



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

**SOUTHWEST MISSISSIPPI
COMMUNITY COLLEGE**

**Audited Financial Statements
For the Year Ended June 30, 2006**

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL AUDIT REPORT	5
Independent Auditor's Report on the Basic Financial Statements and Supplemental Information	7
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	9
Management's Discussion and Analysis.....	11
FINANCIAL STATEMENTS	21
Statement of Net Assets.....	23
Statement of Revenues, Expenses and Changes in Net Assets	24
Statement of Cash Flow	25
Notes to the Financial Statements.....	27
SUPPLEMENTAL INFORMATION.....	37
Schedule of Expenditure of Federal Awards	39
REPORTS OF COMPLIANCE AND INTERNAL CONTROL.....	41
Independent Auditor's Report on Compliance and Internal Control Over Financial Report Based on an Audit of the Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	43
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance with OMB Circular A-133	45
INDEPENDENT AUDITOR'S REPORT OF COMPLIANCE WITH STATE LAWS AND REGULATIONS.....	47
Independent Auditor's Report of Compliance with State Laws and Regulations	49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	51
Schedule of Findings and Questioned Costs.....	53

(This page was left blank intentionally.)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

FINANCIAL AUDIT REPORT

(This page was left blank intentionally.)

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

March 14, 2007

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

We have audited the accompanying financial statements of Southwest Mississippi Community College as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of Southwest Mississippi Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

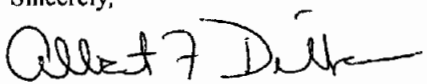
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Mississippi Community College, as of June 30, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2007 on our consideration of Southwest Mississippi Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

The Management's Discussion and Analysis on pages 9 through 19, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Southwest Mississippi Community College's basic financial statements.

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

Sincerely,



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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

(This page left blank intentionally)



College Drive
Summit, Mississippi 39666
601-276-2000

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Southwest Mississippi Community College annual financial report presents our discussion and analysis of the financial performance of the 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. 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 Southwest Mississippi Community College as a whole is better or worse off because of the year's activities. The key to understanding this question is the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These Statements present financial information in a form similar to that used by corporations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

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

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

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

Condensed Statement of Net Assets
FYE: June 30, 2006

	2006	Percent	2005	Percent
Assets				
Current and Other Assets	\$ 13,871,024	38%	13,766,105	41%
Noncurrent Assets				
Capital, Net	23,351,526	59%	21,716,806	60%
Other	958,383	3%	939,903	3%
Total Assets	<u>\$ 38,180,933</u>	<u>100%</u>	<u>36,422,814</u>	<u>104%</u>
Liabilities				
Current and Other Liabilities	728,228	33%	417,272	98%
Other Liabilities	1,467,790	67%	9,238	2%
Total Liabilities	<u>2,196,018</u>	<u>100%</u>	<u>426,510</u>	<u>100%</u>
Net Assets				
Invested in Capital Assets	21,742,538	60%	21,716,806	60%
Restricted:				
Nonexpendable	897,029	2%	880,650	2%
Expendable	3,110,047	9%	3,088,963	9%
Unrestricted:	10,235,301	28%	10,309,885	29%
Total Net Assets	<u>35,984,915</u>	<u>100%</u>	<u>35,996,304</u>	<u>100%</u>
Total Liability and Net Assets	<u>\$ 38,180,933</u>		<u>36,422,814</u>	

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the College's bank accounts. The total amount of cash and cash equivalents reported as current assets on the College financial statements was \$2,854,164 at June 30, 2006, compared to \$3,303,271 at June 30, 2005. The addition of two new instructional programs in career and technical education and two new athletic programs account for the increased use of operating funds sufficient to cause the decrease in cash. In Fiscal Year 2007, the additional student population generated by these programs will be used by the State Board for Community and Junior Colleges in calculating the amount received by the College in state-appropriated funding. This increase will significantly offset the start-up costs involved in establishing the new programs.

Short-term Investments

Short-term investments are amounts held in pooled fixed income accounts. The total amount of short-term investments reported as current assets were \$9,466,906 at June 30, 2006, compared to \$9,315,554 at June 30, 2005.

Accounts Receivable

Accounts receivable relate to several transactions including county appropriations, accrued interest, student tuition and fee billings, and auxiliary enterprise sales such as food service and bookstore. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College receivables totaled \$912,123 at June 30, 2006, in comparison to \$539,480 at June 30, 2005.

Inventories

The College maintains inventories of resale merchandise in its bookstore and food services program. Books, student supplies, and institutional memorabilia make up the majority of the resale inventory in the bookstore, while food items for the

preparation of meals make up the majority of the inventory in food services program. Inventories totaled \$637,038 at June 30, 2006, compared to \$606,879 at June 30, 2005.

