accumulated depreciation	14,989,018	1,377,462	391,050	15,975,430
Total depreciable capital assets, net	24,861,700	1,048,329	13,963	25,896,066
Capital assets, net	\$ 31,431,918	\$ 5,878,511	\$ 1,144,503	\$ 36,165,926

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2006

NOTES TO FINANCIAL STATEMENTS

Note 5. Continued

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

Note 6. Long-Term Liabilities

Long-term liabilities of the College consist of bonds and notes payable 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 bonds and notes 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.

HOLMES COMMUNITY COLLEGE
For the Year Ended June 30, 2006

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Bonded debt								
Facilities Bond, 2003	\$ 6,500,000	3.4% - 4.15%	2025	\$ 6,500,000	-	\$ 200,000	\$ 6,300,000	\$ 210,000
Facilities Bond, 2005	2,625,000	2.8% - 3.8%	2020	2,625,000	-	130,000	2,495,000	135,000
Total bonded debt				9,125,000	-	330,000	8,795,000	345,000
Notes payable								
DOE college facilities note	1,200,000	5.5%	2018	817,964	-	44,514	773,450	46,996
Educational facilities notes, 1998	2,215,000	4.13% - 5.88%	2013	1,515,000	-	135,000	1,380,000	145,000
Dormitory notes, 2000	4,000,000	4.95% - 6.0%	2015	3,000,000	-	235,000	2,765,000	245,000
Total other long-term liabilities				5,332,964	-	414,514	4,918,450	436,996
Total				\$ 14,457,964	\$ -	\$ 744,514	13,713,450	\$ 781,996
Due within one year							<u>781,996</u>	
Total long-term liabilities								<u>\$ 12,931,454</u>

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2006

NOTES TO FINANCIAL STATEMENTS

Note 6. Continued

	Bonded Debt	Notes Payable	Interest	Total
2007	\$ 345,000	\$ 436,996	\$ 558,279	\$ 1,340,275
2008	360,000	459,616	523,852	1,343,468
2009	375,000	487,383	490,063	1,352,446
2010	390,000	510,303	454,017	1,354,320
2011	410,000	538,387	415,926	1,364,313
2012 - 2016	2,355,000	2,319,551	1,455,037	6,129,588
2017 - 2021	2,720,000	166,214	691,313	3,577,527
2022 - 2026	1,840,000	-	193,430	2,033,430
Totals	\$ 8,795,000	\$ 4,918,450	\$ 4,781,917	\$ 18,495,367

Note 7. Construction Commitments and Financing

The College has contracted for various construction projects as June 30, 2006. Estimated costs to complete the various projects at June 30, 2006 and the sources of anticipated funding are presented below:

Project Title	Total Costs to Complete	Funded by		
		State Sources	Institutional Funds	Other
Workforce Training Center	\$ 447,772	\$ 447,772	\$ -	\$ -

Note 8. Pension Plan

Plan description - Holmes Community College participates in the Public Employee's 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) 35-3589 or 1-800-444-PERS.

Funding policy - PERS members are required to contribute 7.25 percent of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 10.75 percent of annual covered payroll. The contribution requirement of PERS members

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2006

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

is established and may be amended only by the Mississippi State Legislature. The College's contributions to PERS for the years ending June 30, 2006, 2005, 2004 were \$1,375,734, \$1,115,909 and \$1,034,067, respectively, equal to the required contributions for each year.

Note 9. Natural Classifications with Functional Classifications

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

Functional Classification	Salaries and Wages	Fringe Benefits	Travel	Contractual Services	Utilities
Instruction	\$ 10,042,051	\$ 2,278,857	\$ 110,703	\$ 459,054	\$ 47,186
Academic support	265,710	78,662	166	27,993	-
Student services	1,312,282	381,517	55,684	85,144	-
Institutional support	1,163,107	316,669	16,099	1,353,770	-
Operation of plant	921,326	314,405	37,136	307,222	1,411,883
Student aid	-	-	-	-	-
Auxiliary enterprises	153,249	52,189	-	469,003	-
Depreciation	-	-	-	-	-
Total operating expenses	\$ 13,857,725	\$ 3,422,299	\$ 219,788	\$ 2,702,186	\$ 1,459,069

