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SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Audited Financial Statements
For the Year Ended June 30, 2007

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

FINANCIAL AUDIT REPORT

PATRICK E. LOWERY AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

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

Dr. Oliver Young, President and Board of Trustees
Southwest Mississippi Community College
Summit, Mississippi 39666

We have audited the accompanying financial statements of the business type activities and the discretely presented component unit of Southwest Mississippi Community College as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of Southwest Mississippi Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and discretely presented component unit of Southwest Mississippi Community College, as of June 30, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2008 on our consideration of Southwest Mississippi Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 18, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Patrick E. Lowery and Associates

Patrick E. Lowery and Associates
Certified Public Accountants

August 15, 2008

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS



College Drive
Summit, Mississippi 39666
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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 years ended June 30, 2007 and 2006. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

Using 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.

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

Reporting the College's Financial Activities

Statement of Net Assets

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

The following condensed statement of net assets indicates another year of growth in the College's net assets. In a time of rising operating costs, the College again demonstrated responsible budgeting and sound fiscal management.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis
Years Ended June 30, 2007 and 2006

Condensed Statement of Net Assets

	2007	2006	2005
Assets			
Current assets	\$ 11,552,827	\$ 13,506,846	\$ 13,766,105
Non-current assets			
Capital, net	25,066,246	23,351,526	21,716,806
Other	2,869,899	958,383	939,903
Total assets	39,488,972	38,180,933	36,422,814
Liabilities			
Current liabilities	1,388,100	728,228	417,272
Non-current liabilities	1,320,975	1,467,790	9,238
Total liabilities	2,709,075	2,196,018	426,510
Net assets			
Invested in capital assets, net	23,598,456	21,742,538	21,716,806
Restricted			
Non-expendable	894,443	897,029	880,650
Expendable	3,241,807	3,110,047	3,088,963
Unrestricted	9,045,191	10,235,301	10,309,885
Total net assets	\$ 36,779,897	\$ 35,984,915	\$ 35,996,304

The current asset position at June 30, 2007 is \$ 11,552,827. This represents primarily cash, accounts receivable and investments. Total Accounts receivable of \$1,694,938 is reported net of Allowance for Doubtful Accounts of \$722,201.

The current asset position at June 30, 2006 is \$13,506,846. This represents primarily cash, accounts receivable and investments. Total Accounts receivable of \$1,606,058 is reported net of Allowance for Doubtful Accounts of \$693,935.

The current asset position at June 30, 2005 is \$13,766,105. This represents primarily cash, accounts receivable and investments. Total Accounts receivable of \$1,121,226 is reported net of Allowance for Doubtful Accounts of \$581,476.

The largest position of the College's net assets (64 percent) is in the category of "invested in capital assets" (land, buildings, and equipment), less the related debt. The restricted portion of the net assets represents resources subject to external restrictions. Restricted non-expendable net assets consist of endowment gifts with specific restrictions on spending the principle given. Restricted expendable net assets consist of gifts with specific restrictions, grants from third-party agencies with expenditure restrictions, plant funds restricted for capital projects and loan funds.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

The following is a breakdown of the restricted net assets:

	2007	2006	2005
Non-expendable endowment funds	\$ 894,443	\$ 897,029	\$ 880,650
Scholarships	9,648	60,278	165,954
Capital projects	3,042,016	3,967,845	3,842,531
Loan funds	3,176,999	3,049,769	2,923,009
Other	55,160	-	-
Total restricted net assets	\$ 7,178,266	\$ 7,974,921	\$ 7,812,144

The remaining net assets are unrestricted and may be used to meet the College's operating obligations as they become due.

Statement of revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or 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 Assets

	2007	2006	2005	Percent Change*
Operating revenues				
Tuition and fees (net)	\$ 1,086,773	\$ 1,181,089	\$ 1,087,626	-7.99 %
Grants and contracts	5,276,092	5,506,806	5,285,665	-4.19
Sales and service	23,656	23,457	23,084	.85
Auxiliary enterprises (net)	1,447,701	1,403,386	1,211,060	3.16
Other operating revenues	330,830	347,602	229,476	-4.83
Total operating revenues	8,165,052	8,462,340	7,836,911	-3.51
Operating expenses	18,392,109	18,155,031	15,868,415	1.31
Operating loss	(10,277,057)	(9,692,691)	(8,031,504)	6.03
Non-operating revenues				
State appropriations	6,094,290	5,518,791	6,619,518	10.43
County appropriations	2,189,128	2,120,283	2,035,929	3.25
Gift	37,290	108,220	179,056	-65.54
Investment income, net	624,286	171,483	378,397	264.05
Other non-operating revenues	624,541	1,794,413	-	-65.20