Noncurrent assets

Restricted Cash and Cash Equivalents

The restricted cash and cash equivalents that are considered noncurrent are cash in endowment funds and those funds held for student organizations. The amount of cash and cash equivalents considered noncurrent at June 30, 2006 totaled \$103,095, compared to \$109,273 at June 30, 2005.

Other Investments

Other long-term investments include marketable securities held and managed by investment managers. These investments are recorded at fair market value. The fair market value at June 30, 2006 was \$855,288, in comparison to \$830,630 at June 30, 2005.

Capital Assets, Net

Capital assets, net, consist of land, construction-in-progress, infrastructure, buildings, equipment, and historical library holdings at June 30, 2006. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$23,351,526 at June 30, 2006, compared to \$21,716,806 at June 30, 2005.

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities

Accounts Payable and accrued liabilities represent amounts due at June 30, 2006 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$573,922 at June 30, 2006, compared to \$417,022 at June 30, 2005.

Deferred Revenue

Deferred revenue represents revenue received by the College during the fiscal year, but not expended by the end of the June 30, 2006 fiscal year. Deferred revenue totaled \$1,650 at June 30, 2006. There was no deferred revenue at June 30, 2005.

Long-Term Liabilities – Current Portion

Long-term liabilities – current portion represents the portion of indebtedness for capital leases that would be payable within one year of June 30, 2006. The amount of long-term liabilities – current portion at June 30, 2006 was \$141,198. There were no long-term liabilities at June 30, 2005.

Noncurrent Liabilities

Deposits Refundable

Deposits refundable are monies held for room and key deposits. The total amount of deposits refundable at June 30, 2006 was \$11,458, in comparison to \$9,238 at June 30, 2005.

Long-Term Liabilities

This liability consists of indebtedness for a capital lease agreement entered into during the fiscal year. The total amount of the non-current portion of long-term debt was \$1,467,790 at June 30, 2006. There was no long-term debt at June 30, 2005.

Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2006 increased \$11,389 to \$35,984,915, in comparison to \$35,996,304 at June 30, 2005.

Analysis of Net Assets

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

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Unrestricted General Fund	\$ 3,781,670	4,182,556
Unrestricted Auxiliary Fund	2,417,405	2,404,886
Unrestricted Designated Fund	<u>67,675</u>	<u>49,313</u>
Total Net Assets	<u>\$ 6,266,750</u>	<u>6,636,755</u>

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.

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Restricted - nonexpendable for		
Endowed scholarships	<u>\$ 897,029</u>	<u>880,650</u>
Restricted - expendable for		
Unemployment Funds	\$ 29,483	29,483
Capital Improvements	3,763,245	3,736,255
Grants and Contracts	35,204	40,146
Loan Funds	3,049,769	2,956,209
Debt Obligations	<u>200,897</u>	<u>-</u>
	<u>\$ 7,078,598</u>	<u>6,762,093</u>
Total Restricted Net Assets	<u>\$ 7,975,627</u>	<u>7,642,743</u>

Net assets invested in capital assets, net of related debt, consist of the College's investment in capital assets less than the amount of outstanding capital-related debt.

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Invested in capital assets, net of related debt	<u>\$ 21,742,538</u>	<u>21,716,806</u>

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

For the year ended June 30, 2006 with comparative information for the year ended June 30, 2005.

	2006	2005
Operating Revenues:		
Tuition and Fees	\$ 1,181,089	3,450,337
Grants and Contracts	5,506,806	5,285,665
Sales and Services of Educational Departments	23,457	23,084
Auxiliary Enterprises	1,403,386	1,728,354
Other Operating Revenues	347,602	216,077
Total Operating Revenues	<u>8,462,340</u>	<u>10,703,517</u>
Operating Expenses	<u>18,155,031</u>	<u>18,735,021</u>
Operating Loss	<u>(9,692,691)</u>	<u>(8,031,504)</u>
 Nonoperating Revenues:		
State & Local Appropriations	6,576,567	8,655,447
Noncapital Gifts	108,220	179,056
Other Nonoperating Revenues	1,934,008	378,397
Net Nonoperating Revenues	<u>8,618,795</u>	<u>9,212,900</u>
Income(Loss) before other revenues, expenses, gains and losses	<u>(1,073,896)</u>	<u>1,181,396</u>
State appropriations restricted for capital purposes	<u>1,062,507</u>	-
Change in Net Assets	<u>(11,389)</u>	<u>1,181,396</u>
Net Assets		
Net Assets at Beginning of Year	35,996,304	34,814,908
Net Assets at End of Year	<u>\$ 35,984,915</u>	<u>35,996,304</u>

Total operating loss for the fiscal year 2006 was \$9,692,691, in comparison to \$8,301,504 for the fiscal year 2005. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, 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.

