



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR

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State Auditor

WILLIAM R. DOSS, CPA
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HOLMES COMMUNITY COLLEGE

Audited Financial Statements
For the Year Ended June 30, 2004

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HOLMES COMMUNITY COLLEGE

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HOLMES COMMUNITY COLLEGE

FINANCIAL AUDIT REPORT

HOLMES COMMUNITY COLLEGE

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Dr. Starkey Morgan and Board of Trustees
Holmes Community College
Goodman, MS 39079

We have audited the accompanying financial statements of Holmes Community College as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of Holmes Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Holmes Community College Development Foundation, a discretely presented component unit which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by an other auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditor.

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

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Holmes Community College and of its discretely presented component unit, as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, Holmes Community College adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14*, for the year ended June 30, 2004, which requires reporting as component units those organizations that raise and hold economic resources for the direct benefit of the college or its constituents.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2005, on our consideration of Holmes Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 7 through 17, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 26, 2005, except as explained in Note 10
to which the date is September 20, 2005.

HOLMES COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004

This section of the Holmes Community College annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2004. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. A comparative analysis will be presented with figures from fiscal year ended June 30, 2004. The financial statements, footnotes, and this discussion are the responsibility of management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*.

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

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

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

Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004

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

Condensed Statement of Net Assets
June 30, 2004

	June 30, 2004		June 30, 2003	
	Amount	Percent	Amount	Percent
Assets				
Current Assets				
	\$22,938,833	46.82	\$15,262,682	37.33
Noncurrent Assets:				
Capital, Net	25,944,628	52.96	25,606,526	62.62
Other	107,390	.22	26,289	0.5
Total Assets	48,990,851	100.00	40,895,495	100.00
Liabilities				
Current Liabilities	719,300	5.73	902,886	13.62
Noncurrent Liabilities	11,832,964	94.27	5,725,127	86.38
Total Liabilities	12,552,264	100.00	6,628,013	100.00
Net Assets				
Invested in Capital Assets, Net	19,800,504	54.34	19,506,461	56.92
Restricted:				
Expendable	2,111,208	5.79	2,145,058	6.26
Unrestricted	14,526,875	39.87	12,615,963	36.82
Total Net Assets	\$36,438,587	100.00	\$34,267,482	100.00

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the College's bank accounts and certificates of deposits. The total amount of cash and cash equivalents reported as current assets on

Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004

the College financial statements were \$14,163,085 at June 30, 2004. This is a significant increase over the \$6,658,425 at June 30, 2003. This is partially due to the necessity for short term investment strategy of a Certificate of Deposit dedicated to construction of a training facility on our Ridgeland Campus.

Accounts Receivable

Accounts receivable relate to several transactions including local appropriations, student tuition and fees and auxiliary services vendor credits. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College receivables totaled \$1,278,866 at June 30, 2004 which is an increase over the June 30, 2003 figure of \$790,596.

Noncurrent assets

Cash and Cash Equivalents

Cash and cash equivalents are those funds that are held in the bank accounts and certificates of deposits. The cash and cash equivalents that are considered noncurrent are cash held in a money market account to meet the requirements for an unemployment compensation fund. Unemployment claims are paid out of unrestricted funds of the college. This account is simply maintained for legal compliance purposes. The amount of cash and cash equivalents considered noncurrent at June 30, 2004 totaled \$107,390 which is a slight increase over the \$26,289 from June 30, 2003.

Capital Assets, Net

Capital assets, net, consist of land, improvements, buildings, equipment, historical library holdings and construction in progress at June 30, 2004. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$25,944,628 at June 30, 2004 which compares to \$25,606,526 at June 30, 2003.

Liabilities

Current Liabilities

Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Accounts Payable and Accrued Liabilities

Accounts Payable and accrued liabilities represent amounts due at June 30, 2004 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$219,504 at June 30, 2004. This compares to \$324,522 at June 30, 2003.

Long-Term Liabilities-Current Portion

Long-term liabilities-current portion represents the portion of long-term debt that would be payable by the end of the June 30, 2005 fiscal year. The amount of the current portion of long-term debt at June 30, 2004 was \$392,163. This was slightly greater than the \$374,936 at June 30, 2003.

Noncurrent Liabilities

Long-Term Liabilities

This liability consists of long-term debt for outstanding bonds, notes, and capital leases. The total amount of the noncurrent portion of long-term debt was \$11,832,964 at June 30, 2004. This is an increase of \$6,107,837 over the balance of \$5,725,127 reported June 30, 2003. This is due to the addition of the note for the training center on the Ridgeland Campus. The additional note payments are taken care of by increased support from Madison County.

Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2004 were \$36,438,587 which is an increase of \$2,171,105 over the balance of \$34,267,482 at June 30, 2003.

**Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004**

Analysis of Net Assets

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

**The following is a breakdown of the restricted net assets with comparative figures
June 30, 2004**

	June 30, 2004	June 30, 2003
Unemployment funds	\$ 26,387	\$ 26,289
Capital Projects	1,073,381	1,966,903
Scholarships & Fellowships	739,847	(99,446)
Debt Obligations	271,593	251,312
	<hr/>	<hr/>
Total Restricted Net Assets	\$ 2,111,208	\$ 2,145,058

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

**The following is a breakdown of the unrestricted net assets with comparative figures
June 30, 2004**

	June 30, 2004	June 30, 2003
Unrestricted General Fund	\$11,607,445	\$10,051,187
Unrestricted Auxilliary Fund	2,919,430	2,564,776
	<hr/>	<hr/>
Total Unrestricted Net Assets	\$14,526,875	\$12,615,963

Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2004

	June 30, 2004	June 30, 2003
Operating Revenues		
Tuition & Fees (Net of Scholarship Allowance)	\$ 1,095,344	\$ 1,057,281
Federal Appropriation	122,144	125,048
Grants & Contracts	15,564,573	11,163,883
Sales & Services	59,306	21,698
Auxilliary Enterprises (Net of Scholarship Allowance)	887,227	697,010
Other Operating Revenue	249,558	357,410
Total Operating Revenues	<u>17,978,152</u>	<u>13,422,330</u>
Operating Expenses	<u>27,471,178</u>	<u>24,222,613</u>
Operating Loss	<u>(9,493,026)</u>	<u>(10,800,283)</u>
Nonoperating Revenues		
State Appropriations	8,979,669	9,175,632
Local Appropriations	1,569,828	1,563,669
Investment Income, Net	396,628	331,926
Other Nonoperating Expenses	<u>(721,959)</u>	<u>(322,518)</u>
Net Nonoperating Revenues	<u>10,224,166</u>	<u>10,748,709</u>
Income Before Other Revenues	731,140	(51,574)
State Appropriations Restricted for Capital Purposes	152,334	603,478
Local Appropriations for Capital Purposes	1,247,946	1,244,571
Other Additions(Deletions), Net	<u>(4,363)</u>	<u>(7,945)</u>
Total Other Revenues	<u>1,395,917</u>	<u>1,840,104</u>
Total Increase in Net Assets	<u>2,127,057</u>	<u>1,788,530</u>
Net Assets		
Net Assets at Beginning of Year, as Restated	<u>34,267,482</u>	<u>32,478,952</u>
Net Assets at End of Year	<u>\$36,438,587</u>	<u>\$ 34,267,482</u>

**Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004**

Total operating loss for the fiscal year 2004 was \$9,493,026 which was an decrease of \$1,307,257 over the balance at June 30, 2003. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, beginning in fiscal year 2003 and going forward, the College will show a significant operating loss.

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

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

Total operating revenues for fiscal year 2004 were \$17,978,152. Tuition and fees were \$1,095,344. The tuition discount was \$4,966,532. Operating expenses, including depreciation of \$1,248,201, totaled \$27,471,178.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$5,658,752. The tuition discount for the 2004 fiscal year was \$4,846,792.

Grants and Contracts

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

The following table details the College's grant & contract awards for the fiscal year ended June 30, 2004 with prior year figures:

	June 30, 2004	June 30, 2003
Federal	\$11,514,995	\$ 8,017,079
State	3,532,624	3,146,804
Nongovernmental	516,954	0
Total All Sources	<u>\$15,564,573</u>	<u>\$11,163,883</u>

Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$249,558 for the 2004 fiscal year.

Sales and Services, Net

Auxiliary enterprises consist of housing and meal plans.

Operating Expenses

Operating expenses totaling \$27,471,178 include salaries and benefits of \$14,851,707, utilities of \$893,463, supplies of \$1,519,321, services of \$2,637,857, and depreciation of \$1,248,201.

Operating Expenses by Function with prior year figures:

	June 30, 2004	June 30, 2003
Instruction	\$13,605,098	\$11,209,364
Instructional Support	434,092	419,339
Student Services	1,966,883	1,975,544
Institutional Support	3,324,238	2,815,853
Operations and Maintenance of Plant	2,418,803	3,385,859
Student Financial Aid (Net of Scholarship Allowance)	3,861,572	2,642,069
Auxiliary Enterprises	612,291	615,703
Depreciation	1,248,201	1,158,882
	<hr/>	<hr/>
Total All Sources	\$27,471,178	\$24,222,613
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Nonoperating Revenues (Expenses)

State Appropriations

The College's largest source of nonoperating revenue is the State of Mississippi appropriation. The College received \$8,979,669 for fiscal year ended June 30, 2004. This represents a decrease from \$9,175,632 at June 30, 2003.

Local Appropriations

The College also receives revenue from the nine counties that make up its local district. They include Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Yazoo and Webster counties. The College received \$2,817,771 for the 2004 fiscal year from the local government of which \$1,569,828 was for operating purposes and \$1,247,946 for capital projects or retirement of debt.

Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Investment Income, Net

This includes the interest income from the cash in the bank accounts. \$396,628 was earned during the 2004 fiscal year.

Other Nonoperating Expenses

Other nonoperating expenses for fiscal year 2004 totaled \$721,959.

Other Revenues

Local Appropriations for Capital Purposes

This includes revenue received from the nine county support district for capital projects during the fiscal year. The amount of this revenue totaled \$1,247,946 for the 2004 fiscal year.

Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Statement of Cash Flows

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

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

Condensed Statement of Cash Flows (Direct Method)
For the Fiscal Year Ended June 30, 2004

	June 30, 2004	June 30, 2003
Cash and Cash Equivalents Provided (Used) by:		
Operating Activities	\$ (8,425,907)	\$ (8,942,116)
Noncapital Financing Activities	10,373,521	10,791,590
Capital and Related Financing Activities	5,241,519	(273,915)
Investing Activities	396,628	(2,981,733)
Net Increase in Cash and Cash Equivalents	7,585,761	(1,406,174)
Cash and Cash Equivalents - Beginning of Year	6,684,714	8,090,888
Cash and Cash Equivalents - End of Year	\$ 14,270,475	\$ 6,684,714

The major sources of funds included in operating activities include student tuition and fees, \$805,432, auxiliary enterprises, \$887,227, and grants and contracts, \$15,041,860. The major uses of funds were payments made to employees, \$15,227,507 and to scholarships and fellowships \$3,412,084 and to suppliers, \$1,519,321 for materials and to suppliers, \$2,965,850 for services.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$8,836,764. In addition, the college received \$2,691,320 from the nine counties that make up its district.

Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2004

Factors Impacting Future Periods

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

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

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

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HOLMES COMMUNITY COLLEGE

AUDITED FINANCIAL STATEMENTS

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HOLMES COMMUNITY COLLEGE
Statement of Net Assets
June 30, 2004

ASSETS

Current assets:

Cash and cash equivalents	\$ 14,163,085
Short-term investments	7,496,882
Accounts receivables, net	<u>1,278,866</u>

Total Current Assets 22,938,833

Noncurrent assets:

Restricted cash and cash equivalents	107,390
Capital assets, net of accumulated depreciation	<u>25,944,628</u>

Total Noncurrent Assets 26,052,018

Total Assets 48,990,851

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	219,504
Deferred revenues	107,633
Long-term liabilities - current portion	<u>392,163</u>

Total Current Liabilities 719,300

Noncurrent liabilities:

Long-term liabilities	<u>11,832,964</u>
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Total Noncurrent Liabilities 11,832,964

Total Liabilities 12,552,264

NET ASSETS

Invested in capital assets, net of related debt 19,800,504

Restricted for:

Expendable:

Scholarships and fellowships	739,847
Capital projects	1,073,381
Debt service	271,593
Other purposes	26,387

Unrestricted: 14,526,875

Total Net Assets \$ 36,438,587

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

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS
December 31, 2003

Assets	
Current assets	
Cash and cash equivalents (Note A)	
Holmes County Bank & Trust	\$ 146,464
The Common Fund (Note B and Note C)	2,216,880
Total cash and cash equivalents	<u>2,363,344</u>
Total current assets	2,363,344
Total assets	<u><u>2,363,344</u></u>
Liabilities and Net Assets	
Liabilities	
-	
Current liabilities	
Accrued salaries and benefits	74,529
Total current liabilities	<u>74,529</u>
Net assets	
Unrestricted	110,819
Temporarily restricted	1,753,795
Permanently restricted	424,201
Total Net Assets	<u>2,288,815</u>
Total liabilities and net assets	<u><u>\$ 2,363,344</u></u>

See accompanying Auditors' Report and Notes to the Financial Statements.

HOLMES COMMUNITY COLLEGE
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2004

Operating Revenues:	
Tuition and fees (net of scholarship allowances of \$4,846,792)	\$ 1,095,344
Federal appropriations	122,144
Federal grants and contracts	11,514,995
State grants and contracts	3,532,624
Nongovernmental grants and contracts	516,954
Sales and services of educational departments	59,306
Auxiliary enterprises:	
Student housing (net of scholarship allowances of \$50,290)	272,752
Food services (net of scholarship allowances of \$69,450)	376,267
Athletics	10,938
Other auxiliary revenues	227,270
Other operating revenues	<u>249,558</u>
Total Operating Revenues	<u>17,978,152</u>
Operating Expenses:	
Salaries and wages	12,184,063
Fringe benefits	2,667,644
Travel	170,373
Contractual services	2,637,857
Utilities	893,463
Scholarships and fellowships	3,861,572
Commodities	1,519,321
Depreciation expense	1,248,201
Other operating expense	<u>2,288,684</u>
Total Operating Expenses	<u>27,471,178</u>
Operating Income (Loss)	<u>(9,493,026)</u>
Nonoperating Revenues (Expenses):	
State appropriations	8,979,669
Local appropriations	1,569,828
Investment income	396,628
Interest expense on capital asset-related debt	(507,949)
Other nonoperating revenues (expenses)	<u>(214,010)</u>
Total Net Nonoperating Revenues (Expenses)	<u>10,224,166</u>
Income (Loss) before Other Revenues, Expenses, Gains and Losses	<u>731,140</u>
State appropriations restricted for capital purposes	152,334
Local appropriations restricted for capital purposes	1,247,946
Other additions (deletions), net	<u>(4,363)</u>
Change in Net Assets	<u>2,127,057</u>
Net Assets:	
Net Assets - Beginning of Year, as Originally Reported	34,267,482
Prior period adjustments	44,048
Net Assets - Beginning of Year, as Restated	<u>34,311,530</u>
Net Assets - End of Year	<u>\$ 36,438,587</u>