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

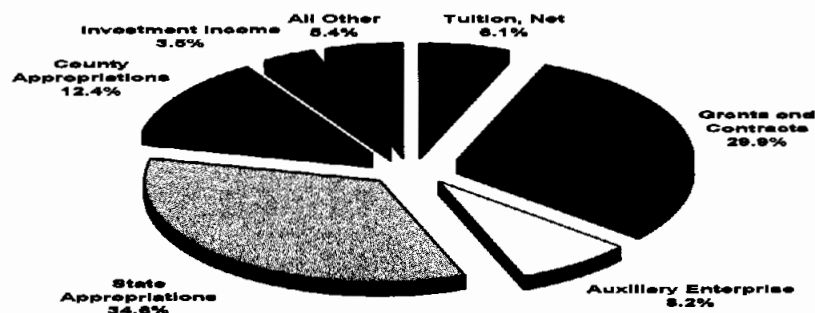
Discussion and Analysis
Years Ended June 30, 2007 and 2006

	2007	2006	2005	Percent Change*
Non-operating expenses				
Interest on indebtedness	\$ (59,698)	\$ (31,888)	\$ -	87.99 %
Other non-operating expenses	(1,426)	-	-	-100.00
Net non-operating revenues	9,508,411	9,681,302	9,212,900	-1.79
Income (loss) before appropriations restricted for				
for capital purpose	(718,646)	-	-	-100.00
Capital appropriations	1,513,628	-	-	100.00
Change in net assets	796,408	(11,389)	1,181,396	-7092.78
Net assets at beginning of year	35,984,915	35,996,304	34,814,908	-0.03
Net assets at end of year	\$ 36,779,897	\$ 35,984,915	\$ 35,996,304	2.21 %

*Percentage change from 2006 to 2007.

Total Revenue by Source

2007

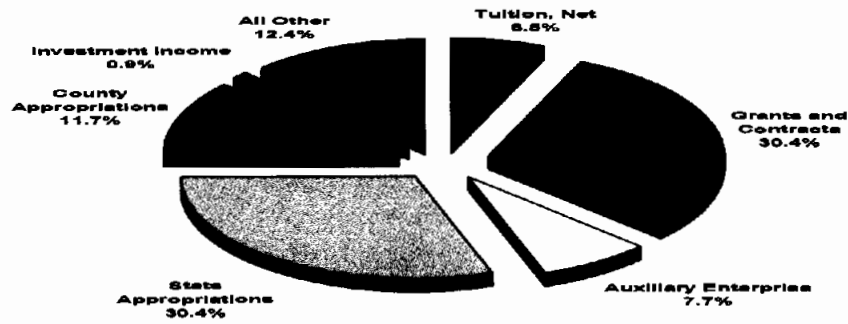


SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

2006



In fiscal year 2007, operating revenues totaled \$8,065,152 and non-operating revenues totaled \$9,569,535. 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 source on non-operating revenue is the State of Mississippi appropriation as well as support for the four counties comprising the college's district.

Total operating loss for the fiscal year 2007 was (\$10,227,057). 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.

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 2007 of \$94,316. This resulted from an increase in tuition discounted of \$72,119 due to larger student financial aid awards. Tuition discounting is calculated from student financial aid awards and related student refunds. Also, several students displaced by Hurricane Katrina returned to their homes on the Mississippi Gulf Coast and in Louisiana.
- **Grants and contracts revenue** decreased in Fiscal Year 2007 by \$230,714 due primarily to the ending of student financial aid and private grants related to Hurricane Katrina.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

Grant and contracts revenue includes all federal and state restricted revenues made available by government agencies, as well as private agencies. Grant revenues are recorded only to the extent that the funds have been expended for exchange transactions. Non-exchange revenues are recorded when received or when eligibility criteria have been met.

The following table details the College's grant and contract awards for the fiscal years ended June 30, 2007, 2006, 2005:

	2007	2006	2005
Federal sources			
Department of Education	\$ 3,614,689	\$ 3,626,602	\$ 4,028,221
Department of Labor	278,827	310,825	131,141
Other Federal	29,984	-	59,769
Total federal sources	\$ 3,923,500	\$ 3,937,427	\$ 4,219,131
State sources			
Mississippi Department of Education	\$ -	\$ 750,984	\$ 746,994
State Board of Community and Junior Colleges	1,268,092	648,020	319,540
Total state sources	\$ 1,268,092	\$ 1,399,004	\$ 1,066,534
Other sources	\$ 84,500	\$ 170,375	\$ -

- **Auxiliary enterprises revenue**, net of fee discount, consist 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 too be self-supporting. Auxiliary enterprises including the following:

	2007	
	Fee Discounted	Result of Operations, Net
Housing	\$ 211,386	\$ 109,271
Food Service	331,704	382,766
Bookstore		899,195
Other Auxiliaries		56,469
	2006	
	Fee Discounted	Result of Operations, Net
Housing	\$ 156,165	\$ 179,701
Food Service	256,983	404,057
Bookstore		810,642
Other Auxiliaries		8,986

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis Years Ended June 30, 2007 and 2006

	2005	
	Fee Discounted	Result of Operations, Net
Housing	\$ 224,446	\$ 71,569
Food Service	279,449	361,774
Bookstore		768,243
Other Auxiliaries		9,474

Auxiliary revenue increased fiscal year 2007 by \$44,315. Housing and Food Service decreased \$91,721, due mostly to the departure of displaced students returning home after Hurricane Katrina. However, College bookstore operations offset the decreases in room and board fees.