Southwest Mississippi Community College strives to provide students with the opportunity to obtain a quality education. Future enrollments 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 \$8,462,340, compared to \$10,703,517 for fiscal year 2005. Operating expenses, including depreciation expense of \$947,695, totaled \$18,155,031 for the 2006 fiscal year. Operating expenses for fiscal year 2005 were \$18,735,021, which included depreciation expense of \$767,041. Of the 2006 total, \$7,133,053 or 34% was for instruction. Of the 2005 total, \$6,733,028 or 36% was for instruction.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$1,181,089 for the 2006 fiscal year, compared to \$3,450,337 for the 2005 fiscal year. The decrease was due to a drop in enrollment as part of the aftermath of Hurricane Katrina and a financial reporting change that shows tuition and fees net of scholarships for the 2006 fiscal year.

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 compares the College's grant and contract awards for the fiscal years ended June 30, 2006 and June 30, 2005:

	<u>2006</u>	<u>2005</u>
Federal Sources:		
Department of Education	\$ 3,937,427	4,215,748
State Sources:		
Mississippi Community College System	1,399,004	1,069,917
Nongovernmental Sources:	170375	-
Total All Sources	<u>\$ 5,506,806</u>	<u>5,285,665</u>

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$23,457 for the 2006 fiscal year and \$23,084 for the 2005 fiscal year.

Sales and Services, Net

Sales and services, net, consist of various enterprise entities that exist predominantly to furnish goods and services to students, faculty, staff, or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting. Sales and services, net, totaled \$1,816,534 for the 2006 fiscal year, compared to \$1,728,354 for the 2005 fiscal year.

Auxiliary enterprises for the college primarily include food services, student housing, and the bookstore.

Operating Expenses

Operating expenses for fiscal year 2006 totaled \$18,155,031 and included salaries and benefits of \$9,544,480, travel of \$149,819, contractual services of \$2,791,719, utilities of \$1,001,778, scholarships of \$1,406,307, supplies of \$2,033,534, depreciation of \$947,695, and other expense of \$279,699. Operating expenses for fiscal year 2005 totaled \$18,735,021 and included salaries and benefits of \$9,041,191, travel of \$128,973, contractual services of \$1,270,686, utilities of \$773,735, scholarships of \$4,718,798, supplies of \$1,812,993, depreciation of \$767,041, and other expense of \$221,604.

	<u>2006</u>	<u>2005</u>
Expenses by Function:		
Instruction	7,133,053	6,733,028
Academic Support	552,394	578,180
Student Services	1,442,901	1,427,784
Institutional Support	1,610,538	1,406,723
Operations and Maintenance of Plant	3,197,608	1,324,344
Student Financial Aid	1,406,307	4,718,798
Auxiliary Enterprises	1,864,535	1,779,123
Depreciation	947,695	767,041
Total Operating Expenses by Function	<u>\$ 18,155,031</u>	<u>18,735,021</u>

Nonoperating Revenues (Expenses)

State Aid

The Community College's largest source of nonoperating revenue is the State of Mississippi appropriation. The Community College received \$5,518,791 for the 2006 fiscal year, in comparison to \$5,379,162 for the 2005 fiscal year.

County Appropriations

Southwest Mississippi Community College also receives revenue from the counties in the area of the school. The College uses the funding for salaries and benefits, for operational purposes. The College receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1st. The College received \$2,120,283 from the counties for the 2006 fiscal year, compared to \$2,035,929 for the 2005 fiscal year. The appropriations were fully recorded by the Community College during the respective fiscal years.

Noncapital Gifts

This consists of gifts made to the College from a nongovernmental organization and/or individuals. The cash gifts totaled \$278,595 at June 30, 2006, compared to \$179,056 at June 30, 2005.

Investment Income, Net

This includes the interest income from the cash in the bank accounts, and the unrealized gains and losses on the investments held with an outside agency. A total of \$164,618 was earned during the 2006 fiscal year, in comparison to \$378,397 earned during the 2005 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 Community College during a period. The Statement of Cash Flows also helps users assess:

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

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

	<u>2006</u>	<u>2005</u>
Cash and Cash Equivalents Provided (Used) by:		
Operating Activities	\$ (7,539,755)	\$ (6,048,333)
Noncapital Financing Activities	7,596,906	7,265,508
Capital and Related Financing Activities	(955,011)	(1,335,232)
Investing Activities	<u>443,025</u>	<u>494,945</u>
Net Increase in Cash and Cash Equivalents	(454,835)	376,888
Cash and Cash Equivalents - Beginning of the Year	<u>3,412,544</u>	<u>3,035,656</u>
Cash and Cash Equivalents - End of the Year	<u>\$ 2,957,709</u>	<u>3,412,544</u>

In fiscal year 2006, the major sources of funds included in operating activities include student tuition and fees, \$3,303,504, auxiliary enterprises, \$1,817,893, and grants and contracts, \$5,033,546. The major uses of funds were payments made to employees, \$9,832,850, scholarships, \$4,070,616, and to suppliers, \$3,147,852.