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

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION
STATEMENT OF SUPPORT, REVENUE AND EXPENSES
Year Ended December 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and inter-fund transfers in				
Contributions	\$ 3,675	\$ -	\$ 80,779	\$ 84,454
Interest income (Note B)	-	2	947	949
Short term investment earnings (Note B)	6,341	46,664	4,202	57,207
Unrealized market gains	39,920	293,791	26,455	360,166
Inter-fund transfers in	<u>142,430</u>	<u>-</u>	<u>157,099</u>	<u>299,529</u>
Total revenue, gains and inter-fund transfers in	<u>192,366</u>	<u>340,457</u>	<u>269,482</u>	<u>802,305</u>
Expenses and inter-fund transfers out				
Scholarships and program expenses	116,575	3,422	47,009	167,006
Common Fund fees	816	6,009	541	7,366
Mini grant expenses	21,429	-	-	21,429
Chapel building donation	-	-	701,750	701,750
Inter-fund transfers out	<u>-</u>	<u>299,529</u>	<u>-</u>	<u>299,529</u>
Total expenses and inter-fund transfers out	<u>138,820</u>	<u>308,960</u>	<u>749,300</u>	<u>1,197,080</u>
Changes in net assets	<u>53,546</u>	<u>31,497</u>	<u>(479,818)</u>	<u>(394,775)</u>
Net assets at the beginning of the year (Note D)	<u>57,273</u>	<u>1,722,298</u>	<u>904,019</u>	<u>2,683,590</u>
Net assets at the end of the year	<u>\$ 110,819</u>	<u>\$ 1,753,795</u>	<u>\$ 424,201</u>	<u>\$ 2,288,815</u>

See accompanying Auditors' Report and Notes to the Financial Statements.

COMMUNITY COLLEGE

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HOLMES COMMUNITY COLLEGE
Statement of Cash Flows
For the Year Ended June 30, 2004

Cash Flows from Operating Activities:	
Tuition and fees	\$ 805,432
Federal appropriations	122,144
Grants and contracts	15,041,860
Sales and services of educational departments	59,306
Payments to suppliers	(1,519,321)
Payments to employees for salaries and benefits	(14,821,903)
Payments for utilities	(893,463)
Payments for scholarships and fellowships	(3,412,084)
Payments for contractual services	(2,768,175)
Payments for travel	(170,373)
Payments for other expenses	(2,006,115)
Auxiliary enterprise charges:	
Student housing	272,752
Food services	376,267
Athletics	10,938
Other auxiliary enterprises	227,270
Other receipts	<u>249,558</u>
Net Cash Provided (Used) by Operating Activities	<u>(8,425,907)</u>
Cash Flows from Noncapital Financing Activities:	
State appropriations	8,836,764
Local appropriations	1,536,757
Federal loan program receipts	3,299,547
Federal loan program disbursements	<u>(3,299,547)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>10,373,521</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from capital debt	6,500,000
Cash paid for capital assets	(1,561,866)
Capital appropriations received	1,400,280
Principal paid on capital debt	(374,936)
Interest paid on capital debt	(507,949)
Other source (uses)	<u>(214,010)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>5,241,519</u>
Cash Flows from Investing Activities:	
Proceeds from sales and maturities of investments	17,529,589
Interest received on investments	396,628
Purchases of investments	<u>(17,529,589)</u>
Net Cash Provided (Used) by Investing Activities	<u>396,628</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,585,761
Cash and Cash Equivalents - Beginning of the Year	<u>6,684,714</u>
Cash and Cash Equivalents - End of Year	<u>\$ 14,270,475</u>

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

Operating income (loss)	\$	<u>(9,493,026)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense		1,248,201
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Receivables, net		117,107
Increase (decrease) in liabilities:		
Accounts payables and accrued liabilities		<u>(298,189)</u>
Total adjustments		<u>1,067,119</u>
Net Cash Provided (Used) by Operating Activities	\$	<u><u>(8,425,907)</u></u>

