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SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Audited Financial Statements
For the Year Ended June 30, 2014

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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INDEPENDENT AUDITOR'S REPORT

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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, 2014, 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 the Southwest Mississippi Community College Foundation, Inc., a discretely presented component unit of Southwest Mississippi Community College, as of June 30, 2014 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 the Southwest Mississippi Community College, as of June 30, 2014, 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 on pages 5-16 is 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 March 9, 2015, 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 & Leggett

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

March 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS



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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Southwest Mississippi Community College annual financial report presents our discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2014. 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. We have included in this discussion comparative data for fiscal year 2013. The financial statements, footnotes, 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.

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 Position, the Statement of Revenues, Expenses and Changes in Net Positions, 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.

Reporting the College's Financial Activities

Statement of Net Position

The Statement of Net Position includes all assets and liabilities. The college's net position (the difference between assets and liabilities) are one indicator of the college's financial health. Over time, increases or decreases in net position 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 following condensed statement of net position indicates another year of growth in the College's net position. In a time of rising operating costs, and indeed, economic uncertainty, the college again demonstrated responsible budgeting and sound fiscal management.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2014

Condensed Statement of Net Position

	June 30, 2014		June 30, 2013	
	Amount	Percent	Amount	Percent
Assets				
Current assets	\$ 12,233,733	0.24	\$ 13,491,616	0.26
Non-current assets				
Capital, net	34,547,952	0.67	35,195,820	0.66
Other	4,437,299	0.09	4,406,736	0.08
Total assets	<u>\$ 51,218,984</u>	<u>1.00</u>	<u>\$ 53,094,172</u>	<u>1.00</u>
Liabilities				
Current liabilities	\$ 1,342,847	0.62	\$ 2,012,642	0.65
Non-current liabilities	821,144	0.38	1,093,302	0.35
Total liabilities	<u>\$ 2,163,991</u>	<u>1.00</u>	<u>\$ 3,105,944</u>	<u>1.00</u>
Net position				
Net investment in capital assets	\$ 33,454,650	0.68	\$ 33,766,733	0.67
Restricted				
Non-expendable	932,055	0.02	921,387	0.02
Expendable	4,055,118	0.08	3,824,113	0.08
Unrestricted	10,613,170	0.22	11,475,995	0.23
Total net position	<u>\$ 49,054,993</u>	<u>1.00</u>	<u>\$ 49,988,228</u>	<u>1.00</u>

The current asset position at June 30, 2014 is \$ 12,233,733. This represents primarily cash, short-term investments, accounts receivable, and inventories. Cash and short-term investments totaled \$8,367,558, accounts receivable totaled \$4,066,555 and are reported net of allowance for doubtful accounts of \$1,802,079, inventories for the bookstore and cafeteria totaled \$1,270,097, and prepaid expense totaled \$331,602. For the fiscal year ended June 30, 2013, the current asset position was \$13,491,616. Cash and short-term investments were \$10,108,775, accounts receivable were \$3,351,101 reported net of allowance for doubtful accounts of \$1,658,984, inventories were \$1,211,328, and prepaid expense was \$479,396.

The noncurrent asset position at June 30, 2014 is \$38,985,251. This represents restricted cash and cash equivalents, endowment and loan fund investments, capital assets, net of accumulated depreciation. Restricted cash and investments totaled \$4,437,289 and capital assets, net totaled \$34,547,952. For the fiscal year ended June 30, 2013, restricted cash and investments were \$4,406,736, and capital assets, net were \$35,195,820.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2014

Current liabilities at June 30, 2014 are \$1,342,847. This consists primarily of accounts payable, accrued payroll, unearned revenue associated with early student registration for the fall 2014 academic semester, and the current portion of long-term debt. Accounts payable totaled \$302,654, accrued payroll totaled \$426,927, deferred revenue totaled \$322,750, student funds on deposit totaled \$8,358, and the current portion of long-term debt amounted to \$272,158. For the fiscal year ended June 30, 2013, current liabilities were \$2,012,642. Accounts payable were \$595,360, accrued payroll was \$596,953, deferred revenue was \$479,396, student funds on deposit were \$5,148, and the current portion of long-term debt was \$335,785.

Noncurrent liabilities for the college consist exclusively of long-term debt due for capital lease purchase agreements. At June 30, 2014 noncurrent liabilities totaled \$821,144, as compared to \$1,093,302 at June 30, 2013. The college did not add any long-term debt during the fiscal year 2014.

The largest position of the college's net position (68 percent) 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.

