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**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Audited Financial Statements  
For the Year Ended June 30, 2015**

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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INDEPENDENT AUDITOR'S REPORT

# **LOWERY, PAYN AND LEGGETT**

*CERTIFIED PUBLIC ACCOUNTANTS*

*Member of Mississippi Society  
of Certified Public Accountants*

207 SOUTH RAILROAD AVENUE  
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456  
FAX (601) 833-9896

*Member of American Institute  
of Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

Dr. J Stephen Bishop, President and Board of Trustees  
Southwest Mississippi Community College  
Summit, MS 39666

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business activities of Southwest Mississippi Community College, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents. We have also audited the statement of financial position of Southwest Mississippi Community College Foundation, Inc., a discretely presented component unit of Southwest Mississippi Community College, as of June 30, 2015 and the related statement of activities for the year then ended.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Southwest Mississippi Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business activities of Southwest Mississippi Community College, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of College's Proportionate Share of Net Pension Liability and the Schedule of College Contributions on pages 5-16 and 48-49, respectively, are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

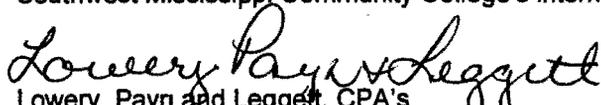
#### ***Other Information***

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 the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016, on our consideration of the Southwest Mississippi Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southwest Mississippi Community College's internal control over financial reporting and compliance.

  
Lowery, Payn and Leggett, CPA's  
Brookhaven, Mississippi

January 25, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis  
For the Year Ended June 30, 2015



**Office of Financial Affairs**  
1156 College Drive Summit, MS 39666  
Telephone 601-276-3704 Fax 601-276-3888  
salford@smcc.edu

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Southwest Mississippi Community College (college) annual financial report presents our discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2015. Management has prepared this section along with the financial statements and related footnote disclosures and it should be read in conjunction with and is qualified in its entirety by the financial statements and footnote disclosures. We have included in this discussion comparative data for fiscal year 2014. The financial statements, footnote disclosures, and this discussion are the responsibility of management.

### Using this Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Government Accounting Standards Board Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. We are in the seventh year of compliance with this standard. These financial statements differ significantly, in both form and the accounting principles used, from those presented prior to fiscal year 2003. 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.

For the year ended June 30, 2015, the college implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions (GASB 68)*. This new standard requires the college to record its proportionate share of the pension liability of the Mississippi Public Employees Retirement System (PERS). The new standard has a significant impact on the liabilities and net position of the college as discussed below. In addition, the Defined Benefit Pension Note to the financial statements includes a number of new items related to the implementation of this standard, and two new schedules are included with the required supplementary information following the footnotes.

### Reporting the College's Financial Activities

One of the most important questions asked is whether the college as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, 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

# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

## **Management's Discussion and Analysis**

**For the Year Ended June 30, 2015**

service is provided, and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

For the year ended June 30, 2015, the college implemented GASB 68. In addition to expanded disclosure requirements, the college is required to report its proportionate share of the PERS net pension liability on the statement of net position. This new standard had a significant impact on the liabilities and net position of the college as discussed below.

### ***Statement of Net Position***

The Statement of Net Position includes all assets, deferred outflows, liabilities and deferred inflows. Net position is assets plus deferred outflows of resources minus liabilities and deferred inflows of resources, and is one way to measure the college's financial health. Over time, increases or decreases in net position is one indicator of whether its financial health is improving or deteriorating. Other non-financial indicators such as enrollment levels and the condition of the facilities must also be considered in assessing the overall health of the college.

The college's financial position was significantly impacted by the implementation of GASB 68 during fiscal year ended June 30, 2015. Three new line items appear on the Statement of Net Position as of June 30, 2015, each related to GASB 68: Deferred outflows of resources – pensions; Deferred inflows of resources – pensions; and Net pension liability. Each of these categories represents a separate piece of the required presentation for the college's participation in the PERS pension plan. As of June 30, 2015, the combined impact to the college from these new captions is a decrease of \$20,760,567 to the college's net position. These items are discussed in greater detail in the footnotes to the financial statements and the required supplementary information following the footnotes. It is important to note that while this new standard raises awareness of potential future obligations of the college, its implementation has no immediate impact on the cash position of the college or its ability to meet current obligations.

The Statement of Net Position's purpose is to provide the college's overall financial position at the fiscal year close. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when a service is provided, and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The following is a condensed version of the statement of net position, with analysis of the major components of the net position of the college for fiscal year ended June 30, 2015 compared to the year ended June 30, 2014.

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**Management's Discussion and Analysis  
For the Year Ended June 30, 2015**Condensed Statement of Net Position**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>Assets</b>		
Current assets	\$ 12,895,064	\$ 12,233,733
Non-current assets		
Capital, net	35,684,830	34,547,952
Other	4,440,479	4,437,299
Total Assets	<u>\$ 53,020,373</u>	<u>\$ 51,218,984</u>
<b>Deferred outflows of resources</b>		
Deferred pension amounts	<u>\$ 2,865,499</u>	<u>\$ -</u>
<b>Liabilities</b>		
Current Liabilities	1,192,090	1,342,847
Non-current liabilities	23,170,927	821,144
Total liabilities	<u>\$ 24,363,017</u>	<u>\$ 2,163,991</u>
<b>Deferred inflows of resources</b>		
Deferred pension amounts	<u>\$ 2,991,179</u>	<u>\$ -</u>
<b>Net Position</b>		
Net investment in capital assets	\$ 32,863,686	\$ 33,454,650
Restricted		
Non-expendable	931,289	932,055
Expendable	5,194,499	4,055,118
Unrestricted	(10,457,798)	10,613,170
Total Net Position	<u>\$ 28,531,676</u>	<u>\$ 49,054,993</u>

The current asset balance at June 30, 2015 is \$ 12,895,064. This represents primarily cash, short-term investments, accounts receivable, and inventories. Cash and short-term investments totaled \$6,038,826, accounts receivable totaled \$5,460,498 and are reported net of allowance for doubtful accounts of \$1,928,801, inventories for the bookstore and cafeteria totaled \$1,213,700, and prepaid expense totaled \$2,110,841. For the fiscal year ended June 30, 2014, the current asset balance was \$12,233,733. Cash and short-term investments were \$8,367,558, accounts receivable were \$4,066,555 reported net of allowance for doubtful accounts of \$1,802,079, inventories were \$1,270,097, and prepaid expense was \$331,602.

The noncurrent asset balance at June 30, 2015 is \$40,125,309. This represents restricted cash and cash equivalents, endowment and loan fund investments, capital assets, net of accumulated depreciation. Restricted cash and investments totaled \$4,440,479 and capital assets, net totaled \$35,684,830. For the fiscal year ended June 30, 2014, restricted cash and investments were \$4,437,289, and capital assets, net were \$34,547,952.

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Management's Discussion and Analysis For the Year Ended June 30, 2015

Deferred outflows of resources – deferred pension amounts is a new line item added, June 30, 2015, because of GASB 68 implementation. Deferred outflows of resources are consumption of net position by the college that is applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position that is similar to assets, but are not assets. The deferred outflows of resources – deferred pension amount of \$2,865,499 is primarily the college's contributions to PERS subsequent to the measurement date of June 30, 2014.

Current liabilities at June 30, 2015 are \$1,192,090. This consists primarily of accounts payable, accrued payroll, unearned revenue associated with early student registration for the fall 2015 academic semester, and the current portion of long-term debt. Accounts payable totaled \$150,709, accrued payroll totaled \$400,431, unearned revenue totaled \$347,130, student funds on deposit totaled \$8,716, and the current portion of long-term debt amounted to \$285,104. For the fiscal year ended June 30, 2014, current liabilities were \$1,342,847. Accounts payable were \$302,654, accrued payroll was \$426,927, unearned revenue was \$322,750, student funds on deposit were \$8,358, and the current portion of long-term debt was \$272,158.