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

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2003

Cash flows from operating activities	
Cash received from contributors	\$ 84,454
Interest received	949
Increase in accruals	20,112
Scholarships, mini grants and program expenses	(188,435)
Net cash provided by operating activities	<u>(82,920)</u>
Cash flows from investing activities	
Interest for reinvestment	57,207
Unrealized market gains	360,166
Common Fund fees	(7,366)
Construction of chapel	(123,597)
Net cash used by investing activities	<u>286,410</u>
Cash flows from financing activities	
	<u>-</u>
Net increase in cash and cash equivalents	203,490
Cash and cash equivalents at beginning of year	<u>2,159,854</u>
Cash and cash equivalents at end of year	<u>\$ 2,363,344</u>
Reconciliation of change in net assets to net cash provided by operating activities	
Change in net assets	\$ (394,775)
Deduct:	
Interest for reinvestment	(57,207)
Unrealized market gains	(360,166)
Add:	
Common Fund fees	7,366
Chapel building donation	701,750
Accrual of salaries and benefits	20,112
Net cash provided by operating activities	<u>\$ (82,920)</u>

See accompanying Auditors' Report and Notes to the Financial Statements.

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2004

(1) Summary of Significant Accounting Policies.

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

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

Holmes Community College reports the following discretely presented component unit:

Holmes Community College Development Foundation (Foundation) - The Foundation is a legally separate, tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation acts primarily as a fund raising organization to supplement the resources available to Holmes 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 thereon that the Foundation holds and invests are restricted to the activities of the college by the donors.

During the year ended June 30, 2004, the Foundation distributed \$74,529 to the college.

- B. Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - of Public College and Universities*, issued in June and November, 1999, respectively. The 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.
- C. 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.
- D. 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.
- E. Short-term Investments - Investments that are not cash equivalents but mature within the next fiscal year are classified as short-term investments.

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2004

- F. Accounts Receivables, Net - Accounts receivables consist of tuition and fees charged to students, state appropriations, amounts due from state and federal grants and contracts, local governments and credits due to the college from vendors. Accounts receivables are recorded net of an allowance for doubtful accounts.
- G. Restricted Cash and Cash Equivalents - Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as restricted cash and cash equivalents on the Statement of Net Assets.
- H. Capital Assets, Net of Accumulated Depreciation - Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See Note 5 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose.
- I. Deferred Revenues - Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- J. 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.
- K. Classification of Revenues - The college has classified its revenues as either operating or nonoperating revenues according to the following criteria:
- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances and (3) most federal, state and local grants and contracts.
- Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations, local appropriations and investment income.
- L. State Appropriations - Holmes 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. Beginning with the 2004 fiscal year, a new funding formula will be phased in over a 5-year period which will shift the funding calculation from a predominantly full-time student formula, weighted by type of student, to a full-time equivalent formula which is based on total credit hours generated by all students with special consideration given only to high cost programs.

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2004

- M. Scholarship Discounts and Allowances - Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties and Federal Direct Lending, is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a college basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.
- N. Net Assets - GASB Statement No. 34 reports equity as "Net Assets" rather than "Fund Balance". Net assets are classified according to external donor restrictions or availability of assets for satisfaction of college obligations. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes and funds held in federal loan programs.

The unrestricted net asset balance of \$14,526,875 at June 30, 2004, includes \$2,911,204 reserved for auxiliaries, and a remaining amount of \$11,615,671.

- O. Changes in Accounting Standards - Holmes Community College has implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment to GASB Statement No. 14*, in the current fiscal year as required. The provisions of this new standard have been incorporated into the financial statements and accompanying notes as a discrete presentation.

(2) Prior Period Adjustments.

For the year ended June 30, 2004, the college recorded prior period adjustments of \$44,048, which consisted of an adjustment to reduce accumulated depreciation for library books of \$28,800 and also to record prior year revenue of \$15,248.

(3) Cash and Investments.

Policies:

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

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

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

(4) Accounts Receivable.

Accounts receivable consisted of the following at June 30, 2004:

Student tuition	\$	1,316,458
Federal, state, and private grants and contracts		434,949
State appropriations		359,791
Local appropriations		202,702
Other		<u>2,113</u>
Total Accounts Receivable		2,316,013
Less allowance for doubtful accounts		<u>1,037,147</u>
Net Accounts Receivable	\$	<u><u>1,278,866</u></u>

(5) Capital Assets.