Functional Classification	Scholarships and Fellowships	Commodities	Depreciation Expense	Other	Total
Instruction	\$ 165,759	\$ 835,419	\$ -	\$ 788,887	\$ 14,727,916
Academic support	-	42,988	-	143,460	558,979
Student services	-	263,519	-	45,618	2,143,764
Institutional support	-	208,735	-	683,848	3,742,228
Operation of plant	-	358,665	-	15,498	3,366,135
Student aid	6,769,011	-	-	-	6,769,011
Auxiliary enterprises	-	845	-	-	675,286
Depreciation	-	-	1,349,392	-	1,349,392
Total operating expenses	\$ 6,934,770	\$ 1,710,171	\$ 1,349,392	\$ 1,677,311	\$ 33,332,711

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION
Year Ended December 31, 2005

NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Holmes Community College Development Foundation (the "Foundation") operates as a nonprofit organization. The membership of the Foundation represents the nine-county district served by Holmes Community College and is led by an Executive Committee elected by the membership.

The purpose of the Holmes Community College Development Foundation is to provide scholarships and other financial support to the students registered at Holmes Community College. Funds may also be used to support other educational activities of the college, such as faculty development.

Financial Statement Presentation

The Foundation's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Under GASB Statement No. 34, the Foundation is required to present a statement of net asset and classified between current and noncurrent assets and liabilities, a statement of revenue, expenses, and change in net assets, and a statement of cash flows using the direct method.

Basis of Accounting

For financial reporting purposes, the Foundation is considered a special-purposes government engaged only in business-type activities. Accordingly, the Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Support, Revenue and Gifts

The Foundation has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of donor restrictions.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets released from restrictions.

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

Year Ended December 31, 2005

NOTES TO FINANCIAL STATEMENTS

Support, Revenue and Gifts (continued)

The Foundation reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Income Taxes

The Foundation is a not-for-profit Foundation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation files form 990 annually with the Internal Revenue Service.

Estimates

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

Property and Equipment

It is the Foundation's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Property and equipment are depreciated using the straight-line method. The Foundation did not own any fixed assets as of the financial statement date.

Investments

The Foundation has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Foundations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported in their fair values in the Statement of Assets, Liabilities and Net Assets. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers debt security purchased with maturity of three months or less to be cash equivalents.

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

Year Ended December 31, 2005

NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS

Investments are carried at market or appraisal value and realized and unrealized gains and losses are reflected in the Statement of Support, Revenue and Expenses. The Foundation invests cash in excess of current needs in the Common Fund. At December 31, 2005 no additional investments were made into the Common Fund.

The schedule below shows transactions occurring in the Common Fund for the financial statement periods:

	December 31, 2005
Interest earned	\$ 57,173
Market gains	124,748
Market losses	(6,293)
Fund fees	8,848
Transfers to checking accounts	(94,048)

Following is the participation in The Common Fund at year end:

Unrestricted cash	\$ 905,902
Temporarily restricted cash	1,409,667
Permanently restricted cash	217,823
Total value in The Common Fund	\$ 2,533,392

FIVE YEAR COMPARISON – THE COMMON FUND

	2001	2002	2003	2004	2005
Interest earned	\$ 77,661	\$ 69,820	\$ 57,206	\$ 53,801	\$ 57,173
Unrealized market gains	187,805	-	360,166	198,293	124,748
Unrealized market losses	(298,256)	(190,984)	-	-	(6,293)
Fund fees	8,384	7,641	7,366	8,313	8,848
Transfers out	-	157,161	199,529	-	94,049
Market value at year end	2,292,369	2,006,403	2,216,880	2,460,661	2,533,392
Net increase (decrease over beginning balances	-	-5.62%	20.43%	11.00%	6.78%

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

Year Ended December 31, 2005

NOTES TO FINANCIAL STATEMENTS

NOTE C - FEDERAL FINANCIAL ASSISTANCE

Holmes Community College Development Foundation applied for a matching grant of \$500,000 from the United States Government in March 1991. This grant was made to Holmes Community College Development Foundation on March 5, 1992. The \$500,000 grant and \$500,000 matching funds were invested as a temporarily restricted cash asset in The Common Fund, Westport, Connecticut. At the end of 20 years (March 2012) the \$1,000,000 becomes unrestricted. Until that time only one-half of the income from the fund may be used for scholarships and other educational activities of the college.