Noncurrent liabilities for the college consist of long-term debt for capital lease purchase agreements, loans and net pension liability. At June 30, 2015, the long-term debt balance was \$2,536,040. A net pension liability of \$20,634,887 was added as a new line item on June 30, 2015 because of the implementation of GASB 68. Total long-term liabilities at June 30, 2015 are \$23,170,927, as compared to \$821,144 at June 30, 2014. The college added a \$2 million long-term loan, during fiscal year 2015, to partially fund construction of a new men's dormitory.

Deferred inflows of resources – deferred pension amounts is a new line item added June 30, 2015, because of GASB 68 implementation. Deferred inflows of resources are an acquisition of net position by the college applicable to a future reporting period. Deferred inflows of resources have a negative effect on net position that is similar to liabilities, but are not liabilities. The deferred inflows of resources – deferred pension amount at June 30, 2015 is \$2,991,179.

The largest position of the college's net position is in the category of "net investment in capital assets" (land, buildings, and equipment), less the related debt. The restricted portion of the net position represents resources subject to external restrictions. Restricted non-expendable net position consists of endowment gifts with specific restrictions on spending the principal given. Restricted expendable net position consist of gifts with specific restrictions, grants from third-party agencies with expenditure restrictions, plant funds restricted for capital projects and debt service, and loan funds.

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Management's Discussion and Analysis For the Year Ended June 30, 2015

The following is a breakdown of the restricted net position:

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Non-expendable endowment funds	\$ 931,289	\$ 932,055	\$ (766)
Scholarships	20,605	17,857	2,748
Capital projects	1,387,407	228,981	1,158,426
Debt service	285,104	272,158	12,946
Loans to students	3,459,178	3,459,178	0
Other purposes	42,205	76,944	(34,739)
Total restricted net position	<u>\$ 6,125,788</u>	<u>\$ 4,987,173</u>	<u>\$ 1,138,615</u>

The remaining assets are unrestricted and available to the college for any lawful purpose. The following summarizes unrestricted net position:

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Unrestricted General Funds	(\$13,610,485)	\$ 6,588,358	(\$20,198,843)
Unrestricted Auxiliary Funds	2,812,148	3,747,865	(935,717)
Unrestricted Designated General Funds	340,539	276,947	63,592
	<u>\$ (10,457,798)</u>	<u>\$ 10,613,170</u>	<u>\$ (21,070,968)</u>

The most significant change in net position for fiscal year ending June 30, 2015 is a decrease of \$20,760,567 in unrestricted net position primarily due to the implementation of GASB 68.

### ***Statement of Revenues, Expenses and Changes in Net Position***

The Statement of Revenues, Expenses, and Changes in Net Position provide the overall results of the college's operations. The statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. The financial reporting model classifies state appropriations, local appropriations, and gifts as non-operating revenues. Due to the reporting classifications for community colleges, their dependency on state appropriations, local appropriations and gifts results in an operating deficit.

The following is a condensed version of the statement of revenues, expenses and changes in net position, with analysis of the major components for the fiscal year ended June 30, 2015 compared to the year ended June 30, 2014.

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

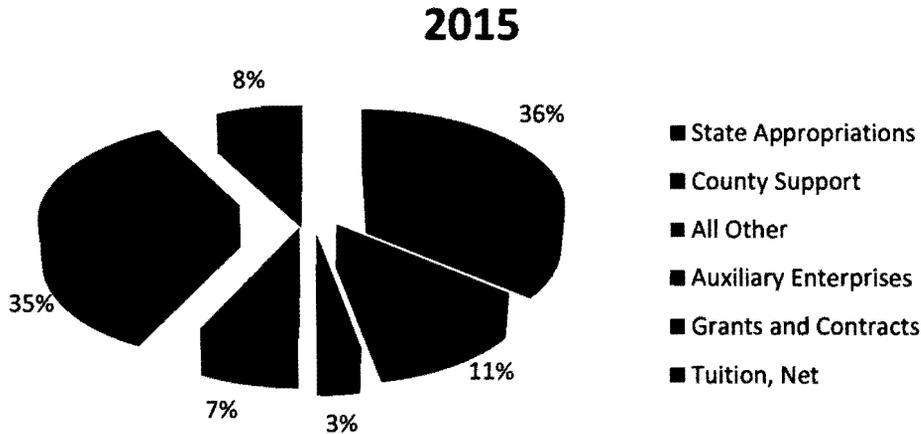
	<u>2015</u>	<u>2014</u>
<b>Operating revenues</b>		
Tuition and fees, net	\$ 1,917,973	\$ 1,872,032
Grants and contracts	8,382,071	8,525,773
Sales and services	14,455	12,565
Auxiliary enterprises (net)	1,657,633	1,653,542
Other operating revenues	470,057	534,423
<b>Total operating revenues</b>	<u>12,442,189</u>	<u>12,598,335</u>
<b>Operating expenses</b>	<u>24,124,139</u>	<u>24,776,649</u>
Operating loss	<u>(11,681,950)</u>	<u>(12,178,314)</u>
<b>Non-operating revenues (expenses)</b>		
State appropriations	8,734,633	8,004,890
Local appropriations	2,558,251	2,474,632
Gifts and contributions	338,722	11,000
Investment income (net)	14,553	10,516
Interest on indebtedness	(27,761)	(40,851)
<b>Net non-operating revenues (expenses)</b>	<u>11,618,398</u>	<u>10,460,187</u>
<b>Income (loss) before other revenues</b>	<u>(63,552)</u>	<u>(1,718,127)</u>
<b>Other revenues (expenses)</b>		
State appropriations capital use restricted	<u>91,752</u>	<u>784,892</u>
<b>Change in net position</b>	28,200	(933,235)
<b>Net position:</b>		
Net position, beginning of year	49,054,993	49,988,228
Implementation of GASB Statement No.68	<u>(20,551,517)</u>	
Net position, restated	<u>28,503,476</u>	<u>49,988,228</u>
Net position, end of year	<u>\$28,531,676</u>	<u>\$49,054,993</u>

In the fiscal year ended June 30, 2015, the college's revenues exceeded expenditures, creating an increase in total net position of \$28,200 (compared to a \$933,235 decrease in total net position in fiscal year 2014).

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

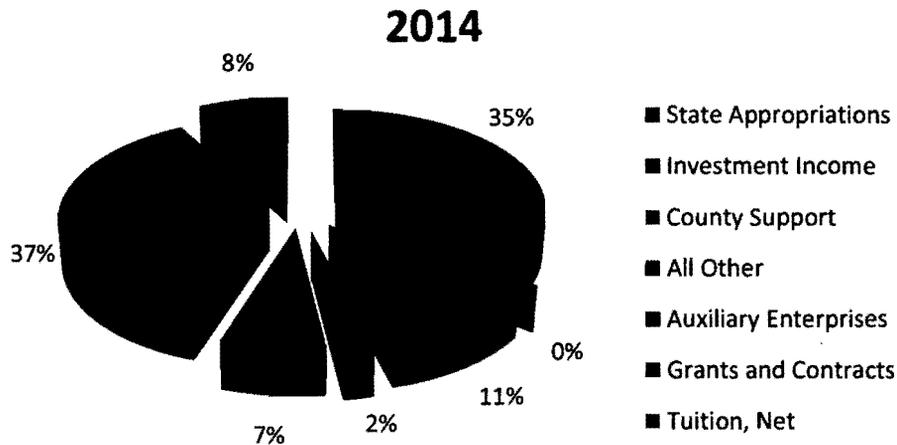
Management's Discussion and Analysis  
For the Year Ended June 30, 2015

## Total Revenue by Source for Fiscal Years' 2015 and 2014



In fiscal year 2015 operating revenues totaled \$12,442,189 and non-operating revenues totaled \$11,646,159. The sources of operating revenue for the college are tuition and fees, grants and contracts, auxiliary services, and other operating revenues. The college's largest single sources of non-operating revenue are the State of Mississippi appropriation and the support from the four counties comprising the college's district.