Auxiliary revenue increased in fiscal year 2006 by \$192,326 and in fiscal year 2005 by \$62,083, attributable in both years to College bookstore operations.

Non-Operating Revenues

- **State appropriation** funding increased by \$575,499 in 2007, \$174,326 in 2006, and \$151,323 in 2005. The increases have served to recover some of the overall \$1,552,063 in funding cuts experienced since Fiscal Year 2000.
- **Local county appropriation** increased only slightly in 2007. This revenue is received from the four counties (Amite, Pike, Walthall, and Wilkinson) of the State Community College District in which the College resides.
- **Gifts revenue** dropped by \$79,930 due to the completion of a pledge by one major contributor for relief related to Hurricane Katrina.
- **Interest revenue** has increased recently due to improved rates and realized gains on long-term investments. In 2007, this resulted in revenue growth of \$452,803.
- **Other non-operating revenue** differed significantly due to one-time proceeds for long-term debt reported in fiscal year 2006.
- **Capital appropriations** of \$1,513,628 represented the first expenditures for the college's one major construction project: the renovation of the Bryan Science Building. No state funds had been expended for capital improvements during fiscal year 2006.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

Operating Expenses

Operating expenses, including depreciation of \$961,941, totaled \$18,392,109. Of this total \$7,277,224 or 40 percent was for instruction.

	2007	2006	2005	Percent Change*
Expenses by object				
Salaries and wages	\$ 7,849,766	\$ 7,530,342	\$ 7,245,084	4.24 %
Fringe benefits	2,139,883	2,014,138	1,796,107	6.24
Travel	94,443	149,819	128,973	-36.96
Contractual services	2,440,026	2,791,719	1,270,686	-12.60
Utilities	745,083	1,001,778	773,735	-25.62
Scholarships and fellowship	1,527,598	1,406,307	2,356,087	8.62
Commodities	2,277,704	2,033,534	1,812,993	12.01
Depreciation expense	961,941	947,695	767,041	1.50
Other operating expenses	355,665	279,699	221,604	27.16
Total	\$ 18,392,109	\$ 18,155,031	\$ 16,372,310	1.31 %

*Percentage change from 2006 to 2007.

	2007	2006	2005	Percent Change*
Expenses by function				
Instruction	\$ 7,277,224	\$ 7,133,053	\$ 6,733,028	2.02 %
Academic support	412,005	552,394	578,180	-25.41
Student services	1,778,015	1,442,901	1,427,784	23.23
Institutional support	1,698,799	1,610,538	1,406,723	5.48
Operations of plant	2,590,334	3,197,608	1,324,344	-18.99
Student financial aid	1,487,670	1,406,307	2,356,087	5.79
Auxiliary enterprises	2,186,121	1,864,535	1,779,123	17.25
Depreciation	961,941	947,695	767,041	1.50
Total operating expenses by function	\$ 18,392,109	\$ 18,155,031	\$ 16,372,310	1.31 %

Expenditures in 2007 increased from 2006 by \$237,078, mostly attributable to an increase in payroll rates. The increase was, however, substantially held in check by savings in utility costs resulting from the implementation of a campus-wide energy efficiency plan. The energy plan was initiated due to large increases in utility costs during Fiscal Year 2006.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

Statement of Cash Flows

Another way to assess the financial health of the College is to look at the statement of cash payments 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 help users assess:

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

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)

	2007	2006	2005
Cash and Cash Equivalents			
Provided (Used) by:			
Operating Activities	\$ (10,411,904)	\$ (7,369,380)	\$ (6,048,333)
Noncapital Financing Activities	9,054,283	7,596,906	7,265,508
Capital/Related Fin. Activities	(1,366,867)	(1,125,386)	(1,335,232)
Investing Activities	494,945	443,025	494,945
Net Increase in Cash and Cash			
Equivalents	702,024	(454,835)	376,888
Cash and Cash Equivalents –			
Beginning of the Year	2,957,709	3,412,544	3,035,656
Cash and Cash Equivalents – End			
of the Year	\$ 935,245	\$ 2,957,709	\$ 3,412,544

The major sources of funds comprising operating activities include student tuition and fees, \$1,086,773; auxiliary enterprises, \$1,447,701; and grants and contracts, \$5,276,092. The major uses of funds were payments made to employees, \$9,989,649; to suppliers, \$4,717,730; and to students, \$1,527,598.

The largest inflow of cash in the non-capital financing activities group is the state appropriation of \$6,094,290 and county appropriation of \$2,189,128.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis Years Ended June 30, 2007 and 2006

Significant Capital Asset Transactions

In fiscal year 2007, work continued on the renovation of the Bryan Science Building. The \$4.2M project is the only current project funded with state capital improvement bonds and is scheduled for completion in fiscal year 2008. Major projects completed with local funding in fiscal year 2007 included the renovation of the president's residence totaling \$318,770 and the installation of new administrative software totaling \$306,500.