As of the financial statement dates, the following describes the endowment balances related to the federal grant and matching funds:

	December 31, 2005
Original endowment amount	\$ 1,000,000
Net income to date (including unrealized market gains and losses and fees)	<u>819,334</u>
Total endowment value	1,819,334
Fifty percent of net income available to be used	<u>(409,667)</u>
Remaining balance temporarily restricted	<u>\$ 1,409,667</u>

The investment in The Common Fund as shown in Note B is comprised of funds from the endowment (federal grant and matching funds), some scholarship funds (permanently restricted), and unrestricted funds in excess of current needs.

NOTE D - CORRECTION OF FUND BALANCES

Corrections were made on this report to the balances at December 31, 2004 in amounts within type of Fund balances. These changes did not affect overall net assets. The changes were needed to reflect the endowment income allowed to be used unrestricted. See Note C for a description of what is allowed under the agreement.

NOTE E - COMPOSITION OF FUND BALANCES

The following schedule shows the asset makeup of the three types of funds:

12/31/2005

	Bank Accounts and CD's	The Common Fund	Accrual	Totals
Unrestricted	\$ (194,528)	\$ 905,902	\$ -	\$ 711,374
Temporarily restricted	-	1,409,667	-	1,409,667
Permanently restricted	294,855	217,823	-	512,678
Totals 12/31/05	<u>\$ 100,327</u>	<u>\$ 2,533,392</u>	<u>\$ -</u>	<u>\$ 2,633,719</u>

HOLMES COMMUNITY COLLEGE

SUPPLEMENTARY INFORMATION

HOLMES COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Student Financial Aid - Cluster			
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		\$ 126,949
Federal Family Education Loans (FFEL)	(1) 84.032		4,916,041
Federal Work-study Program (FWS)	84.033		165,765
Federal Pell Grant Program	84.063		8,605,269
Leveraging Educational Assistance Partnership (LEAP)	84.069		9,711
			<hr/>
Total U.S. Department of Education			13,823,735
			<hr/>
Total Student Financial Aid Cluster			13,823,735
			<hr/>
Other Programs			
U.S. Department of Agriculture			
Mississippi Community College Foundation			
Distance Learning and Telemedicine Loans and Grants	10.885		82,253
			<hr/>
Total U.S. Department of Agriculture			82,253
			<hr/>
National Institute for Standards and Technology			
Pass-through programs from			
Mississippi Technology Alliance - Manufacturing			
Extension Partnership	11.611		42,868
			<hr/>
Total National Institute for Standards and Technology			42,868
			<hr/>
U.S. Department of Labor			
Pass-through programs from			
Mississippi Employment Security Commission -			
WIA Adult Program	17.258		139,318
WIA Youth Program	17.259		7,038
WIA Dislocated Workers	17.260		143,456
Central Mississippi Planning & Development District			
WIA Adult Program	17.258		130,527
WIA Youth Program	17.259		30,621
WIA Dislocated Workers	17.260		130,527
South Delta Planning & Development District			
WIA Adult Program	17.258		29,076
WIA Dislocated Workers	17.260		17,820
Three Rivers Planning & Development District			
WIA Adult Program	17.258		45,880
WIA Dislocated Workers	17.260		45,880
			<hr/>
Total WIA Programs			720,143
			<hr/>
Trade Adjustment Assistance (TAA)	17.245		27,767
			<hr/>
Mississippi State Board for Community & Junior Colleges -			
Pilots, Demonstrations, and Research Project	17.261		615,744
			<hr/>
Total U.S. Department of Labor			1,363,654
			<hr/>