Total operating loss for the fiscal year 2015 was \$11,681,950. Because the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, the college will always show a significant operating loss.



In fiscal year 2014 operating revenues totaled \$12,598,335 and non-operating revenues totaled \$10,501,038. The total operating loss for the fiscal year 2014 was \$12,178,314. Because the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, the college will always show a significant operating loss.

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Management's Discussion and Analysis

For the Year Ended June 30, 2015

Observations regarding the changes in operating and non-operating revenues follow.

#### Operating Revenues

- **Tuition and fees (net of tuition discount)** reflects a increase in Fiscal Year 2015 of \$45,941. Tuition and fees totaling \$1,917,973 are net of \$3,813,559 in scholarship allowances. Tuition discounting is calculated from student financial aid awards and related student refunds.
- **Grants and contracts revenue** decreased in Fiscal Year 2015 by \$143,702. Grants and contracts revenue includes all federal and state restricted revenues made available by government agencies, as well as private agencies. Grant revenues are recorded only to the extent that the funds have been expended for exchange transactions. Non-exchange revenues are recorded when received or when eligibility criteria have been met.

The following table details the college's grant and contract awards for the fiscal years ended June 30, 2015 and 2014:

	2015	2014	Increase (Decrease)
Federal sources	\$ 5,944,313	\$ 6,212,269	\$ (267,956)
State sources	2,392,789	1,840,879	551,910
Other sources	44,969	472,625	(427,656)
Total all sources	\$ 8,382,071	\$ 8,525,773	\$ (143,702)

- **Auxiliary enterprises revenue**, net of fee discounts, consists of enterprise entities that exist predominantly to furnish goods and services to students, faculty, staff, or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting.

Auxiliary enterprises primarily include the bookstore, student and campus housing, and food services. Auxiliary enterprises revenue, net of scholarship allowances, totaled \$1,657,633 for the fiscal year 2015 or a increase of \$4,091 from fiscal year 2014. The discount for scholarship allowance was \$808,527 for fiscal year 2015 and \$836,955 for fiscal year 2014.

	2015	2014
Bookstore	\$ 1,222,754	\$ 1,304,479
Student and campus housing	561,912	529,492
Food services	666,562	640,361
Other	14,932	16,165
Subtotal	\$ 2,466,160	\$ 2,490,497
Less: Scholarship allowances	(808,527)	(836,955)
Net auxiliary enterprises revenue	\$ 1,657,633	\$ 1,653,542

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Management's Discussion and Analysis

For the Year Ended June 30, 2015

### Operating Expenses

Operating expenses for fiscal year 2015 totaled \$24,124,139, including depreciation expense of \$1,742,086. Operating expenses for fiscal year 2014 totaled \$24,776,649. Pension expense of, \$209,050, due to the implementation of GASB 68 during fiscal year 2015 was included in fringe benefits.

#### Expenses by Object:

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Salaries and wages	10,067,152	10,516,664	(449,512)
Fringe benefits	3,306,710	3,220,093	86,617
Travel	309,506	333,353	(23,847)
Contractual services	2,350,650	2,442,430	(91,780)
Utilities	857,049	752,365	104,684
Scholarships	2,447,135	2,753,014	(305,879)
Commodities	2,481,514	2,381,727	99,787
Depreciation expense	1,742,086	1,664,831	77,255
Other operating expense	562,337	712,172	(149,835)
Total operating expenses	<u>24,124,139</u>	<u>24,776,649</u>	<u>(652,510)</u>

#### Expenses by Function:

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Instruction	9,366,312	9,490,579	(124,267)
Instructional Support	464,820	473,177	(8,357)
Student Services	2,677,919	2,660,659	17,260
Institutional Support	2,324,281	2,458,755	(134,474)
Operation of Plant	2,705,018	2,674,412	30,606
Student Financial Aid	2,447,135	2,753,014	(305,879)
Auxiliary Enterprises	2,396,568	2,601,222	(204,654)
Depreciation	1,742,086	1,664,831	77,255
Total operating expenses	<u>24,124,139</u>	<u>24,776,649</u>	<u>(652,510)</u>

### Non-Operating Revenues (Expenses)

- **State appropriation** funding is the college's largest source of non-operating revenue. This appropriation is for the educational and general operations of the college. The college received \$8,734,633 in 2015 as compared to \$8,004,890 in 2014, or an increase of \$729,743.
- **Local county appropriation** increased for fiscal year 2015. This revenue is received from the four counties (Amite, Pike, Walthall, and Wilkinson) of the State Community College District in which the college resides. The college received \$2,558,251 for fiscal year 2015, compared to \$2,474,632 for fiscal year 2014, or an increase of \$83,619.

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Management's Discussion and Analysis

For the Year Ended June 30, 2015

- **Investment income, net** includes earned interest income and investment gains or losses on cash in the bank accounts, mutual funds, and the school's investment pooling account net of any fees charged. Investment income for fiscal year 2015 was \$14,553, including a net unrealized gain of \$446, compared to investment income of \$10,516 in fiscal year 2014.
- **Interest expense of capital asset related debt** consists of the amount the college incurred during fiscal year for debt expense. The total expense was \$27,761 for fiscal year 2015, compared to \$40,851 for fiscal year 2014.

### Statement of Cash Flows

Another way to assess the financial health of the college is to look at the statement of cash flows of the college during a period. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the college during the fiscal period. The statement of cash flows also helps users assess the following:

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

The statement of cash flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing, and investing activities.

### Condensed Statement of Cash Flows (Direct Method)

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents provided (used) by:		
Operating activities	\$ (12,744,431)	\$ (11,726,457)
Noncapital financing activities	11,491,903	10,613,995
Capital/related financing activities	(1,087,131)	(608,708)
Investing activities	3,210,763	11,091
Net increase in cash and cash equivalents	871,104	(1,710,079)
Cash and cash equivalents – Beginning of Year	5,415,168	7,125,247
Cash and cash equivalents – End of Year	<u>\$ 6,286,272</u>	<u>\$ 5,415,168</u>

The major sources of funds comprising operating activities for fiscal year 2015 include student tuition and fees, \$1,735,049; auxiliary enterprises, \$1,657,633; and grants and contracts, \$7,335,234. The major uses of funds were payments made to employees, \$13,191,308; to suppliers, \$5,682,485; and for scholarships, \$2,447,135.

In comparison, the major sources of funds comprising operating activities for fiscal year 2014 include student tuition and fees, \$1,612,779; auxiliary enterprises, \$1,653,542; and grants and contracts, \$7,803,548. The major uses of funds were payments made to employees, \$13,906,783; to suppliers, \$6,082,157; and for scholarships, \$2,753,014.

The largest inflow of cash in the non-capital financing activities group is the state appropriation of \$8,584,831 and county appropriation of \$2,558,251 for fiscal year 2015,

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Management's Discussion and Analysis For the Year Ended June 30, 2015

compared to state appropriation of \$8,124,268 and county appropriation of \$2,474,632 for fiscal year 2014.

### Capital Asset Transactions

The college capitalizes assets that have a value or cost equal to or greater than \$5,000 at the date of acquisition and an expected useful life of more than one year. Repairs and renovations that do not extend the life of the building beyond the expected useful life at acquisition, nor increase the future service potential of the building are expensed and not capitalized.

Equipment and property under capital lease are depreciated over their useful lives, generally 3 to 20 years beginning in the year of acquisition. Buildings and improvements (or infrastructure) are depreciated over their estimated useful lives, generally 20 to 40 years for buildings and 20 years for improvements beginning in the year that the construction is completed or, if purchased after construction, when acquired. Library books and software are depreciated over 10 years. When a construction project is completed, the capital project costs are moved from the construction in progress account to either buildings or improvements as appropriate.