The College completed three major construction projects during fiscal year 2006. A new waste treatment facility totaling \$1,272,338, the \$672,915 partial renovation of the Brumfield Building which provides instructional classrooms and a re-roofing and air-conditioning upgrade for the Huddleston Career and Technical Education Building totaling \$1,064,638 were all completed using state and local funding. The installation of an energy efficiency management system totaling \$1,660,807 was also finished and is funded through a ten-year capital lease.

Factors Impacting Future Periods

State funding through appropriations is improving. After funding cuts totaling \$1,582,063 since Fiscal Year 2000, the college realized an increase in Fiscal Year 2007 of \$575,499. Mississippi community and junior colleges await a decision on proposed legislation that will provide mid-level funding per student. The objective of this legislation is to achieve an equitable, stable state funding commitment which would place community and junior college funding at a mid-point between appropriations awarded per student for K-12 and universities. A restoration to levels of state funding previously experienced is needed to meet the demands of growing enrollment, while also expanding services to meet community needs.

State appropriations contribute approximately 33 percent of total revenue (excluding capital appropriations). The level of state support is, therefore, one of the key factors influencing the financial condition of the College. The College strives to provide students with the opportunity to obtain a quality education at the most reasonable cost possible. Future enrollments may be affected by a number of factors, including increases in tuition and other mandatory fees stemming from a material decrease in appropriation from the State of Mississippi.

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

CONTACTING THE COMMUNITY COLLEGE'S FINANCIAL MANAGEMENT

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

AUDITED FINANCIAL STATEMENTS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Statement of Net Assets

June 30, 2007

ASSETS

Current assets:

Cash and cash equivalents	\$	880,573
Short-term investment		8,916,317
Accounts receivables, net		467,156
Due from state sources		97,310
Grants and contracts receivable, net		408,270
Inventories		626,396
Prepaid expenses		156,805
Total Current Assets		<u>11,552,827</u>

Noncurrent assets:

Restricted cash and cash equivalents		54,672
Deposits with state agency		1,600,443
Endowment investments		850,606
Other long-term investments (land in loan funds)		364,178
Capital assets, net of accumulated depreciation		<u>25,066,246</u>
Total Noncurrent Assets		<u>27,936,145</u>
Total Assets		<u>39,488,972</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities		522,397
Accrued payroll		405,921
Deferred revenues		308,000
Deposits Refundable		4,967
Long-term liabilities - current portion		<u>146,815</u>
Total Current Liabilities		<u>1,388,100</u>

Noncurrent liabilities:

Long-term liabilities		<u>1,320,975</u>
Total Noncurrent Liabilities		<u>1,320,975</u>
Total Liabilities		<u>2,709,075</u>

NET ASSETS

Invested in capital assets, net of related debt		23,598,456
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Restricted for:

Nonexpendable:

Scholarships and fellowships		894,443
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Expendable:

Scholarships and fellowships		9,648
Capital projects		3,042,016
Debt service		3,176,999
Other purposes		55,160

Unrestricted:

Total Net Assets	\$	<u>36,779,897</u>
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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, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Assets				
Cash	\$ 117,083	\$ 56,174	\$ 50,230	\$ 223,487
Capital assets, net of accumulated depreciation	35,930			35,930
Total Assets	<u>\$ 153,013</u>	<u>\$ 56,174</u>	<u>\$ 50,230</u>	<u>\$ 259,417</u>
Net Assets				
Unrestricted	153,013	-	-	153,013
Temporarily Restricted	-	56,174	-	56,174
Permanently Restricted	-	-	50,230	50,230
Total Net Assets	<u>\$ 153,013</u>	<u>\$ 56,174</u>	<u>\$ 50,230</u>	<u>\$ 259,417</u>

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 Assets
For the Year Ended June 30, 2007

Operating Revenues:

Tuition and fees (net of scholarship allowances of \$2,323,280)	\$ 1,086,773 ⁰
Federal grants and contracts	3,923,500
State grants and contracts	1,268,092
Nongovernmental grants and contracts	84,500
Sales and services of educational departments	23,656
Auxiliary enterprises (net of scholarship allowance of \$543,091)	1,447,701
Gifts and contributions	122,276
Other operating revenues	<u>208,554</u>

Total Operating Revenues 8,165,052 ¹

Operating Expenses:

Salaries and wages	7,849,766
Fringe benefits	2,139,883
Travel	94,443
Contractual services	2,440,026
Utilities	745,083
Scholarships and fellowships	1,527,598
Commodities	2,277,704
Depreciation expense	961,941
Other operating expense	<u>355,665</u>

Total Operating Expenses 18,392,109 ³

Operating Income (Loss) (10,227,057)

Nonoperating Revenues (Expenses):

State appropriations	6,094,290 ^{2 - 7}
Local appropriations	2,189,128 ²
Gifts	37,290 ²
Net unrealized and realized gains on investments	113,355 ²
Investment income	510,931 ²
Interest expense on capital asset-related debt	(59,698) ⁴
Other nonoperating revenues (expenses)	<u>624,541</u> ²

Total Net Nonoperating Revenues (Expenses) 9,509,837

Income (Loss) before Other Revenues, Expenses, Gains and Losses (717,220)

State appropriations restricted for capital purposes 1,513,628 ^{5 - 7}

Change in Net Assets 796,408

Net Assets:

Net Assets - Beginning of Year as originally reported	35,984,915
Prior period adjustments	<u>(1,426)</u>
Net Assets - Beginning of Year as restated	<u>35,983,489</u>

Net Assets - End of Year \$ 36,779,897 ⁶

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, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains and Support				
Contributions	\$ 10,915	\$ 46,675	\$ 29,000	\$ 86,590
Fund Raising		\$ 10,735		10,735
Interest Income	4,536	264	1,030	5,830
Net Assets Released from Restrictions	-	-	-	-
Total Revenues, Gains and Support	<u>15,451</u>	<u>57,674</u>	<u>30,030</u>	<u>103,155</u>
Expenses				
Program Services				
Scholarships	250	1,500		1,750
Other Expenses				
Depreciation Expense	1,563			1,563
Management and General	293	-		293
Total Expenses	<u>2,106</u>	<u>1,500</u>	<u>-</u>	<u>3,606</u>
Increase in Net Assets	13,345	56,174	30,030	99,549
Net Assets at Beginning of Year	<u>180,306</u>	<u>-</u>	<u>20,200</u>	<u>200,506</u>
Prior Period Adjustment	(40,638)			(40,638)
Net Assets at End of Year	<u>\$ 153,013</u>	<u>\$ 56,174</u>	<u>\$ 50,230</u>	<u>\$ 259,417</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, 2007

Cash Flows from Operating Activities:	
Tuition and fees	\$ 1,140,248
Grants and contracts	4,867,822
Sales and services of educational departments	606,226
Payments to suppliers	(4,819,716)
Payments to employees for salaries and benefits	(9,946,198)
Cash received (paid) on deposits	(6,491)
Payments for utilities	(745,083)
Payments for scholarships and fellowships	(1,527,598)
Auxiliary enterprise charges	1,444,961
Other receipts (payments)	<u>(1,426,075)</u>
Net Cash Provided (Used) by Operating Activities	<u>(10,411,904)</u>
Cash Flows from Noncapital Financing Activities:	
State appropriations	6,086,726
Local appropriations	2,189,128
Gifts, noncapital	37,290
Grants for other than capital purchases	177,699
Other sources (uses)	<u>563,440</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>9,054,283</u>
Cash Flows from Capital and Related Financing Activities:	
Cash paid for capital assets	(1,165,971)
Principal paid on capital debt and leases	(141,198)
Interest paid on capital debt and leases	<u>(59,698)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,366,867)</u>
Cash Flows from Investing Activities:	
Proceeds from sales and maturities of investments	2,419,344
Interest and dividends received on investments	510,931
Purchases of investments	<u>(2,228,251)</u>
Net Cash Provided (Used) by Investing Activities	<u>702,024</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,022,464)
Cash and Cash Equivalents - Beginning of the Year	<u>2,957,709</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>935,245</u></u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
Statement of Cash Flows
For the Year Ended June 30, 2007 (continued from previous page)

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

Operating income (loss)	\$ <u>(10,227,057)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	961,941
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Receivables, net	355,221
Intergovernmental receivables	(408,270)
Inventories	10,642
Other assets	(1,756,905)
Increase (decrease) in liabilities:	
Accounts payables and accrued liabilities	309,214
Accrued payroll	43,451
Deferred revenues	306,350
Deposits refundable	<u>(6,491)</u>
Total adjustments	<u>(184,847)</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>(10,411,904)</u></u>

Noncash investing, capital and financing activities:

State Bureau of Buildings and Grounds construction in progress	\$ <u><u>1,513,628</u></u>
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The notes to the financial statements are an integral part of this statement.

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

Cash and cash equivalents classified as current assets	\$ 880,573
Cash and cash equivalents classified as non-current assets	<u>54,672</u>
	\$ <u><u>935,245</u></u>

Southwest Mississippi Community College Foundation, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2007

Cash Flows From Operating Activities:	
Increase in net assets	\$ 99,549
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Contributions received for permanent investment	(30,030)
Increase (decrease) in:	
Depreciation	1,563
Net cash provided by operating activities	<u>71,082</u>
Cash Flows From Financing Activities:	
Contributions restricted for permanent investment	<u>30,030</u>
Net Increase in Cash	101,112
Cash Balance	
Beginning of Year	<u>122,375</u>
End of Year	<u><u>\$ 223,487</u></u>

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies.

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

Southwest Mississippi Community College is governed by a seventeen member board of trustees, selected by the boards of supervisors of Amite, Pike, Walthall, and Wilkinson counties who support the district through locally assessed ad valorem tax millage. One of the trustees from each of the supporting counties must be the county superintendent of education, unless the superintendent chooses not to serve, in which case the county board of supervisors shall fill the vacancy in accordance with Section 37-29-65, Miss. Code Ann. (1972). Each board member is appointed for a 5-year term. In addition, 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 amounts of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the College by the donors.

During the year ended June 30, 2007, the Foundation distributed \$ 2,040.40 to the college.