In fiscal year 2005, the major sources of funds included in operating activities include student tuition and fees, \$3,315,178, auxiliary enterprises, \$1,730,095, and grants and contracts, \$5,712,375. The major uses of funds were payments made to employees, \$9,022,293, scholarships, \$4,718,798, and to suppliers, \$4,252,062.

The largest inflow of cash in the noncapital financing activities group is the State appropriation which was \$5,518,791 in fiscal year 2006 and \$5,050,523 in fiscal year 2005.

Significant Capital Asset Transactions

Southwest Mississippi Community College completed three major construction projects during fiscal year 2006. A new waste treatment facility totaling \$1,272,338, the \$672,915 partial renovation of the Brumfield Building which provides instructional classrooms, and a re-roofing and air-conditioning upgrade for the Huddleston Career and Technical Education Building totaling \$1,064,638 were all completed using state and local funding. The installation of an energy efficiency management system totaling \$1,660,807 was also finished and is funded through a ten-year capital lease. Other capital asset additions during the year include \$176,183 to rework classroom space in the Old Cafeteria Building with local funds and \$75,150 as a realized gain on sale of real estate resulting from a land swap completed with the North Pike School District.

A number of projects were begun but not yet completed at the end of the fiscal year. Ground was broken for the complete renovation of the Bryan Science Building. The budget for the renovation is \$4,330,227 and is funded by state capital improvement bonds. \$276,746 was also expended for initial work on the renovation of the residence assigned to the president of the college, the construction of a clock tower with an electronic carillon, and a concessions and bathroom facility for the College's athletic fields. These locally-funded projects are scheduled for completion in fiscal year 2007.

Factors Impacting Future Periods

There are a number of issues impacting the community college system as a whole. The uncertainty in the level of State support, the pressure to provide increases in employee compensation in order to retain and attract quality faculty and staff, insurance and energy cost increases all limit the College's ability to expand new programs, undertake new initiatives, and meet its core mission and ongoing operational needs. Given the need to minimize increases in tuition and fees, the College looks more and more to state appropriations - the single largest source of revenue for the College, and, therefore, one of the key factors influencing the College's financial condition.

In addition to these operational challenges, deferred maintenance and repairs, new technology, repairs, and new construction projects to meet the continued increase in enrollment are large undertakings facing the College in the years to come. The

College continues to assess its performance toward identified goals and ways to achieve greater efficiencies and reduce expenditures in an effort to assist in meeting the future challenges.

Southwest Mississippi Community College is fortunate to have strong support from its local community including the four counties within its district – Amite, Pike, Walthall, and Wilkinson – as well as its foundation, alumni association, individuals, and local area businesses. This support has been extremely helpful in providing our students with additional opportunities to further their educational goals and our ability to meet those goals.

CONTACTING THE COMMUNITY COLLEGE'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Grady Smith, Dean of Business Affairs, Southwest Mississippi Community College, 1156 College Drive, Summit, MS 39666 or 601-276-3704.

(This page was left blank intentionally.)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

AUDITED FINANCIAL STATEMENTS

(This page was left blank intentionally.)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Statement of Net Assets

For the Year Ending June 30, 2006

ASSETS

Current assets:

Cash and cash equivalents	\$	2,854,614
Short-term investments		9,466,906
Accounts receivable, net		912,123
Inventories		637,038
Prepaid expenses		343
Total Current Assets		13,871,024

Noncurrent assets:

Restricted cash and cash equivalents		103,095
Endowment investments		855,288
Capital assets, net of accumulated depreciation		23,351,526

Total Noncurrent Assets		24,309,909
--------------------------------	--	-------------------

Total Assets		38,180,933
---------------------	--	-------------------

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities		573,922
Deferred revenue		1,650
Deposits refundable		11,458
Other long-term liabilities, current portion		141,198
Total Current Liabilities		728,228

Noncurrent liabilities:

Other long-term liabilities, non-current portion		1,467,790
--	--	-----------

Total Noncurrent Liabilities		1,467,790
-------------------------------------	--	------------------