As shown in the following table, the college value of net capital assets increased by \$1,136,877 during the fiscal year 2015:

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Land	\$ 122,124	\$ 122,124	\$ -
Construction in progress	3,057,544	1,089,902	1,967,642
Buildings	41,512,426	41,482,709	29,717
Improvements	8,441,587	8,018,906	422,681
Machinery and equipment	3,484,508	2,993,074	491,434
Library books and media	847,116	879,626	(32,510)
Software	400,000	400,000	-
Capital Lease	2,380,870	2,380,870	-
Total capital assets	\$ 60,246,175	\$ 57,367,211	\$ 2,878,964
Accumulated depreciation	<u>(24,561,345)</u>	<u>(22,819,259)</u>	<u>(1,742,086)</u>
Net capital assets	\$ 35,684,830	\$ 34,547,952	\$ 1,136,878

In addition to costs incurred, the college had \$4,659,899 in outstanding commitments for construction projects as of June 30, 2015. Those projects included the construction of a new men's dormitory and widening and overlay of Union Drive.

The new men's dormitory is funded by state capital expense appropriations, capital improvement bonds, available college funds reserved for capital projects and the issuance of a ten-year facilities improvement note.

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Management's Discussion and Analysis For the Year Ended June 30, 2015

### Long-Term Debt Activities

At the beginning of the current fiscal period, the total long-term debt obligations of the college consisted of two capital lease agreements, one revolving loan, and a dormitory construction note. The two lease agreements financed controls and equipment for energy savings and the other provided for lighting upgrades for the football stadium. The revolving loan provided for a campus-wide sewer system renovation, and the dormitory construction note is funding the construction of a new men's dormitory. At June 30, 2015, long-term debt made up 68% of total liabilities as compared to 51% at June 30, 2014. Total liabilities were only 7.6% and 4.4% of total net position at June 30, 2015 and 2014, respectively.

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Loans and leases payable	<u>\$ 2,821,144</u>	<u>\$ 1,093,302</u>	<u>\$ 1,727,842</u>
Total long-term liabilities	<u>\$ 2,821,144</u>	<u>\$ 1,093,302</u>	<u>\$ 1,727,842</u>

During fiscal year ended June 30, 2015, a dormitory construction note was issued in the amount of \$2,000,000 to provide partial funding for construction of a new men's dormitory. The ten-year notes were financed through Guaranty Bank and Trust Company of Belzoni, Mississippi and have a net interest rate of 2.36%.

### Factors Impacting Future Periods

Southwest Mississippi Community College remains financially stable. The college, through the Board of Trustees, President and Office of Financial Affairs has committed itself to financial excellence for many years by using sound financial planning, a conservative approach to budgeting and strong internal controls. The college is committed to maintaining sound fiscal management to meet the challenges of the future.

The college is constructing a new men's dormitory at an approximate cost of \$6,153,928. Construction began during fiscal year 2015 and should be completed during fiscal year 2016.

### **CONTACTING THE COMMUNITY COLLEGE'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact Andrew Alford, Vice President for Financial Affairs, Southwest Mississippi Community College, 1156 College Drive, Summit, MS 39666-9029, by telephone 601-276-3704, or by e-mail at [aalford@smcc.edu](mailto:aalford@smcc.edu).

AUDITED FINANCIAL STATEMENTS

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Statement of Net Position**  
**June 30, 2015**

**Assets**

**Current Assets:**

Cash and cash equivalents	\$	6,038,629
Short term investments		197
Accounts receivable, net		560,807
Due from State General Fund		258,992
Grants and contracts receivable, net		2,711,898
Inventories		1,213,700
Prepaid expenses		2,110,841
Total Current Assets		12,895,064

**Non-current Assets:**

Restricted cash and cash equivalents	247,643
Restricted fund investments (unemployment compensation)	-
Loan fund investments	2,879,562
Endowment investments	949,096
Other long-term investments (land in loan funds)	364,178
Capital assets, net of accumulated depreciation	35,684,830
Total Non-current Assets	40,125,309
Total Assets	53,020,373

**Deferred Outflows of Resources:**

Deferred outflow related to pensions	2,865,499
Total Deferred Outflows of Resources	2,865,499

**Liabilities**

**Current Liabilities**

Accounts payable and accrued liabilities	150,709
Accrued payroll	400,431
Unearned revenues	347,130
Deposits refundable	8,716
Long-term liabilities, due within one year:	285,104

**Non-current Liabilities**

Long-term liabilities, due beyond one year:	2,536,040
Net pension liability	20,634,887
Total Liabilities	24,363,017

**Deferred Inflows of Resources**

Deferred inflow related to pensions	2,991,179
Total Deferred Inflows of Resources	2,991,179

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Statement of Net Position**

**June 30, 2015**

**Net Position**

Net investment in capital assets	32,863,686
Restricted for:	
Expendable:	
Scholarships and fellowships	20,605
Debt service	285,104
Capital improvements	1,387,407
Loans to students	3,459,178
Other purposes	42,205
Non-expendable:	
Scholarships and fellowships	931,289
Unrestricted	(10,457,798)
	<hr/>
Total Net Position	<u>\$ 28,531,676</u>

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

Southwest Mississippi Community College Foundation, Inc.  
Statement of Financial Position  
June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Assets</b>				
Cash and Investments	\$ 10,618	\$ 299,198	\$ 6,854	\$ 316,670
Investments	-	7,058	188,362	195,420
Accounts Receivable	-	1,055	-	1,055
Pledges Receivable	19,200	-	-	19,200
Allowance for Uncollectible	-	-	-	-
<b>Total Assets</b>	<b>\$ 29,818</b>	<b>\$ 307,311</b>	<b>\$ 195,216</b>	<b>\$ 532,345</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ -	\$ 67,500	\$ -	\$ 67,500
<b>Net Position</b>				
Unrestricted	29,818	239,811	195,216	464,845
Temporarily Restricted	-	-	-	-
Permanently Restricted	-	-	-	-
<b>Total Net Position</b>	<b>\$ 29,818</b>	<b>\$ 239,811</b>	<b>\$ 195,216</b>	<b>\$ 464,845</b>

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

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Statement of Revenues, Expenses and Changes In Net Position  
For the Year Ended June 30, 2015**

**Operating Revenues**

Tuition and fees (net of scholarship allowances of \$3,813,559)	\$	1,917,973
Federal grants and contracts		5,944,313
State grants and contracts		2,392,789
Nongovernmental grants and contracts		44,969
Sales and services of educational departments		14,455
<b>Auxiliary enterprises:</b>		
Student housing (net scholarship allowances of \$360,956)		200,956
Food services ( net of scholarship allowances of \$447,571)		218,991
Bookstore		1,222,754
Other auxiliary revenues		14,932
Other operating revenues		470,057
<b>Total operating revenues</b>		<u>12,442,189</u>

**Operating Expenses**

Salaries and wages		10,067,152
Fringe benefits		3,306,710
Travel		309,506
Contractual services		2,350,650
Utilities		857,049
Scholarships and fellowships		2,447,135
Commodities		2,481,514
Depreciation		1,742,086
Other operating expenses		562,337
<b>Total Operating Expenses</b>		<u>24,124,139</u>

**Operating Income (Loss)** (11,681,950)

**Non-operating Revenues (Expenses)**

State appropriations		8,734,633
Local appropriation		2,558,251
Gifts and contributions		338,722
Net unrealized and realized gains on long-term investments		446
Investment income		14,107
Interest expense on capital asset-related debt		<u>(27,761)</u>
<b>Total Net Nonoperating Revenues (Expenses)</b>		<u>11,618,398</u>
<b>Income (Loss) before Other Revenues, Expenses, Gains and Losses</b>		<u>(63,552)</u>

**Other Revenues**

State appropriation restricted for capital purposes		91,752
<b>Total Other Revenues</b>		<u>91,752</u>

**Change In Net Position** 28,200

**Net Position**

Net position, beginning of year		49,054,993
Implementation of GASB Statement No. 68		<u>(20,551,517)</u>
<b>Net position, end of year</b>		<u>\$ 28,531,676</u>