The following is a breakdown of the restricted net position:

	2014	2013	Increase (Decrease)
Non-expendable endowment funds	\$ 932,055	\$ 921,387	\$ 10,668
Scholarships	17,857	13,127	4,730
Capital projects	228,981	-	228,981
Debt service	272,158	335,785	(63,627)
Loan funds	3,459,178	3,443,006	16,172
Other	76,944	32,195	44,749
Total restricted net position	\$4,987,173	\$ 4,745,500	\$ 241,673

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

	2014	2013	Increase (Decrease)
Unrestricted General Funds	\$ 6,588,358	\$ 7,393,188	\$ (804,830)
Unrestricted Auxiliary Funds	3,747,865	3,858,244	(110,379)
Unrestricted Designated General Funds	276,947	224,563	52,384
Total unrestricted net position	\$ 10,613,170	\$ 11,475,995	\$ (862,825)

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2014

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. The financial reporting model classifies State appropriations and gifts as non-operating revenues. The college's dependency on State aid and gifts results in an operating deficit. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

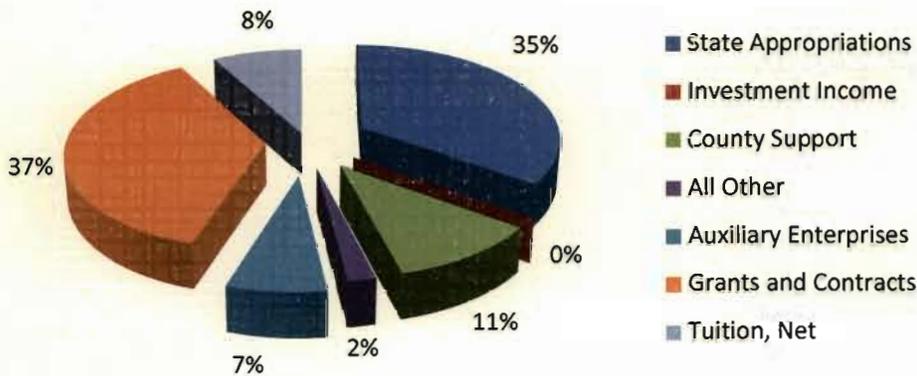
Condensed Statement of Revenues and Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating revenues		
Tuition and fees (net)	\$ 1,872,032	\$ 1,511,368
Grants and contracts	8,525,773	11,446,317
Sales and service	12,565	12,782
Auxiliary enterprises (net)	1,653,542	1,656,253
Private gifts and contributions	-	22,300
Other operating revenues	534,423	419,446
Total operating revenues	<u>12,598,335</u>	<u>15,068,466</u>
Operating expenses	<u>24,776,649</u>	<u>23,785,996</u>
Operating loss	<u>(12,178,314)</u>	<u>(8,717,530)</u>
Non-operating revenues (expenses)		
State appropriations	8,004,890	7,801,414
Local appropriations	2,474,632	2,362,843
Gifts and contributions	11,000	-
Investment income, net	10,516	18,867
Interest on indebtedness	(40,851)	(39,817)
Net non-operating revenues (expenses)	<u>10,460,187</u>	<u>10,143,307</u>
Income (loss) before other revenues	<u>(1,718,127)</u>	<u>1,425,777</u>
State capital use appropriations	<u>784,892</u>	<u>575,155</u>
Total increase in net position	(933,235)	2,000,932
Net position		
Net position, beginning of year	<u>49,988,228</u>	<u>47,987,296</u>
Net position, end of year	<u>\$ 49,054,993</u>	<u>\$ 49,988,228</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
 Management's Discussion and Analysis
 For the Year Ended June 30, 2014

Total Revenue by Source

2014



In fiscal year 2014 operating revenues totaled \$12,598,335 and non-operating revenues totaled \$10,501,038. 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.

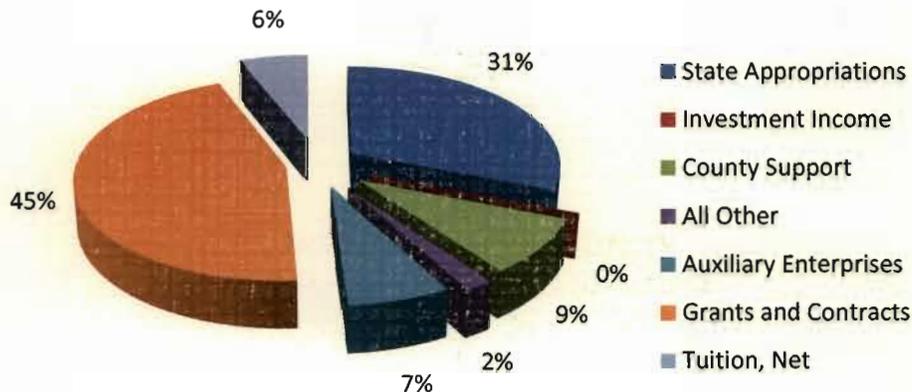
Total operating loss for the fiscal year 2014 was \$12,178,314. Because the State of Mississippi appropriation is not included within operating revenue per GASB no. 35, the college will always show a significant operating loss.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2014

2013



In fiscal year 2013 operating revenues totaled \$15,068,466 and non-operating revenues totaled \$10,183,124. The total operating loss for the fiscal year 2013 was \$8,717,530.