Total Liabilities		2,196,018
--------------------------	--	------------------

NET ASSETS

Invested in capital assets, net of related debt		21,742,538
---	--	------------

Restricted for:

Nonexpendable:

Scholarships and fellowships		897,029
------------------------------	--	---------

Expendable:

Capital improvements		3,967,845
----------------------	--	-----------

Scholarships and fellowships		60,278
------------------------------	--	--------

Loans		3,049,769
-------	--	-----------

Unrestricted		6,267,456
--------------	--	-----------

Total Net Assets	\$	35,984,915
-------------------------	-----------	-------------------

SOUTHWEST 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 \$2,251,161)	\$ 1,181,089
Federal grants and contracts	3,937,427
State grants and contracts	1,399,004
Nongovernmental grants and contracts	170,375
Sales and services of educational departments	23,457
Auxiliary enterprises:	
Student housing (Net of scholarship allowances of \$156,165)	179,701
Food services (Net of scholarship allowances of \$256,983)	404,057
Bookstore	810,642
Other auxiliary revenues	8,986
Other operating revenues	347,602
Total Operating Revenues	<u>8,462,340</u>
Operating Expenses:	
Salaries and wages	7,530,342
Fringe benefits	2,014,138
Travel	149,819
Contractual services	2,791,719
Utilities	1,001,778
Scholarships and fellowships	1,406,307
Commodities	2,033,534
Depreciation expense	947,695
Other operating expense	279,699
Total Operating Expenses	<u>18,155,031</u>
Operating Income (Loss)	<u>(9,692,691)</u>
Nonoperating Revenues (Expenses):	
State appropriations	5,518,791
Local appropriations	1,057,776
Gifts	108,220
Net unrealized and realized gains on long-term investments	(275,858)
Investment income	447,341
Proceeds of loans	1,660,807
Interest expense on capital asset-related debt	(31,888)
Other nonoperating revenue	133,606
Total Net Nonoperating revenues (expenses)	<u>8,618,795</u>
Income (Loss) before other revenues, expenses, gains and losses	(1,073,896)
State appropriations restricted for capital purposes	1,062,507
Change in Net Assets	<u>(11,389)</u>
Net Assets:	
Net Assets - Beginning of Year	35,996,304
Net Assets - End of Year	<u>\$ 35,984,915</u>

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

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

Cash Flows From Operating Activities:	
Tuition and fees	\$ 3,303,504
Grants and contracts	5,033,546
Payments to suppliers	(3,147,852)
Payments to employees for salaries and benefits	(9,662,475)
Payments for utilities	(1,001,778)
Payments for scholarships and fellowships	(4,070,616)
Auxiliary enterprise charges:	1,817,893
Other receipts (payments)	<u>358,398</u>
Net Cash Provided (Used) by Operating Activities	<u>(7,369,380)</u>
Cash Flows from NonCapital Financing Activities:	
State appropriations	5,518,791
Local appropriations	<u>2,078,115</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>7,596,906</u>
Cash Flows from Capital and Related Financing Activities:	
Purchases of capital assets	(1,146,554)
Principal payments on long-term debt	(51,819)
Interest paid on long-term debt	(31,888)
Proceeds on the sale of land	<u>104,875</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,125,386)</u>
Cash Flows from Investing Activities:	
Interest received on investments	<u>443,025</u>
Net Cash Provided (Used) by Investing Activities	<u>443,025</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(454,835)
Cash and Cash Equivalents - Beginning of the Year	<u>3,412,544</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,957,709</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
 Reconciliation of Operating Income (Loss) to Net Cash
 Provided (Used) by Operating Activities

Operating Income (Loss)	\$ (9,692,691)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	947,695
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Receivables, net	(372,643)
Inventories	(30,159)
Prepaid expenses	(577)
Increase (decrease) in liabilities:	
Accounts payables and accrued liabilities	158,549
Long-term liabilities	1,608,988
Deposits refundable	11,458
Total adjustments	<u>2,323,311</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (7,369,380)</u>

Noncash Investing, Capital and Financing Activities:

Bureau of Buildings and Grounds construction in progress	<u>\$ 179,548</u>
--	-------------------

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

Cash and cash equivalents classified as current assets	\$ 2,854,614
Cash and cash equivalents classified as non-current assets	103,095
	<u>\$ 2,957,709</u>

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For the Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies.

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

Southwest Mississippi Community College is governed by a seventeen member board of trustees, selected by the board of supervisors of Amite, Pike, Walthall, and Wilkinson counties who support the college through locally assessed ad valorem tax millage. One of the trustees from each of the supporting counties must be the county superintendent of education, unless the superintendent chooses not to serve, in which case the county board of supervisors shall fill the vacancy in accordance with Section 37-29-65, Miss. Code Ann. (1972). Each board member is appointed for a 5-year term. In addition, Southwest Mississippi Community College works jointly with the Mississippi State Board for Community and Junior Colleges, which coordinates the efforts of all 15 community colleges as they serve the taxpayers of the State of Mississippi.