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

Southwest Mississippi Community College Foundation, Inc.  
Statement of Activities  
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Revenues, Gains and Support</b>				
Contributions	\$ 2,757	\$ 161,882	\$ 10,000	\$ 174,639
Pledge Income	-	-	-	-
Transfers	-	2,033	-	2,033
Investment Income	350	467	8,485	9,302
Unrealized Gains on Investment	-	-	-	-
Other	9,000	3,033	-	12,033
<b>Total Revenues, Gains and Support</b>	<u>12,107</u>	<u>167,415</u>	<u>18,485</u>	<u>198,007</u>
<b>Expenses and Deductions</b>				
Program Services				
Scholarships	-	46,591	2,000	48,591
Other Expenses			-	-
Management and General Support for the College	28,222	62,209	-	90,431
Transfers	13,979	75,145	-	89,124
Other - Increase in Allowance for DA	2,033	-	-	2,033
Other - Increase in Allowance for DA	-	541	9,856	10,397
<b>Total Expenses</b>	<u>44,234</u>	<u>184,486</u>	<u>11,856</u>	<u>240,576</u>
<b>Increase in Net Position</b>	(32,127)	(17,071)	6,629	(42,569)
<b>Net Position at Beginning of Year</b>	<u>61,945</u>	<u>256,882</u>	<u>188,587</u>	<u>507,414</u>
<b>Net Position at End of Year</b>	<u>\$ 29,818</u>	<u>\$ 239,811</u>	<u>\$ 195,216</u>	<u>\$ 464,845</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, 2015**

<b>Cash flows from operating activities:</b>	
Tuition and fees	\$ 1,735,049
Grants and contracts	7,335,234
Sales and services of educational departments	14,455
Payments to suppliers and students	(5,682,485)
Payments to employees for salaries and benefits	(13,191,308)
Cash received (paid) on deposits	358
Payments for utilities	(857,049)
Payments for scholarships and fellowships	(2,447,135)
Auxiliary enterprise charges	1,657,633
Other receipts (payments)	(1,309,183)
Net cash provided (used) by operating activities	<u>(12,744,431)</u>
<b>Cash flows from noncapital financing activities:</b>	
State appropriations	8,584,831
Local appropriations	2,558,251
Other sources (uses)	348,821
Net cash provided (used) by noncapital financing activities	<u>11,491,903</u>
<b>Cash flows from capital and related financing activities:</b>	
Capital appropriations	91,752
Proceeds from issuance of debt	2,000,000
Purchases of capital assets	(2,878,964)
Principal paid on capital debt and leases	(272,158)
Interest paid on capital debt and leases	(27,761)
Net cash provided (used) by capital and related financing activities	<u>(1,087,131)</u>
<b>Cash flows from investing activities:</b>	
Proceeds from sales and maturities of investments	3,200,025
Interest and dividends received on investments	13,661
Purchases of investments	(2,923)
Net cash provided (used) by investing activities	<u>3,210,763</u>
Net increase (decrease) in cash and cash equivalents	<u>871,104</u>
Cash and cash equivalents - beginning of year	<u>5,415,168</u>
Cash and cash equivalents - end of year	<u>\$ 6,286,272</u>

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

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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**Statement of Cash Flows**  
**For the Year Ended June 30, 2015**

**Reconciliation of operating income (loss) to net cash provided (used)**  
**by operating activities:**

Operating Income (Loss)	\$ <u>(11,681,950)</u>
<b>Adjustments to reconcile net income (loss) to net cash provided (used)</b>	
<b>by operating activities</b>	
Depreciation expense	1,742,086
Changes in assets and liabilities	
(Increase) decrease in assets	
Receivables, Net	(70,582)
Inventories	56,397
Intergovernmental receivables	(1,046,837)
Other assets	(1,779,240)
Increase (decrease) in liabilities	
Accounts payable and accrued liabilities	(161,597)
Accrued payroll	(26,496)
Deferred revenue	14,380
Deposits refundable	358
Change in net pension liability and deferred amounts	<u>209,050</u>
Total Adjustments	<u>(1,062,481)</u>
<b>Net cash provided (used) by operating activities</b>	<b>\$ <u>(12,744,431)</u></b>

**Reconciliation of cash and cash equivalents to the Statement of Net Position**

Cash and cash equivalents classified as current assets	\$ 6,038,629
Cash and cash equivalents classified as non-current assets	<u>247,643</u>
	<b>\$ <u>6,286,272</u></b>

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

Southwest Mississippi Community College Foundation, Inc.  
Statement of Cash Flows  
For the Year Ended June 30, 2015

Cash Flows From Operating Activities:	
Increase (Decrease) in net position	\$ (42,569)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Contributions received for permanent investment	(10,000)
Receivables	2,145
Increase (decrease) in:	
Accounts payable and accrued liabilities	67,500
Net cash provided by operating activities	<u>17,076</u>
Cash Flows From Investing Activities:	
Net unrealized gain on investments	1,446
Net cash (used) by investing activities	<u>1,446</u>
Cash Flows From Financing Activities:	
Contributions restricted for permanent investment	10,000
Net cash provided by financing activities	<u>10,000</u>
Net Increase in Cash	28,522
Cash Balance	
Beginning of Year	<u>288,148</u>
End of Year	<u>\$ 316,670</u>

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

**Note 1 – Summary of Significant Accounting Policies**

The accompanying financial statements of the community college have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the community college's accounting policies are described below.

**A. Nature of Operations**

Southwest Mississippi Community College (the "College") is a comprehensive two-year community and technical college. The College provides the students of its four county district and beyond with the opportunity to obtain an affordable quality education through academic and career technical curriculum leading to certificates, diplomas, or associates degrees.

**B. 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 boards 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 reports the following discretely presented component unit:

Southwest Mississippi Community College Foundation Inc. (Foundation). The foundation is a legally separate, tax-exempt nonprofit organization. The Foundation acts primarily as a fund raising organization to supplement the resources available to Southwest Mississippi Community College (College) in support of its programs. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income that the Foundation holds and invests are restricted to the activities of the College by the donors.

During the year ended June 30, 2015, the Foundation distributed \$0 to the college.

**C. 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*

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

*Analysis of Public College and Universities*, issued in June and November, 1999, respectively. The college now follows the "business-type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the college's financial activities.

**D. Basis of Accounting**

The financial statements of the college have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

**E. 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.

**F. Short-term Investments**

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

**G. Accounts Receivable, Net**

Accounts receivables consist of tuition and fees charges 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.

**H. Inventories**

Inventories consist of bookstore inventory and food service supplies. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out (FIFO) basis or the average cost basis.

**i. Prepaid Expenses**

Prepaid expenses represent approved financial aid disbursements for the fall semester.

**J. Restricted Cash and Cash Equivalents**

Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserved funds, or to purchase or construct capital or other noncurrent assets, are classified as restricted cash and cash equivalents on the Statement of Net Position.

**K. 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

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to the Financial Statements For Year Ended June 30, 2015

to function like an endowment fund but may be totally expended at any time at the discretion of the governing board.

#### **L. Capital Assets, net of Accumulated Depreciation**

Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value on 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 6 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.

#### **M. Unearned Revenues**

Unearned 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. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

#### **N. 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.

#### **O. Classification of Revenues**

The college has classified its revenues as either operating or non-operating revenues according to the following criteria:

**Operating revenues:** Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) most federal, state and local grants and contracts. Gifts (pledges) that are received on an installment basis are recorded at net present value.

**Non-operating revenues:** Non-operating 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.

#### **P. 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. In the 2004 fiscal year, a new funding formula was to be phased in over a 5

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

year period which shifted 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 to high cost programs.

**Q. Local Appropriations**

Southwest Mississippi Community College receives funds from taxes levied by the counties in the college for general support, maintenance, and capital improvements.

**R. 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 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.

**S. Net Position**

GASB statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, reports equity as "Net Position" rather than "Net Assets". Net position is classified in three categories. Net investment in capital assets is the portion of net position that consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or others. Unrestricted net position is the remaining net position less remaining noncapital liabilities which are not restricted-expendable.