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

Operating Revenues

- **Tuition and fees (net of tuition discount)** reflects a decrease in Fiscal Year 2014 of \$360,664. Tuition and fees totaling \$1,872,032 are net of \$3,676,825 in scholarship allowances. Tuition discounting is calculated from student financial aid awards and related student refunds.
- **Grants and contracts revenue** decreased in Fiscal Year 2014 by \$2,920,544. 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.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2014

The following table details the college's grant and contract awards for the fiscal years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Federal sources	\$ 6,212,269	\$ 9,511,326	\$ (3,299,057)
State sources	1,840,879	1,702,049	138,830
Other sources	<u>472,625</u>	<u>232,942</u>	<u>239,683</u>
Total all sources	<u>\$ 8,525,773</u>	<u>\$ 11,446,317</u>	<u>\$ 2,920,544</u>

- **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 \$1,653,542 for the fiscal year 2014 or a decrease of \$2,711 from fiscal year 2013. The discount for scholarship allowance was \$836,955 for fiscal year 2014 and \$766,923 for fiscal year 2013.

	<u>2014</u>	<u>2013</u>
Bookstore	\$ 1,304,479	\$ 1,224,267
Student and campus housing	529,492	433,521
Food services	640,361	594,663
Other	<u>16,165</u>	<u>170,725</u>
Subtotal	\$ 2,490,497	\$ 2,423,176
Less: Scholarship allowances	<u>(836,955)</u>	<u>(766,923)</u>
Net auxiliary enterprises revenue	<u>\$ 1,653,542</u>	<u>\$ 1,656,253</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis
For the Year Ended June 30, 2014

Operating Expenses

Operating expenses for fiscal year 2014 totaled \$24,776,649, including depreciation expense of \$1,664,831. Operating expenses for fiscal year 2013 totaled \$23,785,996.

Expenses by Object:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Salaries and wages	\$ 10,516,664	\$ 9,870,878	\$ 645,786
Fringe benefits	3,220,093	2,902,941	317,512
Travel	333,353	275,543	57,810
Contractual services	2,442,430	2,295,940	146,490
Utilities	752,365	551,646	200,719
Scholarships	2,753,014	2,996,169	(243,155)
Commodities	2,381,727	2,455,412	(73,685)
Depreciation expense	1,664,831	1,517,401	147,430
Other operating expense	712,172	920,066	(207,894)
Total Operating Expenses	<u>\$24,776,649</u>	<u>\$ 23,785,996</u>	<u>\$ 990,653</u>

Expenses by Function:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Instruction	\$ 9,490,579	\$ 8,945,729	\$ 544,850
Academic support	473,177	476,998	(3,821)
Student services	2,660,659	2,374,447	286,212
Institutional support	2,458,755	2,699,606	(240,851)
Operation of physical plant	2,674,412	2,342,910	331,502
Student financial aid	2,753,014	2,996,169	(243,155)
Auxiliary enterprises	2,601,222	2,432,736	168,486
Depreciation	1,664,831	1,517,401	147,430
Total Operating Expenses	<u>\$ 24,776,649</u>	<u>\$ 23,785,996</u>	<u>\$ 990,653</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 \$8,004,890 in 2014 as compared to \$7,801,414 in 2013, or an increase of \$203,476.
- **Local county appropriation** increased for fiscal year 2014. 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 \$2,474,632 for fiscal year 2014, compared to \$2,362,843 for fiscal year 2013, or an increase of \$111,789.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2014

- **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 2014 was \$10,516, compared to \$18,867 in fiscal year 2013.
- **Capital appropriations** consist of construction and renovation expenditures made by the State Bureau of Buildings, Grounds, and Real Property Management on behalf of the college. Funds totaling \$784,892 for fiscal year 2014 were expended for energy conservation measures and the planning phase of the construction of a new men's dormitory.
- **Interest expense of capital asset related debt** consists of the amount the college incurred during fiscal year for debt expense. The total expense was \$40,851 for fiscal year 2014, compared to \$39,817 for fiscal year 2013.