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

- B. Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*, issued in June and November, 1999, respectively. The Community College now follows the "business-type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Community College's financial activities.
- C. Basis of Accounting - The financial statements of the Community College have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.
- D. Cash Equivalents - For purposes of the Statement of Cash Flows, the Community College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- E. Short-term Investments - Investments that are not cash equivalents but mature within the next fiscal year are classified as short-term investments.
- F. Accounts Receivables, Net - Accounts receivables consist of tuition and fees charged to students, state appropriations, amounts due from state and federal grants and contracts, local governments and credits due to the Community College from vendors. Accounts receivables are recorded net of an allowance for doubtful accounts.
- G. Inventories - Inventories consist of bookstore and food service supplies. These inventories are generally valued at cost, on the first-in, first-out ("FIFO") basis.
- H. Restricted Cash and Cash Equivalents - Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as restricted cash and cash equivalents on the Statement of Net Assets.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For the Year Ended June 30, 2006

- I. Endowment Investments - Endowment investments are generally subject to the restrictions of donor gift instruments. They include true endowment funds, which are funds received from a donor with the restrictions that only the income is to be utilized; term endowment funds, which are funds for which the donor has stipulated that the principal may be expended after a stated period or on the occurrence of a certain event, and quasi endowment funds, which are funds established by the governing board to function like an endowment fund but may be totally expended at any time at the discretion of the governing board.
- J. Capital Assets, Net of Accumulated Depreciation - Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See note 5 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose.
- K. Compensated Absences - The Community College does not provide for the accumulation of leave beyond one year. Therefore, no accrual for compensated absences has been recorded in the financial statements.
- L. Classification of Revenues - The Community College has classified its revenues as either operating or nonoperating revenues according to the following criteria:
- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on institutional student loans. Gifts (pledges) that are received on an installment basis are recorded at net present value. Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations, local appropriations and investment income.
- M. State Appropriations - Southwest Mississippi Community College receives funds from the State of Mississippi based on the number of full-time students actually enrolled and in attendance on the last day of the sixth week of the fall semester of the previous year, counting only those students who reside within the State of Mississippi. A new funding formula is being phased in over a 5-year period which will shift the funding calculation from a predominantly full-time student formula, weighted by type of student, to a full-time equivalent formula which is based on total credit hours generated by all students with special consideration given only to high cost programs.
- N. Scholarship Discounts and Allowances - Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties and Federal Direct Lending, is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a college basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For the Year Ended June 30, 2006

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

The unrestricted net asset balance was \$10,235,301 at June 30, 2006.

(2) Changes in Accounting Standards.

As required, the college has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current year. This statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology change or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

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

Policies:

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

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

- B. Investments - Investment policies as set forth by board policy and as authorized by Section 37-101-15, Mississippi Code Annotated (1972), authorizes the college to invest in equity securities, bonds and other securities. Investments are reported at fair value (market).

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For the Year Ended June 30, 2006

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

	June 30, 2006	June 30, 2005
Endowment investments	\$ 855,288	830,630
Other short-term investments	9,466,906	9,315,555
Total investments	\$ 10,322,194	10,146,185

The following table summarizes the categorization of investments at June 30, 2006:

Investment Type	Maturity(in Years)	Fair Value	Rating
Money Market Funds	Less than 1	\$ 20,862	Not rated
Real Estate	N/A	364,178	Not rated
Equity Securities	Less than 1	115,676	BBB+ to AAA
U.S. Government Bonds	1 to 10	6,874,601	AAA
Municipal Bonds	1 to 10	2,957,761	AA to AAA
Total Investments		\$10,333,078	

Interest Rate Risk. Per GASB Statement No. 40, interest rate risk is defined as the risk a government may face should interest rate variances affect the fair value of investments. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses interest rate risk.

Credit Risk. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses credit risk. The credit risk ratings above are issued upon standards set by Standards and Poor's or Moody's Ratings Services.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the college will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The college does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2006, none of the college's investment balance of \$10,322,194 was exposed to custodial credit risk.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For the Year Ended June 30, 2006

Concentration of Credit Risk. Per GASB 40 Statement No. 40, a disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses concentration of credit risk. As of June 30, 2006, the college had the following investments that represent five percent or more of the total investments:

Issuer	Fair Value	Percentage of Total Investments
Federal Home Loan Bank	3,415,748	33.06%
Mississippi General Obligation Bonds	2,957,761	28.62%
Federal National Mortgage Association	1,445,160	13.99%
Federal Home Loan Mortgage Corporation	1,423,065	13.77%
Federal Farm Credit Bank - FFCB Bonds	590,628	5.72%
Total	\$ 9,832,362	95.15%

(4) Accounts Receivable.