The net position balance of \$28,531,676 at June 30, 2015, includes \$931,289 reserved for endowment, \$20,605 reserved for scholarships, \$1,387,407 reserved for capital projects, \$285,104 reserved for debt service, \$3,459,178 reserved for loans to students, \$42,205 reserved for other purposes and an unrestricted amount of \$(10,457,676).

**T. Income Taxes**

The college is recognized as a local governing authority and is excluded by the Internal Revenue Service from federal income taxation.

**U. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

**V. Changes in Accounting Standards**

Southwest Mississippi Community College adopted GASB Statement No.68, *Accounting and Financial Reporting for Pensions* during the fiscal year. A complete explanation of the effects of this adoption on the financial statements can be found in Note 10.

**W. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. A deferred outflow associated with pensions is reported.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. A deferred inflow associated with pensions is reported.

See Note 10 for further details.

**Note 2 – Cash and Cash Equivalents and Investments**

**A. 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.

The collateral pledged for the college's 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 entity'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 those 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 Deposit Insurance Corporation.

*Custodial Credit Risk - Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the college will not be able to recover deposits or collateral securities that are in the possession of an outside party. The college does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the college. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the college. As of June 30, 2015, none of the college's bank balance of \$8,173,155 was exposed to custodial credit risk.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

**B. Investments**

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

The following table summarizes the carrying value of the college's investments reported on the statement of net position at June 30, 2015:

Endowment investments	\$ 949,096
Other short term investments	197
Long term investments	<u>3,243,740</u>
Total Investments	<u>\$4,193,033</u>

As of June 30, 2015, the college had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Money Market Mutual Funds	Not Rated	Less than 1	\$ 3,631,058
Real Estate	Not Rated	N/A	364,178
Equity Securities	BBB+ to AAA	Less than 1	95,815
Certificates of Deposit	BA2 to BA3	1 to 14	101,982
Municipal Bonds	AA to AAA	1 to 10	-
Total			<u>\$ 4,193,033</u>

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

*Credit Risk.* State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The college does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the college will not be able to recover the value of its investments 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, 2015, none of the college's investment balance of \$4,193,033 was exposed to custodial credit risk.

*Concentration of Credit Risk.* 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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2015, the college had the following investments:

Issuer	Fair Value	% of Total Investments
Sterne Agee/Money market funds	\$ 3,631,058	92%

**Note 3 – Fair Value Measurements**

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1            Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2            Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3            Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2015.

*Mutual Funds.* Valued at the closing price reported in the active markets in which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflected of future fair values. Furthermore, although the organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

The following table sets forth by level, within the fair value hierarchy, the organization's assets at fair value as of June 30, 2015.

	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 3,631,058	-	-	\$ 3,631,058

**Note 4 – Accounts Receivable**

Accounts receivable consisted of the following at June 30, 2015:

Student receivables	\$	2,430,190
Federal, state and private grants and contracts		2,711,898
State appropriations		258,992
Local appropriations		59,418
Other receivables		-
Total Accounts Receivable		5,460,498
Less allowance for doubtful accounts		(1,928,801)
Net Accounts Receivable	\$	3,531,697

**Note 5 – Inventory**

Inventory as of June 30, 2015 consists of the following:

Bookstore	\$1,196,665
Food Services	17,035
Total	\$1,213,700

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

**Note 6 – Capital Assets**

The following is a summary of changes in capital assets for the year ended June 30, 2015:

	Balance 7/1/2014	Increases	Decreases	Completed Construction	Balance 6/30/2015
<b>Governmental Activities:</b>					
<u>Non-depreciable capital assets:</u>					
Land	\$ 122,124				\$ 122,124
Construction in progress	1,089,902	2,420,040	(452,398)	-	3,057,544
<b>Total non-depreciable capital assets</b>	<b>1,212,026</b>	<b>2,420,040</b>	<b>(452,398)</b>	<b>-</b>	<b>3,179,668</b>
<u>Depreciable capital assets:</u>					
Buildings	28,975,667	-			28,975,667
Building Improvements	12,507,042	29,717			12,536,759
Improvements other than buildings	8,018,906	422,681			8,441,587
Equipment	2,993,074	491,434			3,484,508
Software	400,000				400,000
Library books	879,626	10,301	(42,811)		847,116
Leased property under capital leases	2,380,870	-			2,380,870
<b>Total depreciable capital assets</b>	<b>56,155,185</b>	<b>954,133</b>	<b>(42,811)</b>		<b>57,066,507</b>
<u>Less accumulated depreciation for:</u>					
Buildings	11,780,441	516,770			12,297,211
Building improvements	3,532,108	492,997			4,025,105
Improvements other than buildings	3,572,208	300,537			3,872,745
Equipment	2,229,520	293,462			2,522,982
Software	224,000	32,000			256,000
Library books	735,413	11,391	306		746,498
Leased property under capital leases	745,569	95,235			840,804
<b>Total accumulated depreciation</b>	<b>22,819,259</b>	<b>1,742,392</b>	<b>306</b>		<b>24,561,345</b>
<b>Total depreciable capital assets, net</b>	<b>33,335,926</b>	<b>(788,259)</b>	<b>(42,505)</b>		<b>32,505,162</b>
<b>Capital Assets, Net</b>	<b>\$ 34,547,952</b>	<b>\$ 1,631,781</b>	<b>\$ (494,903)</b>	<b>\$ -</b>	<b>\$ 35,684,830</b>

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

	Capitalization Policy	Estimated Useful Life
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Equipment	5,000	3-15 years
Library books	0	10 years

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

**Note 7 – Construction Commitments and Financing**

The college has contracted for various construction projects as of June 30, 2015. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

	Total costs to complete	Funded by		
		Other Sources	State Sources	Institutional Funds
New dormitory	\$ 4,245,649	\$	\$ 4,245,649	\$
BCBS Wellness Program	41,568	41,568		
Women's Dormitory Remodeling	127,564			127,564
Union Drive Project	245,118			245,118
<b>Total governmental activities</b>	<b>\$ 4,659,899</b>	<b>\$ 41,568</b>	<b>\$ 4,245,649</b>	<b>\$ 372,682</b>

**Note 8 – Long-term Liabilities**

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

	Original Issue	Annual Interest Rate	Maturity	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Amounts due within one year
WPC Revolving Loan	622,375	1.75%	2031	\$ 563,822	\$	\$ 27,782	\$ 536,040	\$ 28,272
Dormitory Construction Note	2,000,000	1-3%	2025	-	2,000,000		2,000,000	175,000
Capital leases								
Energy efficiency lease	1,660,807	3.91%	2016	308,989		192,910	116,079	116,079
Stadium lighting lease	269,697	4.50%	2018	220,491		51,466	169,025	53,831
<b>Total</b>				<b>\$ 1,093,302</b>	<b>\$ 2,000,000</b>	<b>\$ 272,158</b>	<b>\$ 2,821,144</b>	<b>\$ 373,182</b>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

The following is a schedule by years of the maturity of long term debt:

Year Ending June 30	Principal	Interest	Total
2016	\$ 373,182	\$ 78,963	\$ 452,145
2017	265,074	52,278	317,352
2018	273,168	46,672	319,840
2019	219,795	40,400	260,195
2020	225,320	36,261	261,581
2021 – 2025	1,234,816	101,545	1,336,361
2026 – 2030	174,419	12,713	187,132
2031 – 2032	55,370	770	56,140
<b>Total</b>	<b>\$ 2,821,144</b>	<b>\$ 369,602</b>	<b>\$ 3,190,746</b>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

**Note 9 – Functional Classification of Operating Expenses**

Functional Classification	Natural Classification									Total
	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships Fellowships	Commodities	Depreciation Expense	Other	
Instruction	6,067,597	1,877,142	137,474	528,253			408,744		347,102	9,366,312
Academic Support	322,395	107,078	948	1,024			4,899		28,476	464,820
Student Services	1,446,138	488,127	145,473	310,618			254,338		33,225	2,677,919
Institutional Support	1,058,098	360,171	24,897	659,484			73,165		148,466	2,324,281
Operation of Plant	702,323	259,032	714	513,520	627,409		600,701		1,319	2,705,018
Student Financial Aid						2,447,135				2,447,135
Auxiliary Enterprises	470,601	215,160		337,751	229,640		1,139,667		3,749	2,396,568
Depreciation								1,742,086		1,742,086
<b>Total Operating Expenses</b>	<b>10,067,152</b>	<b>3,306,710</b>	<b>309,506</b>	<b>2,350,650</b>	<b>857,049</b>	<b>2,447,135</b>	<b>2,481,514</b>	<b>1,742,086</b>	<b>562,337</b>	<b>24,124,139</b>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

**Note 10 – Defined Benefit Pension Plan**

**General Information about the Pension Plan**

*Plan Description.* The college contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

*Benefits provided.* Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

*Contributions.* PERS members are required to contribute 9.00% of their annual covered salary, and the college is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The college's contributions to PERS for the fiscal years ending June 30, 2015, 2014 and 2013 were \$1,546,971, \$1,617,982 and \$1,366,853, respectively, which equaled the required contributions for each year.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the college reported a liability of \$20,634,887 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

The college's proportion of the net pension liability was based on a projection of the college's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, The college's proportion was 0.168118 percent.