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)

	2014	2013
Cash and cash equivalents provided (used) by:		
Operating activities	\$ (11,726,457)	\$ (5,858,508)
Noncapital financing activities	10,613,995	10,115,347
Capital/related financing activities	(608,708)	(5,120,111)
Investing activities	11,091	23,915
Net increase in cash and cash equivalents	(1,710,079)	(839,357)
Cash and cash equivalents – Beginning of Year	7,125,247	7,964,604
Cash and cash equivalents – End of Year	\$ 5,415,168	\$ 7,125,247

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2014

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.

In comparison, the major sources of funds comprising operating activities for fiscal year 2013 include student tuition and fees, \$1,485,100; auxiliary enterprises, \$1,656,253; and grants and contracts, \$12,668,948. The major uses of funds were payments made to employees, \$12,711,277; to suppliers, \$5,782,887; and for scholarships, \$2,996,169.

The largest inflow of cash in the non-capital financing activities group is the state appropriation of \$8,124,268 and county appropriation of \$2,474,632 for fiscal year 2014, compared to state appropriation of \$7,748,491 and county appropriation of \$2,362,843 for fiscal year 2013.

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 decreased by \$647,867 during the fiscal year 2014:

	2014	2013	Increase (Decrease)
Land	\$ 122,124	\$ 122,124	\$ -
Construction in progress	1,089,903	698,263	391,640
Buildings	41,482,709	41,448,809	33,900
Improvements	8,018,906	7,690,567	328,339
Machinery and equipment	2,993,074	2,737,140	255,934
Library books and media	879,626	872,475	7,151
Software	400,000	400,000	-
Capital lease	2,380,870	2,380,870	-
Total capital assets	<u>\$ 57,367,212</u>	<u>\$ 56,350,248</u>	1,016,964
Accumulated depreciation	<u>(22,819,259)</u>	<u>(21,154,428)</u>	(1,664,831)
Net capital assets	<u>\$ 34,547,953</u>	<u>\$ 35,195,820</u>	<u>\$ (647,867)</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2014

In addition to costs incurred, the college had \$3,905,847 in outstanding commitments for construction projects as of June 30, 2014. Those projects included the construction of a new men's dormitory, the remodeling of the women's dormitory, and needed upgrades to the Hurst Football Stadium and Health and Physical Education Building.

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

Long-Term Debt Activities

At the beginning of the current fiscal period, the total long-term debt obligations of the college consisted of three capital lease agreements and one revolving loan. Two of the agreements financed controls and equipment for energy savings, one provided for a campus-wide sewer system renovation, and the other provided lighting upgrades for the football stadium. A seven-year lease agreement to provide for energy savings was paid in full during the period. At June 30, 2014, long-term debt made up 51% of total liabilities, and total liabilities were only 4.4% of total net position.

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Loans and leases payable	<u>\$ 1,093,302</u>	<u>\$ 1,429,087</u>	<u>\$ (335,785)</u>
Total long-term liabilities	<u>\$ 1,093,302</u>	<u>\$ 1,429,087</u>	<u>\$ (335,785)</u>

While the college did not add any long-term debt during the fiscal year year ended June 30, 2014, notes were issued in the amount of \$2,000,000 on December 1, 2014 to provide partial funding for the new dormitory construction. The ten-year notes were financed through Guaranty Bank and Trust Company of Belzoni, Mississippi and have a net interest rate of 2.3636%.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2014

Factors Impacting Future Periods

The standard set by the college's management has always been to operate well within budgeted amounts and with the minimum of administrative and management positions - employees "wear a number of hats". As a result, for the last nineteen years, the college has maintained unrestricted net assets totaling at least 35% of its operating budgets. For the fiscal year ended June 30, 2014, unrestricted net assets were \$10,613,170 or 50% of the fiscal year 2014 total operating budgets of \$21,229,596. We have certainly learned that it is not always possible to predict the behavior of the economy. However, management believes that the college's financial condition and its conservative approach to budgeting its resources leave it well-positioned to ultimately see it through whatever is asked of it, and at the same time provide the assurance core mission services and objectives are achieved.

CONTACTING THE COMMUNITY COLLEGE'S FINANCIAL MANAGEMENT

If you have questions about this report, contact Grady Smith, 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 gsmith@smcc.edu.