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

Student tuition	\$ 833,230
Auxiliary enterprises and other operating activities	15,777
Federal, state, and private grants and contracts	597,195
State appropriations	89,746
Local appropriations	64,158
Other	5,952
Total Accounts Receivable	1,606,058
Less allowance for doubtful accounts	(693,935)
Net Accounts Receivable	\$ 912,123

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For the Year Ended June 30, 2006

(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	Adjustment	Completed Construction	Ending Balance
<u>Non-depreciable Capital Assets:</u>						
Land	\$ 49,443	75,150	(2,469)			122,124
Construction in progress	2,975,554	2,434,367			(4,846,881)	563,040
Total Non-depreciable Capital Assets	<u>3,024,997</u>	<u>2,509,517</u>	<u>(2,469)</u>	<u>-</u>	<u>(4,846,881)</u>	<u>685,164</u>
<u>Depreciable Capital Assets:</u>						
Improvements other than buildings	3,641,355				1,272,338	4,913,693
Buildings	22,534,183					22,534,183
Building improvement	1,804,925				1,913,736	3,718,661
Equipment	1,790,065	59,706	(120,024)			1,729,747
Library Books	979,792	31,710	(3,588)			1,007,914
Leased property under capital leases	-				1,660,807	1,660,807
Total Depreciable Capital Assets	<u>30,750,320</u>	<u>91,416</u>	<u>(123,612)</u>	<u>-</u>	<u>4,846,881</u>	<u>35,565,005</u>
<u>Less Accumulated Depreciation for:</u>						
Improvements other than buildings	(1,481,235)	(169,812)				(1,651,047)
Buildings	(7,732,250)	(441,405)				(8,173,655)
Building improvement	(531,685)	(140,271)				(671,956)
Equipment	(1,531,475)	(87,391)	102,553			(1,516,313)
Library Books	(781,866)	(42,384)		5,010		(819,240)
Leased property under capital leases	-	(66,432)				(66,432)
Total Accumulated Depreciation	<u>(12,058,511)</u>	<u>(947,695)</u>	<u>102,553</u>	<u>5,010</u>	<u>-</u>	<u>(12,898,643)</u>
Total Depreciable Capital Assets, Net	<u>18,691,809</u>	<u>(856,279)</u>	<u>(21,059)</u>	<u>5,010</u>	<u>4,846,881</u>	<u>22,666,362</u>
Capital Assets, Net	<u>\$ 21,716,806</u>	<u>1,653,238</u>	<u>(23,528)</u>	<u>5,010</u>	<u>-</u>	<u>23,351,526</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For the Year Ended June 30, 2006

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

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

(6) Long-term Liabilities

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006
A. Obligations under energy efficiency lease	\$ -	1,660,807	(51,819)	1,608,988
Total	<u>\$ -</u>	<u>1,660,807</u>	<u>(51,819)</u>	<u>1,608,988</u>

A. Obligations under energy efficiency lease.

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2007	\$ 141,198	59,698	200,896
2008	146,815	54,082	200,897
2009	152,654	48,242	200,896
2010	158,727	42,170	200,897
2011	165,040	35,856	200,896
2012-2016	844,554	76,222	920,776
Total	<u>\$ 1,608,988</u>	<u>316,270</u>	<u>1,925,258</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For the Year Ended June 30, 2006

An energy efficiency lease agreement dated January 17, 2006, was executed by and between the community college, the lessee, and Hancock Bank, the lessor.

The agreement authorized the borrowing of \$1,660,807 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall not exceed ten (10) years.

The community college entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss Cods Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

This debt will be retired from the Unexpended Plant Fund.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For the Year Ended June 30, 2006

(7) 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 & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation	Other	Total
Instruction	\$ 4,964,417	1,218,930	36,389	221,081	3,713	-	528,169	-	160,354	7,133,053
Academic support	314,204	84,480	1,131	23,255	-	-	93,672	-	35,652	552,394
Student services	785,384	316,803	41,967	187,006	1,681	-	99,484	-	10,576	1,442,901
Institutional support	761,606	214,622	40,959	349,618	70,834	-	115,662	-	57,237	1,610,538
Operation of plant	296,468	102,381	29,373	1,994,570	598,781	-	171,087	-	4,948	3,197,608
Student financial aid	-	-	-	-	-	1,406,307	-	-	-	1,406,307
Auxiliary enterprise	408,263	76,922	-	16,189	326,769	-	1,025,460	-	10,932	1,864,535
Depreciation	-	-	-	-	-	-	-	947,695	-	947,695
Total Operating Expenses	\$ 7,530,342	2,014,138	149,819	2,791,719	1,001,778	1,406,307	2,033,534	947,695	279,699	18,155,031

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For the Year Ended June 30, 2006

(8) Construction Commitments and Financing.