For the year ended June 30, 2015, the college recognized pension expense of \$1,756,021. At June 30, 2015 the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 321,898	\$
Net difference between projected and actual earnings on pension plan investments		2,991,179
Difference between net impact of entries and calculated balance of net pension liability	996,630	
College contributions subsequent to the measurement date	1,546,971	
Total	\$ 2,865,499	\$ 2,991,179

\$1,546,971 reported as deferred outflows of resources related to pensions resulting from college contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (273,504)
2017	(273,504)
2018	(377,848)
2019	(747,795)

*Actuarial assumptions.* The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.25 – 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2012. The experience report is dated June 12, 2013.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Broad	34 %	5.20 %
International Equity	19	5.00
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4.00
Private Equity	8	6.15
Cash	1	(0.50)
Total	100 %	

*Discount rate.* The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the college's proportionate share of the net pension liability to changes in the discount rate.* The following presents the college's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the college's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
College's proportionate share of the net pension liability	\$ 28,131,505	\$ 20,634,887	\$ 14,381,594

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

**Note 11- Contingencies**

**Federal Grants –** The college has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the college

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements  
For Year Ended June 30, 2015

**Note 12 – Risk Management**

The college is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The college carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 13 – Effect of Deferred Amounts on Net Position**

The unrestricted net position amount of (\$10,457,798) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pensions in the amount of \$1,546,971 resulting from the college contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The \$1,318,528 balance of the deferred outflow of resources related to pensions at June 30, 2015 will be recognized in pension expense over the next 3 years. The \$2,991,179 balance of the deferred inflow of resources related to pensions at June 30, 2015 will be recognized in pension expense over the next 4 years.

**Note 14 – Prior Period Adjustments**

A summary of significant Net Position adjustments is as follows:

Statement of Revenues, Expenses and Changes in Net Position

Explanation	Amount
1. Implementation of GASB 68 and 71:	
Net pension liability (measurement date)	\$ (22,169,499)
Deferred outflows - contributions made during fiscal year 2014	1,617,982
Total prior period adjustment related to GASB 68 and 71	<u>(20,551,517)</u>
Total	<u>\$ (20,551,517)</u>

**Note 15 - Subsequent Events**

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Southwest Mississippi Community College evaluated the activity of the college through January 25, 2016 and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

**Southwest Mississippi Community College Foundation, Inc.**  
Summit, Mississippi  
Notes to the Financial Statements  
For the Year Ended June 30, 2015

Note 1 Summary of Significant Accounting Policies

Statement of Organizational Activities

The purpose of the Foundation is to operate exclusively for educational and scientific purposes, all for the public welfare, and to this end to promote, encourage, and assist all forms of education and research at Southwest Mississippi Community College. The Foundation is an auxiliary organization of the College and administers scholarships to both students and faculty members and raises funds to supplement different areas of the entire college.

Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding accounting standards codification and the hierarchy of U.S. generally accepted accounting principles (U.S. GAAP). This guidance has become the source of the authoritative U.S. GAAP recognized by the FASB and applied by nongovernmental entities.

Basis of Presentation

The Foundation prepares its financial statements on the accrual basis of accounting. The accounts of the Foundation are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. In accordance with FASB ASC 205.45 (formerly SFAS No. 117), fund balances are classified on the statement of financial position as unrestricted, temporarily restricted, or permanently restricted net assets, based on the absence or existence and type of donor-imposed restrictions.

Unrestricted Net Position

The unrestricted net position is not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net position unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net position. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net position unless their use is restricted by explicit donor stipulations. Expirations of temporary restrictions on net position, that is, the donor-imposed stipulated purpose having been accomplished and/or the stipulated time period having elapsed, are reported as transfers between the applicable classes of net position.

Temporarily Restricted Net Position

Temporarily restricted net position include gifts, unconditional promises to give, trusts and remainder interests, income, and gains which can be expended but for which restrictions have not yet been met. Examples of such restrictions would be where donors have specified the purpose for which the net position is to be spent such as for capital projects or athletic programs.

**Southwest Mississippi Community College Foundation, Inc.**  
Summit, Mississippi  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2015

**Permanently Restricted Net Position**

Permanently restricted net position includes gifts required by donors to be permanently retained. The Foundation's permanently restricted net position consist primarily of endowed scholarship funds. Typically these scholarships award annual earnings on the funds up to five percent and all earnings over five percent are added back to the principal of the endowed scholarship.

**Income Taxes**

The Southwest Mississippi Community College Foundation, Inc. is a not-for-profit organization exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509 (a)(2). Tax years 2012, 2013, and 2014 are still open for possible examination by the Internal Revenue Service.

**Donated Assets**

Donated marketable securities are disposed of upon receipt and are then recorded as contributions at the amount of proceeds received from the sale. Donations of equipment are not recorded in the financial statements. These items are recorded in a separate ledger with no value assigned to them. These items are distributed to the department within the College as designated by the donor, or if undesignated, to the department of the College that has the greatest need for the donated assets as determined by the Board of Directors.

**Donated Services and Facilities**

The Foundation receives a substantial amount of services donated by citizens interested in the Foundation's programs. Because of the difficulty in assigning values for such services, these items are generally not reflected in the accompanying financial statements. The Foundation also receives office space from Southwest Mississippi Community College and a substantial amount of services donated by employees of the College. No amount for rent expense has been included in these financial statements and these employees' salaries and related expenses are not included in the Foundation's financial statements but are included in the College's financial statements.

**Cash and Cash Equivalents**

Cash and cash equivalents are considered to be all highly liquid investments with maturities of six months or less at the time of acquisition.

**Southwest Mississippi Community College Foundation, Inc.**  
**Summit, Mississippi**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2015**

Investments

The Foundation has adopted FASB ASC 300.50 Investments-Debt and Equity Securities (formerly SFAS No. 124), under FASB ASC 300.50, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net position. Investment income and gains restricted by a donor are reported as increase in unrestricted net position 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.

Fixed Assets

There are no fixed assets for the Foundation as of June 30, 2015.

Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.

**Note 2** Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash. The Foundation places its cash with creditworthy, high quality financial institutions. Cash deposits in excess of \$100,000 are not insured by the FDIC.

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

**Note 3** Investments

Investments of all funds are included in a pooled investment fund. The pool is operated on a market value basis whereby each addition to the pool is assigned a number of units based on the market value per fund at the beginning of the month within which the addition takes place.

Pooled investments at June 30, 2015 consist of the following:

	<u>Market Value</u>
Cash & Cash Equivalents	\$ 3,609
Mutual Funds	<u>191,811</u>
Total Investments	<u>\$195,420</u>

**Southwest Mississippi Community College Foundation, Inc.**  
**Summit, Mississippi**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2015**

Investment Income for the year ended June 30, 2015 was calculated as follows:

Interest and Dividends	\$ 9,302
Unrealized Gains and Losses	( - )
Net Investment Income	<u>\$ 9,302</u>

**Note 4 Fair Value Measurements**

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

**Level 1**      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

**Level 2**      Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets.

Quoted prices for identical or similar assets or liabilities in inactive markets.