AUDITED FINANCIAL STATEMENTS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Statement of Net Position
June 30, 2014

Assets

Current Assets:

Cash and cash equivalents	\$	5,415,168
Short term investments		2,952,390
Accounts receivable, net		490,225
Due from State General Fund		109,190
Grants and contracts receivable, net		1,665,061
Inventories		1,270,097
Prepaid expenses		331,602
Total Current Assets		12,233,733

Non-current Assets:

Restricted cash and cash equivalents		-
Restricted fund investments (unemployment compensation)		32,201
Loan fund investments		3,094,971
Endowment investments		945,949
Other long-term investments (land in loan funds)		364,178
Capital assets, net of accumulated depreciation		34,547,952
Total Non-current Assets		38,985,251
Total Assets		51,218,984

Liabilities

Current Liabilities

Accounts payable and accrued liabilities		302,654
Accrued payroll		426,927
Unearned revenues		332,750
Deposits refundable		8,358
Long-term liabilities, due within one year:		272,158

Non-current Liabilities

Long-term liabilities, due beyond one year:		821,144
Total Liabilities		2,163,991

Net Position

Net investment in capital assets		33,454,650
Restricted for:		
Expendable:		
Scholarships and fellowships		17,857
Debt service		272,158
Capital improvements		228,981
Loans to students		3,459,178
Other purposes		76,944
Non-expendable:		
Scholarships and fellowships		932,055
Unrestricted		10,613,170
Total Net Position		\$ 49,054,993

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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Assets				
Cash and Investments	\$ 11,501	\$ 249,749	\$ 26,898	\$ 288,148
Investments	28,044	7,133	161,689	196,866
Accounts Receivable	-	-	-	-
Pledges Receivable	-	31,400	-	31,400
Allowance for Uncollectible	-	(9,000)	-	(9,000)
Total Assets	\$ 39,545	\$ 279,282	\$ 188,587	\$ 507,414
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Net Position				
Unrestricted	39,545	-	-	39,545
Temporarily Restricted	-	279,282	-	279,282
Permanently Restricted	-	-	188,587	188,587
Total Net Postion	\$ 39,545	\$ 279,282	\$ 188,587	\$ 507,414

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, 2014**

Operating Revenues

Tuition and fees (net of scholarship allowances of \$3,676,825)	\$	1,872,032
Federal grants and contracts		6,212,269
State grants and contracts		1,840,879
Nongovernmental grants and contracts		472,625
Sales and services of educational departments		12,565
Auxiliary enterprises:		
Student housing (net scholarship allowances of \$379,046)		150,446
Food services (net of scholarship allowances of \$457,909)		182,452
Bookstore		1,304,479
Other auxiliary revenues		16,165
Other operating revenues		534,423
Total operating revenues		12,598,335

Operating Expenses

Salaries and wages		10,516,664
Fringe benefits		3,220,093
Travel		333,353
Contractual services		2,442,430
Utilities		752,365
Scholarships and fellowships		2,753,014
Commodities		2,381,727
Depreciation		1,664,831
Other operating expenses		712,172
Total Operating Expenses		24,776,649

Operating Income		(12,178,314)
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Non-operating Revenues (Expenses)

State appropriations		8,004,890
Local appropriation		2,474,632
Gifts and contributions		11,000
Investment income		10,516
Interest expense on capital asset-related debt		(40,851)
Total Net Nonoperating Revenues (Expenses)		10,460,187

Income before Other Revenues, Expenses, Gains and Losses		(1,718,127)
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Other Revenues

State appropriation restricted for capital purposes		784,892
Total Other Revenues		784,892

Change in Net Position		(933,235)
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Net Position

Net position, beginning of year		49,988,228
Net position, end of year	\$	49,054,993

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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains and Support				
Contributions	\$ 22,094	\$ 92,746	\$ 1,000	\$ 115,840
Pledge Income	-	-	-	-
Transfers	1,498	2,728	30,620	34,846
Investment Income	280	419	7,625	8,324
Unrealized Gains on Investment	-	805	14,641	15,446
Other	-	-	-	-
Total Revenues, Gains and Support	<u>23,872</u>	<u>96,698</u>	<u>53,886</u>	<u>174,456</u>
Expenses and Deductions				
Program Services				
Scholarships	-	37,045	1,825	38,870
Other Expenses	-	-	-	-
Management and General	5,686	42,359	-	48,045
Support for the College	7,500	2,000	-	9,500
Transfers	-	34,846	-	34,846
Unrealized Loss on Investment	-	6,000	-	6,000
Total Expenses	<u>13,186</u>	<u>122,250</u>	<u>1,825</u>	<u>137,261</u>
Increase in Net Position	10,686	(25,552)	52,061	37,195
Net Position at Beginning of Year	<u>28,859</u>	<u>304,834</u>	<u>136,526</u>	<u>470,219</u>
Net Position at End of Year	<u>\$ 39,545</u>	<u>\$ 279,282</u>	<u>\$ 188,587</u>	<u>\$ 507,414</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, 2014