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2007

- G. Inventories - Inventories consist of bookstore, 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.
- H. Restricted Cash and Cash Equivalents - Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as restricted cash and cash equivalents on the Statement of Net Assets.
- I. Endowment Investments - Endowment investments are generally subject to the restrictions of donor gift instruments. They include true endowment funds, which are funds received from a donor with the restrictions that only the income is to be utilized; term endowment funds, which are funds for which the donor has stipulated that the principal may be expended after a stated period or on the occurrence of a certain event, and quasi endowment funds, which are funds established by the governing board to function like an endowment fund but may be totally expended at any time at the discretion of the governing board.
- J. Capital Assets, Net of Accumulated Depreciation - Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See note 4 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose.
- K. Deferred Revenues - Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- L. 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.
- M. Classification of Revenues - The college has classified its revenues as either operating or nonoperating revenues according to the following criteria:
- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) most federal, state and local grants and contracts. Gifts (pledges) that are received on an installment basis are recorded at net present value.
- Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations, local appropriations and investment income.
- N. State Appropriations -Southwest Mississippi Community College receives funds from the State of Mississippi based on the number of full-time students actually enrolled and in attendance on the last day of the sixth week of the fall semester of the previous year, counting only those students who reside within the State of Mississippi. A new funding formula is being phased in over a 5-year period which will shift the funding

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2007

calculation from a predominantly full-time student formula, weighted by type of student, to a full-time equivalent formula which is based on total credit hours generated by all students with special consideration given only to high cost programs.

- O. Scholarship Discounts and Allowances - Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties and Federal Direct Lending, is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a college basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

- P. Net Assets - GASB Statement No. 34 reports equity as "Net Assets" rather than "Fund Balance". Net assets are classified according to external donor restrictions or availability of assets for satisfaction of college obligations. Net assets invested in capital assets, net of related debt, consists of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes and funds held in federal loan programs.

The unrestricted net asset balance of \$6,003,175 at June 30, 2007, includes \$626,396 reserved for inventory and \$5,376,779 remaining for other purposes.

- Q. Impairment of Capital Assets - GASB Statement No. 42, *Accounting and Financial Reporting of Impairment of Capital Assets and for Insurance Recoveries* was adopted by the College. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

(2) Cash and Investments

Policies:

- 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 for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the college's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. The carrying amount of the College's deposits with financial institutions was \$929,670 and the bank balance was \$1,307,912. There is \$5,575 in petty cash.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2007

Custodial Credit Risk.

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 of collateral securities that are in the possession of an outside party. The College does not have a formal 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, 2007, none of the College's bank balance of \$1,307,912 was exposed to custodial credit risk.

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

The following table summarizes the carrying value of the college's investments reported on the statement of net assets:

	<u>June 30, 2007</u>	<u>June 30, 2008</u>
Endowment Investments	\$ 850,606	\$ 855,288
Other short term investments	8,916,17	9,102,728
Long term investments	<u>364,178</u>	<u>364,178</u>
Total Investments	<u>\$ 10,131,101</u>	<u>\$ 10,322,194</u>

The following table summarizes the categorization of investments at June 30, 2007:

<u>Investment Type</u>	<u>Maturity (in Years)</u>	<u>Fair Value</u>	<u>Rating</u>
Money Market Funds	Less than 1	\$ 1,277,867	Not Rated
Real Estate	N/A	364,178	Not Rated
Equity Securities	Less than 1	94,252	BBB+ to AAA
U. S. Government Bonds	1 to 10	6,882,601	AAA
Municipal Bonds	1 to 10	<u>1,512,203</u>	AA to AAA
Total Investments		<u>\$ 10,131,101</u>	

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

Credit Risk. Southwest Mississippi Community College does not presently have a formal policy that addresses credit risk. The credit risk ratings above are issued upon standards set by Standards and Poor's or Moody's Ratings Services.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the college will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The college does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2007, none of the college's investment balance of \$10,131,101 was exposed to custodial credit risk.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2007

Concentration of Credit Risk. Per GASB Statement No. 40, a disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued of explicitly guaranteed by the U. S. Government, investments in mutual funds and external investment pools, and other pooled investments. Southwest Mississippi Community College does not presently have a formal policy that addresses concentration of credit risk. As of June 30, 2007, the college had the following investments that represent five percent or more of the total investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage Of Total Investments</u>
Federal Home Loan Bank	\$ 3,873,966	38.24%
Mississippi General Obligation Bonds	1,512,203	14.93%
Federal National Mortgage Association	974,535	9.62%
Federal Home Loan Mortgage Corporation	1,437,850	14.19%
Federal Farm Credit Bank-FFCB Bonds	<u>596,250</u>	5.88%
Total	\$ <u>8,394,804</u>	

(3) Accounts Receivable.

Accounts receivable consisted of the following at June 30, 2007:

Student tuition	\$ 897,867
Auxiliary enterprises and other operating activities	206,881
Federal, state, and private grants and contracts	408,270
State appropriations	97,310
Local appropriations	66,464
Other	<u>18,145</u>
Total Accounts Receivable	1,694,937
Less allowance for doubtful accounts	<u>(722,201)</u>
Net Accounts Receivable	\$ <u><u>972,736</u></u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2007

(4) Capital Assets.