A summary of changes in capital assets for the year ended June 30, 2004, is presented as follows:

	Beginning Balance	Additions	Deletions	Prior Period Adjustment	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 719,007				719,007
Construction in progress	<u>1,818,543</u>	493,988	(1,906,646)		<u>405,885</u>
Total Nondepreciable Capital Assets	<u>2,537,550</u>	493,988	(1,906,646)	0	<u>1,124,892</u>
Depreciable Capital Assets:					
Improvements other than buildings	2,087,668	182,543			2,270,211
Buildings	28,147,841	1,906,646			30,054,487
Equipment	4,164,749	831,615	(35,039)		4,961,325
Library books	<u>1,228,982</u>	53,720	(13,138)		<u>1,269,564</u>
Total Depreciable Capital Assets	<u>35,629,240</u>	2,974,524	(48,177)	0	<u>38,555,587</u>
Less Accumulated Depreciation for:					
Improvements other than buildings	741,082	76,732			817,814
Buildings	8,158,022	585,838			8,743,860
Equipment	2,689,015	533,138	(30,676)		3,191,477
Library books	<u>972,145</u>	52,493	(13,138)	(28,800)	<u>982,700</u>
Total Accumulated Depreciation	<u>12,560,264</u>	1,248,201	(43,814)	(28,800)	<u>13,735,851</u>
Total Depreciable Capital Assets, Net	<u>23,068,976</u>	1,726,323	(4,363)	28,800	<u>24,819,736</u>
Capital Assets, Net	\$ <u>25,606,526</u>	<u>2,220,311</u>	<u>(1,911,009)</u>	28,800	<u>25,944,628</u>

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

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

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

(6) Long-term Liabilities.

Long-term liabilities of the college consist of notes and bonds payable that are expected to be liquidated at least one year from June 30, 2004.

Information regarding original issue amounts, interest rates and maturity dates for bonds and notes included in the long-term liabilities balance at June 30, 2004, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2004	Due Within One Year
Bonded Debt								
Educational facilities bond, 2003	\$ 6,500,000	3.4% - 4.15%	2025	\$ _____	6,500,000	_____	6,500,000	_____
Total Bonded Debt				_____	0 6,500,000	_____ 0	6,500,000	_____ 0
Notes Payable								
DOE college facilities note	1,200,000	5.50%	2018	900,063		39,936	860,127	42,163
Educational facilities note, 1998	2,215,000	4.13% - 5.88%	2013	1,770,000		125,000	1,645,000	130,000
Dormitory notes, 2000	4,000,000	4.95% - 6.0%	2015	3,430,000		210,000	3,220,000	220,000
Total Other Long-term Liabilities				6,100,063	_____ 0	374,936	5,725,127	392,163
Total				\$ 6,100,063	6,500,000	374,936	12,225,127	392,163
Due within one year							392,163	
Total Long-term Liabilities							\$ 11,832,964	

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

	<u>Bonded Debt</u>	<u>Notes Payable</u>	<u>Interest</u>	<u>Total</u>
2005	\$	392,163	521,355	913,518
2006	200,000	414,514	500,590	1,115,104
2007	210,000	436,996	470,788	1,117,784
2008	220,000	459,616	440,411	1,120,027
2009	230,000	487,383	410,997	1,128,380
2010-2014	1,320,000	2,844,119	1,550,316	5,714,435
2015-2019	1,685,000	690,336	783,107	3,158,443
2020-2024	2,140,000		370,572	2,510,572
2025-2029	<u>495,000</u>	<u> </u>	<u>20,543</u>	<u>515,543</u>
Totals	\$ <u>6,500,000</u>	<u>5,725,127</u>	<u>5,068,679</u>	<u>17,293,806</u>

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

(7) Natural Classifications with Functional Classifications.

The college's operating expenses by functional classification were as follows for the year ended June 30, 2004:

Functional Classification	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships & Fellowships	Commodities	Depreciation Expense	Other	Total
Instruction	\$ 8,720,833	1,774,881	72,981	501,895		720,001	780,428		35,377	12,606,396
Academic support	242,282	67,931	505	20,819			20,444		82,111	434,092
Student services	1,329,401	278,188	35,201	90,258		270,463	209,431		24,404	2,237,346
Institutional support	1,046,293	278,434	45,416	1,353,501		500	145,269		189,330	3,058,743
Operation of plant	723,094	229,280	16,270	235,652	893,463		348,281		1,957,462	4,403,502
Student aid						2,870,608				2,870,608
Auxiliary enterprises	122,160	38,930		435,732			15,468			612,290
Depreciation								1,248,201		1,248,201
Total Operating Expenses	\$ 12,184,063	2,667,644	170,373	2,637,857	893,463	3,861,572	1,519,321	1,248,201	2,288,684	27,471,178

HOLMES COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2004

(8) Construction Commitments and Financing.

The college has contracted for various construction projects as of June 30, 2004. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

<u>Project Title</u>	<u>Total Costs to Complete</u>	<u>State Sources</u>	<u>Institutional Funds</u>	<u>Other</u>
President's home	\$ 3,543		3,543	
Workforce Training Center	7,097,895			7,097,895
Parking lot improvements	<u>842,677</u>	<u>842,677</u>		
Total	<u>\$ 7,944,115</u>	<u>842,677</u>	<u>3,543</u>	<u>7,097,895</u>

(9) Pension Plan.