Cash flows from operating activities:

Tuition and fees	\$	1,612,779
Grants and contracts		7,803,548
Sales and services of educational departments		12,565
Payments to suppliers and students		(6,082,157)
Payments to employees for salaries and benefits		(13,906,783)
Cash received (paid) on deposits		3,210
Payments for utilities		(752,365)
Payments for scholarships and fellowships		(2,753,014)
Auxiliary enterprise charges		1,653,542
Other receipts (payments)		682,218
Net cash provided (used) by operating activities		(11,726,457)

Cash flows from noncapital financing activities:

State appropriations		8,124,268
Local appropriations		2,474,632
Other sources (uses)		15,095
Net cash provided (used) by noncapital financing activities		10,613,995

Cash flows from capital and related financing activities:

Capital appropriations		784,892
Proceeds from issuance of debt		-
Purchases of capital assets		(1,016,964)
Principal paid on capital debt and leases		(335,785)
Interest paid on capital debt and leases		(40,851)
Net cash provided (used) by capital and related financing activities		(608,708)

Cash flows from investing activities:

Proceeds from sales and maturities of investments		123,201
Interest and dividends received on investments		10,516
Purchases of investments		(122,626)
Net cash provided (used) by investing activities		11,091

Net increase (decrease) in cash and cash equivalents (1,710,079)

Cash and cash equivalents - beginning of year 7,125,247

Cash and cash equivalents - end of year \$ 5,415,168

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, 2014

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

Operating Income (Loss) \$ (12,178,314)

Adjustments to reconcile net income (loss) to net cash provided (used)
by operating activities

Depreciation expense	1,664,831
Changes in assets and liabilities	
(Increase) decrease in assets	
Receivables, Net	30,488
Inventories	(722,225)
Intergovernmental receivables	(58,769)
Other assets	147,795
Increase (decrease) in liabilities	
Accounts payable and accrued liabilities	(296,801)
Accrued payroll	(170,026)
Deferred revenue	(146,646)
Deposits refundable	3,210

Total Adjustments 451,857

Net cash provided (used) by operating activities \$ (11,726,457)

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

Cash and cash equivalents classified as current assets	\$ 5,415,168
Cash and cash equivalents classified as non-current assets	-
	<u>\$ 5,415,168</u>

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, 2014

Cash Flows From Operating Activities:	
Increase in net position	\$ 37,195
Adjustments to reconcile increase (decrease) in net position to net cash provided by operating activities:	
Contributions received for permanent investment	(1,000)
Receivables, net	30,000
Non cash transfers to SMCC	-
Increase (decrease) in:	
Accounts payable and accrued liabilities	(250)
Net cash provided by operating activities	<u>65,945</u>
Cash Flows From Investing Activities:	
Net unrealized gain on investments	(23,490)
Net cash (used) by investing activities	<u>(23,490)</u>
Cash Flows From Financing Activities:	
Contributions restricted for permanent investment	1,000
Net cash provided by financing activities	<u>1,000</u>
Net Increase in Cash	43,455
Cash Balance	
Beginning of Year	<u>244,693</u>
End of Year	<u>\$ 288,148</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, 2014

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, 2014, 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, 2014

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, 2014

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, 2014

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 \$49,054,993 at June 30, 2014, includes \$932,055 reserved for endowment, \$17,857 reserved for scholarships, \$228,981 reserved for capital projects, \$272,158 reserved for debt service, \$3,459,178 reserved for loans to students, \$76,944 reserved for other purposes and an unrestricted amount of \$10,613,170.

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, 2014

V. Changes in Accounting Standards

Southwest Mississippi Community College adopted GASB Statement No.65, *Items Previously Reported as Assets and Liabilities*, during the fiscal year changing the method of accounting for items previously reported as assets and liabilities in the Statement of Net Position. These pronouncements did not significantly impact any amounts reported in the financial statements.

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, 2014, none of the college's bank balance of \$8,173,155 was exposed to custodial credit risk.

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, 2014:

Endowment investments	\$ 945,949
Other short term investments	2,952,390
Long term investments	<u>3,491,350</u>
Total Investments	<u>\$7,389,689</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For Year Ended June 30, 2014

As of June 30, 2014, the college had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Money Market Mutual Funds	Not Rated	Less than 1	\$ 6,830,843
Real Estate	Not Rated	N/A	364,178
Equity Securities	BBB+ to AAA	Less than 1	94,668
Certificates of Deposit	BA2 to BA3	1 to 14	100,000
Municipal Bonds	AA to AAA	1 to 10	-
Total			<u>\$ 7,389,689</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, 2014, none of the college's investment balance of \$7,389,264 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 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, 2014, the college had the following investments:

Issuer	Fair Value	% of Total Investments
Sterne Agee/Money market funds	\$ 6,830,843	92%

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For Year Ended June 30, 2014

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, 2014.