HOLMES COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Education TRIO - Student Support Services	84.042A		\$ 270,836
Subtotal direct programs			<u>270,836</u>
Pass-through programs from			
Mississippi State Board for Community and Junior Colleges - Adult Education - State Grant Program	84.002		306,701
Mississippi Department of Education - Vocational Education - Basic Grants to States	84.048		367,443
Mississippi Department of Education - Tech Prep	84.243		<u>91,928</u>
Subtotal pass-through programs			<u>766,072</u>
Total U.S. Department of Education			<u>1,036,908</u>
Total Other Programs			<u>2,525,683</u>
Total Expenditures of Federal Awards			<u>\$ 16,349,418</u>

Notes to Schedule of Expenditures of Federal Awards

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

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

HOLMES COMMUNITY COLLEGE

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



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

Board of Trustees
Holmes Community College
Goodman, Mississippi

We have audited the financial statements of Holmes Community College as of and for the year ended June 30, 2006, as listed in the table of contents and have issued our report thereon dated September 24, 2007. We did not audit the financial statements of the discretely presented component unit, Holmes Community College Development Foundation, which represents 100 percent of the assets and revenues of the discretely presented component units. Those financial statements were audited by another auditor whose report has been furnished to us. This report, insofar as it relates to the amounts included for the above mentioned entity, is based on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Holmes Community College Development Foundation, audited by another auditor, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Holmes 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of Holmes 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 those specified parties.

A handwritten signature in cursive script that reads "Home LLP".

Jackson, Mississippi
September 24, 2007

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

Board of Trustees
Holmes Community College
Goodman, Mississippi

Compliance

We have audited the compliance of Holmes 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, 2006. Holmes 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 Holmes Community College's management. Our responsibility is to express an opinion on Holmes 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 Holmes 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 Holmes Community College's compliance with those requirements.

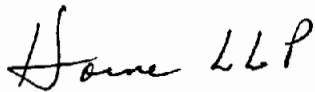
In our opinion, Holmes Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Holmes 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 Holmes 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants 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 Holmes 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 those specified parties.



Jackson, Mississippi
September 24, 2007

HOLMES COMMUNITY COLLEGE

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



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

Board of Trustees
Holmes Community College
Goodman, Mississippi

We have audited the financial statements of Holmes Community College as of and for the year ended June 30, 2006, and have issued our report thereon dated September 24, 2007. We did not audit the financial statements of the discretely presented component unit, Holmes Community College Development Foundation, which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us. This report, insofar as it relates to the amounts included for the above mentioned entity, is based on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Holmes Community College Development Foundation, audited by another auditor, were not audited in accordance with *Government Auditing Standards*.

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

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

This report is intended solely for the information and use of Holmes 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 those specified parties.

Horne LLP

Jackson, Mississippi
September 24, 2007

HOLMES COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HOLMES COMMUNITY COLLEGE
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued on the general purpose financial statements: | Unqualified |
| 2. | Material noncompliance relating to the general purpose financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | None Reported |

Federal Awards:

- | | | |
|----|---|---------------|
| 4. | Type of auditor's report issued on compliance for major federal program: | Unqualified |
| 5. | Internal control over major program: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | None Reported |
| 6. | Any audit finding(s) reported as required by Section 510(a) of Circular A-133? | No |
| 7. | Federal program identified as a major program: | |
| | Student Financial Aid Cluster | |
| | CFDA #84.063 | |
| | CFDA #84.007 | |
| | CFDA #84.032 | |
| | CFDA #84.033 | |
| | CFDA #84.069 | |
| | Mississippi Employment Security Commission – WIA Cluster | |
| | CFDA #17.258 | |
| | CFDA #17.259 | |
| | CFDA #17.260 | |
| | Mississippi Department of Education – Vocational Education - Basic Grants to States | |
| | CFDA #84.048 | |
| | Mississippi Technology Alliance – Manufacturing Extension Partnership | |
| | CFDA #11.611 | |

HOLMES COMMUNITY COLLEGE
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Section 1: Summary of Auditor's Results

- | | | |
|-----|---|-----------|
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section 315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

No matters were reported.

Section 3. Findings and Questioned Costs for Federal Awards

No matters were reported.