Commitments under contract:

Project Title	Total Cost to Complete	Funded By	
		State Funds	Institutional Funds
Bryan Science Building	\$ 4,065,054	4,065,054	-
Access 400 Software/Conversion/Training	413,000	-	413,000
Total	\$ 4,478,054	4,065,054	413,000

(9) Pension Plan.

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

Funding policy - PERS members are required to contribute 7.25% of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the Mississippi State Legislature. The Community College's contributions to PERS for the years ending June 30, 2006, 2005 and 2004 were \$733,528, \$673,828 and \$676,407, respectively, equal to the required contributions for each year.

(10) Contingencies.

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

(11) Subsequent Events.

Subsequent to the end of the fiscal year and the date of this report, we noted the following significant actions taken by the community college's board. The board approved the demolition and preparation of the track surface to receive a new surface, approved the construction of addition parking for the library, and approved the Pike Construction Company for replacement of the Phi Theta Kappa building.

SUPPLEMENTAL INFORMATION

(This page was left blank intentionally.)

SOUTHWEST 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	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Education</u>		
Student Financial Aid - Cluster:		
Direct programs:		
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	\$ 94,811
Federal Work-Study Program (FWS)	84.033	82,398
Federal Pell Grant Program	84.063	2,956,933
Total Student Financial Aid Cluster		<u>3,134,142</u>
Pass through programs from:		
Board of Trustees of Institutions of Higher Learning -		
State Department of Education - Adult Education - State Grant Program	84.002	60,901
State Department of Education - Vocational Education Basic Grants	84.048	257,389
Leveraging Educational Assistance Partnership	84.069	11,432
State Department of Education - Tech-Prep Education	84.243	39,945
Leveraging Educational Assistance Partnership - Hurricane education recovery	84.938F	158,418
Total U. S. Department of Education		<u>528,085</u>
Total U.S. Department of Education		<u>3,662,227</u>
<u>U. S. Department of Labor</u>		
Passed-through programs from:		
Mississippi Department of Education - WIA Youth Activities	17.258/17.260	118,332
Mississippi Department of Education - WIA Administrative Incentive Grant	CFDA Exempt	192,493
Total U. S. Department of Labor		<u>310,825</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through programs from:		
Mississippi Community College Foundation		
Development and Coordination of Rural Health Services	93.223	57,615
Total U. S. Department of Health and Human Services		<u>57,615</u>
<u>U. S. Department of Homeland Security</u>		
Federal Emergency Management Agency - Direct		
Disaster Grants - Public Assistance (Presidential Declared Disasters)	97.036	42,417
Total Expenditures of Federal Awards		<u>\$ 4,073,084</u>

NOTES TO SCHEDULE

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

(This page left blank intentionally.)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

(This page left blank intentionally)

March 14, 2007

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

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

We have audited the financial statements of Southwest Mississippi Community College as of and for the year ended June 30, 2006, as listed in the table of contents and have issued our report thereon dated March 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the community college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weakness.

Compliance and Other Matters

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

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

Sincerely,



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

(This page left blank intentionally)

March 14, 2007

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

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

Compliance

We have audited the compliance of Southwest Mississippi Community College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Community College's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Community College's management. Our responsibility is to express an opinion on the Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Community College's compliance with those requirements.

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

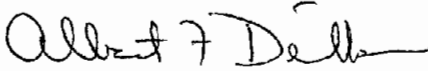
Internal Control Over Compliance

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

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

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

Sincerely,

A handwritten signature in cursive script that reads "Albert F. Dribben". The signature is written in black ink and is positioned above the typed name.

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

(This page left blank intentionally)

March 14, 2007

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

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

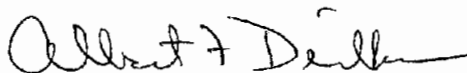
We have audited the financial statements of Southwest Mississippi Community College as of and for the year ended June 30, 2006, and have issued our report thereon dated March 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States.

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

Sincerely,



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

(This page was left blank intentionally.)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(This page left blank intentionally)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Section 1: Summary of Auditor's Results

Financial Statements

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

Federal Awards:

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

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements.

Section 3: Federal Award Findings and Questioned Costs

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