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.

The following table sets forth by level, within the fair value hierarchy, the organization's assets at fair value as of June 30, 2014.

	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 6,830,843	-	-	\$ 6,830,843

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For Year Ended June 30, 2014

Note 4 – Accounts Receivable

Accounts receivable consisted of the following at June 30, 2014:

Student receivables	\$ 2,226,247
Federal, state and private grants and contracts	1,665,061
State appropriations	109,190
Local appropriations	60,605
Other receivables	<u>5,452</u>
Total Accounts Receivable	4,066,555
Less allowance for doubtful accounts	<u>(1,802,079)</u>
Net Accounts Receivable	<u>\$ 2,264,476</u>

Note 5 – Inventory

Inventory as of June 30, 2014 consists of the following:

Bookstore	\$1,259,232
Food Services	<u>10,865</u>
Total	<u>\$1,270,097</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For Year Ended June 30, 2014

Note 6 – Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2014:

	Balance 7/1/2013	Increases	Decreases	Completed Construction	Balance 6/30/2014
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 122,124				\$ 122,124
Construction in progress	698,263	921,596	(167,717)	(362,239)	1,089,903
Total non-depreciable capital assets	820,387	921,596	(167,717)	(362,239)	1,212,027
<u>Depreciable capital assets:</u>					
Buildings	28,975,667	-			28,975,667
Building improvements	12,473,142	33,900			12,507,042
Improvements other than buildings	7,690,567	328,339			8,018,906
Equipment	2,737,140	271,734	15,800		2,993,074
Software	400,000				400,000
Library books	872,475	7,457	306		879,626
Leased property under capital leases	2,380,870	-			2,380,870
Total depreciable capital assets	55,529,861	641,430	16,106		56,155,185
<u>Less accumulated depreciation for:</u>					
Buildings	11,263,671	516,770			11,780,441
Building improvements	3,040,300	491,808			3,532,108
Improvements other than buildings	3,288,578	283,630			3,572,208
Equipment	1,989,399	254,341	14,220		2,229,520
Software	192,000	32,000			224,000
Library books	730,146	15,264	9,997		735,413
Leased property under capital leases	650,334	95,235			745,569
Total accumulated depreciation	21,154,428	1,689,048	24,217		22,819,259
Total depreciable capital assets, net	34,375,433	(1,047,618)	(8,111)		33,335,926
Capital Assets, Net	\$ 35,195,820	\$ (126,022)	\$ (175,828)	\$ (362,239)	\$ 34,547,953

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, 2014

Note 7 – Construction Commitments and Financing

The college has contracted for various construction projects as of June 30, 2014. 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	\$ 2,641,682	\$ 184,427	\$ 2,641,682	\$ -
BCBS Wellness Program	184,427	184,427	-	-
PE Building Project	5,283	-	-	5,283
Women's Dormitory Remodeling	900,700	-	-	900,700
Hurst football stadium upgrades	173,755	-	-	173,755
Total governmental activities	\$ 3,905,847	\$ 184,427	\$ 2,641,682	\$ 1,079,738

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 7/1/2013	Additions	Reductions	Balance 6/30/2014	Amounts due within one year
WPC Revolving Loan	622,375	1.75%	2031	\$ 591,122	\$ -	\$ 27,300	\$ 563,822	\$ 27,782
Capital leases								
Energy efficiency lease	1,660,807	3.91%	2016	494,518	-	185,529	308,989	192,910
Bryan science chiller lease	450,366	5.34%	2014	73,750	-	73,750	-	-
Stadium lighting lease	269,697	4.50%	2018	269,697	-	49,206	220,491	51,466
Total				\$ 1,429,087	\$ -	\$ 335,785	\$ 1,093,302	\$ 272,158

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For Year Ended June 30, 2014

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 272,158 \$	27,761 \$	299,919
2016	198,182	18,030	216,212
2017	85,074	13,948	99,022
2018	88,168	10,854	99,022
2019	29,795	7,632	37,427
2020 – 2024	157,046	30,087	187,133
2025 – 2029	171,395	15,738	187,133
2030 – 2032	91,484	2,083	93,567
Total	<u>\$ 1,093,302 \$</u>	<u>126,133 \$</u>	<u>1,219,435</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For Year Ended June 30, 2014