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

Funding policy - PERS members are required to contribute 7.25% of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the Mississippi State Legislature. The college's contributions to PERS for the years ending June 30, 2004, 2003 and 2002 were \$1,034,067, \$960,665 and \$900,116, respectively, equal to the required contributions for each year.

(10) Component Unit Auditor's Report.

The auditor's report for the discretely presented component unit, Holmes Community College Development Foundation, for the calendar year ending December 31, 2003, was not available until September 20, 2005.

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2003

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

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

Financial Statement Presentation

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

Basis of Accounting

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

Support, Revenue and Gifts

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

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

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2003

Support, Revenue and Gifts (continued)

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

Income Taxes

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

Estimates

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

Property and Equipment

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

Investments

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

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2003

Cash and Cash Equivalents

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

NOTE B - INVESTMENTS

Investments are carried at market or appraisal value and realized and unrealized gains and losses are reflected in the Statement of Support, Revenue and Expenses. The Foundation invests cash in excess of current needs in the Common Fund. At December 31, 2003 no additional investments were made into the Common Fund. During the period, the short term investments earned \$57,207 in interest and gained \$360,166 in unrealized market gains.

Following is the participation in the fund at December 31, 2003

Permanently Restricted Cash	\$ 424,201
Temporarily Restricted Cash	1,753,795
Unrestricted Cash	<u>185,348</u>
	<u>\$ 2,363,344</u>

NOTE C – FEDERAL FINANCIAL ASSISTANCE

Holmes Community College Development Foundation applied for a matching grant of \$500,000 from the United States Government in March 1991. This grant was made to Holmes Community College Development Foundation on March 5, 1994. The \$500,000 grant and \$500,000 matching funds were invested as a temporarily restricted cash asset in The Common Fund, Westport, Connecticut. At the end of 20 years (March 2014) the \$1,000,000 becomes unrestricted. Until that time only one-half of the income from the fund may be used for scholarships and other educational activities of the college.

NOTE D – NET ASSETS AT THE BEGINNING OF THE YEAR

Net assets at the beginning of the year 2003 were adjusted to reflect the change from using the modified cash basis of accounting to accrual.

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HOLMES COMMUNITY COLLEGE

SUPPLEMENTAL INFORMATION

HOLMES COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Student Financial Aid - Cluster:			
<u>U.S. Department of Education</u>			
Direct programs:			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		\$ 65,154
Federal Family Education Loans (FFEL) {1}	84.032		3,299,547
Federal Work-study Program (FWS)	84.033		141,216
Federal Pell Grant Program	84.063		<u>7,292,521</u>
Subtotal direct programs			<u>10,798,438</u>
Pass-through program from:			
State of Mississippi Institutions of Higher Learning			
Leveraging Educational Assistance Partnership (LEAP)	84.069		<u>2,814</u>
Total U.S. Department of Education			<u>10,801,252</u>
Total Student Financial Aid Cluster			<u>10,801,252</u>
Other Programs:			
<u>U.S. Department of Agriculture</u>			
Pass-through program from:			
Mississippi Community College Foundation			
Distance Learning and Telemedicine Loans and Grants	10.885		<u>122,144</u>
Total U.S. Department of Agriculture			<u>122,144</u>
<u>National Institute for Standards and Technology</u>			
Pass-through program from:			
Mississippi Technology Alliance - Manufacturing			
Extension Partnership	11.611		<u>114,140</u>
Total National Institute for Standards and Technology			<u>114,140</u>
<u>U.S. Department of Labor</u>			
Pass-through program from:			
Mississippi Employment Security Commission -			
Trade Adjustment Assistance Workers (TAA)	17.245		<u>32,555</u>
WIA Cluster:			
Mississippi Employment Security Commission - WIA Adult Program	17.258		92,039
Mississippi Employment Security Commission - WIA			
Dislocated Workers	17.260		<u>41,509</u>
Total WIA Cluster			<u>133,548</u>
Mississippi State Board for Community & Junior Colleges -			
Employment and Training Administration			
Pilots, Demonstrations, and Research Project	17.261		<u>2,541,717</u>
Total U.S. Department of Labor			<u>2,707,820</u>
<u>U.S. Department of Education</u>			
Direct program:			
TRIO - Student Support Services	84.042A		<u>229,389</u>
Pass-through programs from:			
Mississippi State Board for Community & Junior			
Colleges - Adult Education - State Grant Program	84.002		321,256
Mississippi Department of Education - Vocational			
Education - Basic Grants to States	84.048		286,525
Mississippi Department of Education - Tech-Prep Education	84.243		<u>87,044</u>
Subtotal pass-through programs			<u>694,825</u>

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Total U.S. Department of Education			<u>924,214</u>
Total Other Programs			<u>3,868,318</u>
Total Expenditures of Federal Awards			\$ <u><u>14,669,570</u></u>

Notes to Schedule of Expenditures of Federal Awards

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

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

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HOLMES COMMUNITY COLLEGE

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Dr. Starkey Morgan and Board of Trustees
Holmes Community College
Goodman, MS 39079