A summary of changes in capital assets for the year ended June 30, 2007, is presented as follows:

	Beginning Balance	Additions	Deletions	Completed Construction	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 122,124				122,124
Construction in progress	563,040	2,474,412		(419,782)	3,457,234
Total Nondepreciable Capital Assets	<u>685,164</u>	<u>2,474,412</u>	<u>0</u>	<u>(419,782)</u>	<u>3,579,358</u>
Depreciable Capital Assets:					
Improvements other than buildings	4,913,693			101,013	5,014,706
Buildings	22,534,183				22,534,183
Building improvements	3,718,661			318,769	4,037,430
Equipment	1,729,747	195,417	16,074		1,909,090
Library books	1,007,914	9,770	6,364		1,011,320
Leased property under capital leases	1,660,807				1,660,807
Total Depreciable Capital Assets	<u>35,565,005</u>	<u>205,187</u>	<u>22,438</u>	<u>419,782</u>	<u>36,167,536</u>
Less Accumulated Depreciation for:					
Improvements other than buildings	1,651,047	173,851			1,824,898
Buildings	8,173,655	430,505			8,604,160
Building improvements	671,956	153,022			824,978
Equipment	1,516,313	98,473	15,913		1,598,873
Library books	819,240	39,658	3,587		855,311
Leased property under capital leases	66,432	66,432			132,864
Total Accumulated Depreciation	<u>12,898,643</u>	<u>961,941</u>	<u>19,500</u>		<u>13,841,084</u>
Total Depreciable Capital Assets, Net	<u>22,666,362</u>	<u>(756,754)</u>	<u>2,938</u>		<u>22,326,452</u>
Capital Assets, Net	<u>\$ 23,351,526</u>	<u>1,717,658</u>	<u>2,938</u>		<u>25,066,246</u>

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

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2007

(5) Long-term Liabilities.

Long-term liabilities of the college consist of an energy efficiency lease obligation that is expected to be liquidated at least one year from June 30, 2007. The lease covers a period not to exceed ten years. The college has the option to prepay all outstanding payments less any unearned interest to fully satisfy the obligation.

Information regarding original issue amounts, interest rates and maturity dates for the energy efficiency lease included in the long-term liabilities balance at June 30, 2007, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2007	Due Within One Year
Obligations under energy efficiency lease	1,660,807	3.91%	2016	1,608,988		141,198	1,467,790	146,815
Total				<u>\$ 1,608,988</u>		<u>141,198</u>	<u>1,467,790</u>	<u>146,815</u>
Due within one year							<u>146,815</u>	
Total Long-term Liabilities							<u>\$ 1,320,975</u>	

Long-term debt will mature as follows:

	Capital Leases	Interest	Total
2008	\$ 146,815	54,082	200,897
2009	152,654	48,242	200,896
2010	158,727	42,170	200,897
2011	165,040	35,856	200,896
2012	171,605	29,291	200,896
2013-2016	<u>672,949</u>	<u>46,931</u>	<u>719,880</u>
Totals	<u>\$ 1,467,790</u>	<u>256,572</u>	<u>1,724,362</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements
For the Year Ended June 30, 2007

(7) 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	5,029,757	1,289,583	34,140	410,750	0	0	234,984	0	278,010	7,277,224	
Academic Support	288,461	76,979	1,957	7,922	0	0	6,597	0	30,089	412,005	
Student Services	1,013,389	267,383	29,104	272,019	2,999	39,928	141,607	0	11,586	1,778,015	
Institutional Support	732,512	230,024	28,390	572,966	59,922	0	44,272	0	30,713	1,698,799	
Operation of Plant	355,477	111,523	852	1,172,544	438,053	0	511,162	0	723	2,590,334	
Student financial aid	0	0	0	0	0	1,487,670	0	0	0	1,487,670	
Auxiliary Enterprises	430,170	164,391	0	3,825	244,109	0	1,339,082	0	4,544	2,186,121	
Depreciation	0	0	0	0	0	0	0	961,941	0	961,941	
Total Operating Expenses	7,849,766	2,139,883	94,443	2,440,026	745,083	1,527,598	2,277,704	961,941	355,665	18,392,109	

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements For the Year Ended June 30, 2007

(8) Construction Commitments and Financing.

The college has contracted for various construction projects as of June 30, 2007. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Project Title	Total Costs to Complete	Funded by			
		Federal Sources	State Sources	Institutional Funds	Other
Bryan Science Building	1,628,600		1,628,600		
Access 400 Software	206,500			206,500	
PTK Hut Restoration	31,930			31,930	
Total	\$ 1,867,030	0	1,628,600	238,430	0

(9) Pension Plan.

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

Funding policy - PERS members are required to contribute 7.25% of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 11.3% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the Mississippi State Legislature. The college's contributions to PERS for the years ending June 30, 2007, 2006 and 2005 were \$837,493, \$733,528, and \$673,828, respectively, equal to the required contributions for each year.

(10) 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 or students; 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.

(11) Concentrations.

The College receives a significant portion of its revenues from federal and state funding programs and grants. Future funding of these programs is necessary for the College to continue the current level of programs and courses offered.