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	6,324,328	1,827,523	152,356	422,014			363,934		400,424		9,490,579
Academic Support	332,637	102,562	938	10,258			5,738		21,044		473,177
Student Services	1,517,592	467,509	150,337	297,534			209,363		18,324		2,660,659
Institutional Support	1,065,106	345,477	27,853	744,458			79,782		196,079		2,458,755
Operation of Plant	781,822	259,589	1,869	632,755	486,338	2,753,014	469,652		42,387		2,674,412
Student Financial Aid											2,753,014
Auxiliary Enterprises	495,179	217,433		335,411	266,027		1,253,258		33,914		2,601,222
Depreciation								1,664,831			1,664,831
Total Operating Expenses	10,516,664	3,220,093	333,353	2,442,430	752,365	2,753,014	2,381,727	1,664,831	712,172		24,776,649

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For Year Ended June 30, 2014

Note 10 – Defined Benefit 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. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That 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.

Funding Policy. 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, 2014 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, 2014, 2013 and 2012 were \$1,585,672, \$1,337,672, and \$1,051,764, respectively, which equaled the required contributions for each year.

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

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 - 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 March 9, 2015 and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

The College has entered into a contract to construct a new 126 bed, 31,418 square foot dormitory. The estimated cost of the building will be between \$6,500,000 and \$7,500,000. The College will fund the construction with \$3,200,000 of Bureau of Buildings funds and the remaining balance will be paid for with College reserves.

Southwest Mississippi Community College Foundation, Inc.
Summit, Mississippi
Notes to the Financial Statements
For the Year Ended June 30, 2014

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 position, based on the absence or existence and type of donor-imposed restrictions.

Unrestricted Net Position

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, 2014

Permanently Restricted Net Position

Permanently restricted net position includes gifts required by donors to be permanently retained. The Foundation's permanently restricted net position consists 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 2011, 2012, and 2013 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, 2014

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, 2014.

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, 2014 consist of the following:

	<u>Market Value</u>
Cash & Cash Equivalents	\$ 2,124
Stock Mutual Funds	145,828
Bond Mutual Funds	39,024
Specialty Mutual Funds	<u>9,890</u>
Total Investments	<u>\$196,866</u>

Southwest Mississippi Community College Foundation, Inc.
Summit, Mississippi
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2014

Investment Income for the year ended June 30, 2014 was calculated as follows:

Interest and Dividends	\$ 8,324
Unrealized Gains and Losses	<u>(23,490)</u>
Net Investment Income	<u>\$(15,166)</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, 2014.

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, 2014

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, 2014.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>\$ 194,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 194,742</u>

SUPPLEMENTAL INFORMATION

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Supplemental Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Education</u>		
Student Financial Aid Cluster		
Direct programs:		
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	45,144
Federal Work-Study Program	84.033	62,634
Federal Pell Grant Program	84.063	5,618,757
Total Student Financial Aid Cluster		<u>5,726,535</u>
Passed-through Mississippi Department of Education:		
Adult Education-basic grants to states	84.002	87,205
Vocational Education Basic Grants	84.048	195,816
Total passed-through Mississippi Department of Education		<u>283,021</u>
Total U.S. Department of Education		<u>6,009,556</u>
<u>U.S. Department of Labor</u>		
Passed-through Central Mississippi Planning and Development District		
Workforce Investment Act-Adult Program	17.258	26,085
Workforce Investment Act-Youth Activities	17.259	15,599
WIA Dislocated Worker Formula Grants	17.278	13,820
Total WIA Cluster		<u>55,504</u>
Total passed-through Central Mississippi Planning and Development District		<u>55,504</u>
Passed-through the Mississippi Department of Employment Security:		
WIA Trade Adjustment Assistance	17.245	52,174
Total passed-through Mississippi Department of Employment Security:		<u>52,174</u>
Total U.S. Department of Labor		<u>107,678</u>
<u>U.S. Department of Justice</u>		
Edward Byrne Memorial Justice Assistance Grant	16.738	2,744
Total Department of Justice		<u>2,744</u>
Total for All Federal Awards		<u>\$ 6,119,978</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

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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, 2014, 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 March 9, 2015. 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, 2014 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

Lowery, Payn and Leggett, CPA's

Brookhaven, Mississippi 39601

March 9, 2015

LOWERY, PAYN AND LEGGETT

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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, 2014. 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, 2014.

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

March 9, 2015

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

LOWERY, PAYN AND LEGGETT

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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, 2014, which collectively comprise Southwest Mississippi Community College's basic financial statements and have issued our report thereon dated March 9, 2015. 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

March 9, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

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 |

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Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

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.