We have audited the financial statements of Holmes Community College as of and for the year ended June 30, 2004, as listed in the table of contents and have issued our report thereon dated April 26, 2005. We did not audit the financial statements of the discretely presented component unit, Holmes Community College Development Foundation, which represents 100 percent of the assets and revenues of the discretely presented component units. Those financial statements were audited by an other auditor whose report has been furnished to us. This report, insofar as it relates to the amounts included for the above mentioned entity, is based on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Holmes Community College Development Foundation, audited by an other auditor, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the college's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-1 and 2004-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

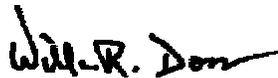
Compliance and Other Matters

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

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 26, 2005, except as explained in Note 10
to which the date is September 20, 2005.



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Dr. Starkey Morgan and Board of Trustees
Holmes Community College
Goodman, MS 39079

Compliance

We have audited the compliance of Holmes Community College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The college's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the college's management. Our responsibility is to express an opinion on the college's compliance based on our audit.

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

In our opinion, Holmes Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

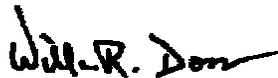
The management of the Holmes Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the college's internal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

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

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 26, 2005, except as explained in Note 10
to which the date is September 20, 2005.

HOLMES COMMUNITY COLLEGE

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

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Dr. Starkey Morgan and Board of Trustees
Holmes Community College
Goodman, MS 39079

We have audited the financial statements of Holmes Community College as of and for the year ended June 30, 2004, and have issued our report thereon dated April 26, 2005. We did not audit the financial statements of the discretely presented component unit, Holmes Community College Development Foundation, which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by an other auditor whose report has been furnished to us. This report, insofar as it relates to the amounts included for the above mentioned entity, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Holmes Community College Development Foundation, audited by an other auditor, were not audited in accordance with *Government Auditing Standards*.

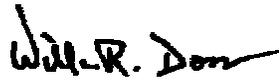
We have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

April 26, 2005, except as explained in Note 10
to which the date is September 20, 2005.

HOLMES COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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HOLMES COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section ____510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Student financial aid cluster:
CFDA #84.007
CFDA #84.032
CFDA #84.033
CFDA #84.063
CFDA #84.069 | |
| b. | Pilots, demonstrations, and research project
CFDA #17.261 | |
| c. | Adult education - state grant program
CFDA #84.002 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$341,100 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? | No |

HOLMES COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Section 2: Financial Statement Findings

Reportable Conditions Not Considered To Be Material Weaknesses

2004-1. Finding

As previously reported, our review of accounts receivable and the corresponding revenues at fiscal year-end revealed that some accruals were not made. Audit adjustments were made to properly reflect the accounts receivable and corresponding revenues.

Recommendation

More care should be taken when recording year-end accounts receivable.

2004-2. Finding

During our test work of the college's capital assets accounts, we noted the following:

- A. Capital assets account balances were not adjusted on the general ledger to reflect additions and deletions during the year.
- B. As previously reported, detail listings of land and construction in progress assets accounts were not maintained by the college.

Audit adjustments were made to properly reflect capital assets account balances at June 30, 2004.

Recommendation

Detail subsidiary records are maintained for equipment, buildings, books and films, and improvements other than buildings, thus, the general ledger should be adjusted at year-end to agree with these subsidiary listings. The college should also maintain subsidiary listings and update the general ledger for land and construction in progress.

Section 3: Federal Award Findings and Questioned Costs

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

HOLMES COMMUNITY COLLEGE

AUDITEE'S CORRECTIVE ACTION PLAN

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Business Office

HOLMES COMMUNITY COLLEGE

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Auditee's Corrective Action Plan For the Year Ended June 30, 2004

As required by Section __.315(b) of OMB Circular A-133, Holmes Community College has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2004:

Finding

Corrective Action Plan Details

2004-1

a. Name of Contact Person Responsible for Corrective Action:

Steve Caldwell, Business Manager, 662-472-9015

b. Corrective Action Planned:

Holmes Community College is continuing a plan to properly record accounts receivable at year end. Information necessary to properly record accruals will be obtained before fiscal year end. Progress has been made in correcting this deficiency.

c. Anticipated Completion Date:

Corrective action should be complete as of June 30, 2005.

2004-2

a. Name of Contact Person Responsible for Corrective Action:

Steve Caldwell, Business Manager, 662-472-9015

b. Corrective Action Planned:

Holmes Community College is continuing a plan to properly record additions and deletions to plant in the general ledger. Subsidiary ledgers are maintained and entries will be made to the general ledger to properly represent subsidiary balances. Subsidiaries for land and Construction in Progress will be maintained and updated to the General Ledger.

c. Anticipated Completion Date:

Corrective action should be complete as of June 30, 2005.

Date Submitted: 6/16/05

Submitted by