Inputs other than quoted prices that are observable for the asset or liability.

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3**      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2015.

*Mutual Funds.* Valued at the closing price reported in the active markets in which the individual securities are traded.

**Southwest Mississippi Community College Foundation, Inc.**  
**Summit, Mississippi**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2015**

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflected of future fair values. Furthermore, although the organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the organization's assets at fair value as of June 30, 2015.

	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 191,811	\$ -	\$ -	\$ 191,811

REQUIRED SUPPLEMENTAL INFORMATION

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Required Supplementary Information**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

**PERS**

**Last 10 Fiscal Years\***

	<u>2015</u>
College's proportion of the net pension liability (asset)	0.170000%
College's proportionate share of the net pension liability (asset)	\$ 20,634,887
College's covered-employee payroll	10,272,902
College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	200.8671649%
Plan fiduciary net position as a percentage of the total pension liability	67.207687%

The notes to the required supplementary information are an integral part of this schedule.

\* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Required Supplementary Information**

**SCHEDULE OF DISTRICT CONTRIBUTIONS**

**PERS**

**Last 10 Fiscal Years\***

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 1,546,971									
Contributions in relation to the contractually required contribution	\$ 1,546,971									
Contribution deficiency (excess)	<u>\$ 0</u>	<u>0</u>								
College's covered-employee payroll	9,822,038									
Contributions as a percentage of covered-employee payroll	15.75%									

The notes to the required supplementary information are an integral part of this schedule.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Required Supplementary Information  
For the Year Ended June 30, 2015

Pension Schedules

1. Change of benefit terms  
None
2. Change of assumptions  
None

SUPPLEMENTAL INFORMATION

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

**Supplemental Information**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<b><u>U.S. Department of Education</u></b>		
<b>Student Financial Aid Cluster</b>		
Direct programs:		
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	35,588
Federal Work-Study Program	84.033	58,890
Federal Pell Grant Program	84.063	<u>5,391,739</u>
Total Student Financial Aid Cluster		<u>5,486,217</u>
Passed-through Mississippi Department of Education:		
Adult Education-basic grants to states	84.002	77,196
Vocational Education Basic Grants	84.048	<u>175,665</u>
Total passed-through Mississippi Department of Education		<u>252,861</u>
Total U.S. Department of Education		<u>5,739,078</u>
<b><u>U.S. Department of Labor</u></b>		
Passed-through Central Mississippi Planning and Development District		
Workforce Investment Act-Adult Program	17.258	22,958
Workforce Investment Act-Youth Activities	17.259	13,514
WIA Dislocated Worker Formula Grants	17.278	<u>14,594</u>
Total WIA Cluster		<u>51,066</u>
Total passed-through Central Mississippi Planning and Development District		<u>51,066</u>
Passed-through the Mississippi Department of Employment Security:		
WIA Trade Adjustment Assistance	17.245	<u>70,046</u>
Total passed-through Mississippi Department of Employment Security:		<u>70,046</u>
Total U.S. Department of Labor		<u>121,112</u>
Total for All Federal Awards		<u>\$ 5,860,190</u>

**NOTES TO SCHEDULE**

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the college.

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

# LOWERY, PAYN AND LEGGETT

CERTIFIED PUBLIC ACCOUNTANTS

Member of Mississippi Society  
of Certified Public Accountants

207 SOUTH RAILROAD AVENUE  
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456  
FAX (601) 833-9896

Member of American Institute  
of Certified Public Accountants

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

Dr. J. Stephen Bishop, President and Board of Trustees of  
Southwest Mississippi Community College  
Summit, MS 39666

We have audited, in accordance with the 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 business activities of Southwest Mississippi Community College, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Southwest Mississippi Community College's basic financial statements, and have issued our report thereon dated January 25, 2016. We have also audited the statement of financial position of the Southwest Mississippi Community College Foundation, Inc., a discretely presented component unit of Southwest Mississippi Community College, as of June 30, 2015 and the related statement of activities for the year then ended. The financial statements of Southwest Mississippi Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Mississippi Community College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southwest Mississippi Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Mississippi Community College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Southwest Mississippi Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lowery, Payn and Leggett, CPA's  
Brookhaven, Mississippi 39601

January 25, 2016

**LOWERY, PAYN AND LEGGETT**  
*CERTIFIED PUBLIC ACCOUNTANTS*

*Member of Mississippi Society  
of Certified Public Accountants*

207 SOUTH RAILROAD AVENUE  
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456  
FAX (601) 833-9896

*Member of American Institute  
of Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Dr. J. Stephen Bishop, President and Board of Trustees of  
Southwest Mississippi Community College  
Summit, MS 39666

**Report on Compliance for Each Major Federal Program**

We have audited Southwest Mississippi Community College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Southwest Mississippi Community College's major federal programs for the year ended June 30, 2015. Southwest Mississippi 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

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Southwest Mississippi Community College's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Southwest Mississippi Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Southwest Mississippi Community College's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Southwest Mississippi Community College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Report on Internal Control over Compliance**

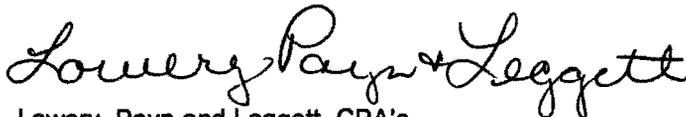
Management of Southwest Mississippi Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southwest Mississippi Community College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal

program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southwest Mississippi Community College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Lowery, Payn and Leggett, CPA's

Brookhaven, Mississippi 39601

January 25, 2016

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

**LOWERY, PAYN AND LEGGETT**

*CERTIFIED PUBLIC ACCOUNTANTS*

*Member of Mississippi Society  
of Certified Public Accountants*

207 SOUTH RAILROAD AVENUE  
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456  
FAX (601) 833-9896

*Member of American Institute  
of Certified Public Accountants*

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

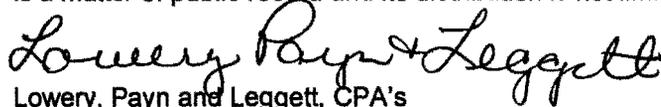
Dr. J. Stephen Bishop, President and Board of Trustees of  
Southwest Mississippi Community College  
Summit, MS 39666

We have audited the financial statements of the business activities of Southwest Mississippi Community College as of and for the year ended June 30, 2015, which collectively comprise Southwest Mississippi Community College's basic financial statements and have issued our report thereon dated January 25, 2016. 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.

We have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all 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 College, Members of the Legislature, entities with accreditation overview, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Lowery, Payn and Leggett, CPA's  
Brookhaven, Mississippi 39601

January 25, 2016

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015

Section I: Summary of Auditor's Results

Financial Statements:

- |  |               |
|--|---------------|
| 1. Type of auditor's report issued:                      | Unmodified    |
| 2. Internal control over financial reporting:            |               |
| a. Material weakness identified?                         | No            |
| b. Significant deficiency identified?                    | None Reported |
| 3. Noncompliance material to financial statements noted? | No            |

Federal Awards:

- |   |   |
|---|---|
| 4. Internal control over major programs:  |   |
| a. Material weakness identified?  | No  |
| b. Significant deficiency identified?   | None Reported                             |
| 5. Type of auditor's report issued on compliance for major programs:  | Unmodified                                |
| 6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No  |
| 7. Identification of major programs:  |   |
| <u>CFDA Numbers</u>   | <u>Name of Federal Program or Cluster</u> |
| 84.007, 84.033, 84.063  | Student Financial Aid Cluster             |
| 8. Dollar threshold used to distinguish between type A and type B programs:   | \$ 300,000                                |
| 9. Auditee qualified as low-risk auditee?   | Yes                                       |

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015

Section II: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported under *Government Auditing Standards*.

Section III: Federal Award Findings and Questioned Costs

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