Southwest Mississippi Community College Foundation, Inc.
Summit, Mississippi
Notes to the Financial Statements
For the Year Ended June 30, 2007

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.

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 SFAS No. 117, fund balances are classified on the statement of financial position as unrestricted, temporarily restricted, or permanently restricted net assets, based on the absence or existence and type of donor-imposed restrictions.

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations. Expirations of temporary restrictions on net assets, 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 assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets 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 assets are 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, 2007

Permanently Restricted Net Assets

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

Income Taxes

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

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.

Southwest Mississippi Community College Foundation, Inc.

Summit, Mississippi

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2007

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.

Fixed Assets

Fixed assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories.

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 **Capital Assets**

Capital assets are summarized as follows:

Building	\$ 78,131
Less: Accumulated Depreciation	(42,201)
Net Capital Assets	\$ <u>35,930</u>

Note 3 **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 affect on the Foundation's programs and activities.

Southwest Mississippi Community College Foundation, Inc.

Summit, Mississippi

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2007

Note 4 Prior Period Adjustment

The prior period adjustment is a result of recording prior period accumulated depreciation of the Foundation's fixed asset on the books.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

SUPPLEMENTAL INFORMATION

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Entity Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education			
Student Financial Aid - Cluster:			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	\$	82,768
Federal Work-study Program (FWS)	84.033		103,284
Federal Pell Grant Program	84.063		2,980,485
Total Student Financial Aid Cluster			<u>3,166,537</u>
Other Programs:			
Federal Academic Competitive Grant Program (ACG)	84.375		<u>40,150</u>
Pass-through programs from:			
Mississippi State Board for Community & Junior Colleges - Adult Education - State Grant Program	84.002		59,688
Mississippi Post Secondary Education Financial Assistance Board - Leveraging Educational Assistance Partnership	84.069		7,766
Mississippi Post Secondary Education Financial Assistance Board-Special Leveraging Educational Assistance Partnership	84.069B		38,925
Mississippi Department of Education - Vocational Education - Basic Grants to States	84.048		174,237
Mississippi Department of Education - Tech Prep Education	84.243		92,843
Mississippi Department of Education - Hurricane Education Recovery Act	84.938F		<u>34,542</u>
Subtotal pass-through programs			<u>408,001</u>
Total U.S. Department of Education			<u>3,614,688</u>
U.S. Department of Labor			
Pass-through programs from:			
Central Mississippi Planning and Development District			
WIA Adult Programs	17.258		38,882
WIA Youth Activities	17.259		8,969
WIA Dislocated Worker	17.260		<u>39,602</u>
Total WIA Cluster			<u>87,453</u>
Mississippi Employment Security Commission- WIA Trade Adjustment Assistance	17.245		<u>191,374</u>
Total U.S. Department of Labor			<u>278,827</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

U. S. Department of Health and Human Services		
Pass through programs from:		
Mississippi Community College Foundation - Development		
And Coordination of Rural Health Services	93.223	<u>6,575</u>
Total U. S. Department of Health and Human Services		<u>6,575</u>
U. S. Department of Homeland Security		
Pass through programs from:		
Mississippi Emergency Management Agency - Disaster Grants		
Public Assistance (Presidentially Declared Disasters)	97.036	<u>26,454</u>
Total U. S. Department of Homeland Security		<u>26,454</u>
Total Expenditures of Federal Awards		\$ <u><u>3,926,544</u></u>

Notes to Schedule of Expenditures of Federal Awards

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

PATRICK E. LOWERY AND ASSOCIATES

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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 THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Dr. Oliver Young, President and Board of Trustees of
Southwest Mississippi Community College
Summit, Mississippi 39666

We have audited the financial statements of the business type activities of Southwest Mississippi Community College as of and for the year ended June 30, 2007, as listed in the table of contents and have issued our report thereon dated August 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the college's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the college's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the college's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the college's financial statements that is more than inconsequential will not be prevented or detected by the college's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the college's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Patrick E. Lowery and Associates

PATRICK E. LOWERY AND ASSOCIATES
Certified Public Accountants

August 15, 2008

PATRICK E. LOWERY AND ASSOCIATES

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

Dr. Oliver Young, President and Board of Trustees of
Southwest Mississippi Community College
Summit, Mississippi 39666

Compliance

We have audited the compliance of Southwest Mississippi Community College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The college's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the college's management. Our responsibility is to express an opinion on the college's compliance based on our audit.

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

In our opinion, Southwest Mississippi Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

purpose of expressing our opinion on compliance 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 the college's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the school district's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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

Patrick E. Lowery and Associates

PATRICK E. LOWERY AND ASSOCIATES
Certified Public Accountants

August 15, 2008

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

PATRICK E. LOWERY AND ASSOCIATES

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

Dr. Oliver Young, President and Board of Trustees of
Southwest Mississippi Community College
Summit, Mississippi 39666

We have audited the financial statements of Southwest Mississippi Community College as of and for the year ended June 30, 2007, and have issued our report thereon dated September 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

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

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

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

Patrick E. Lowery and Associates

PATRICK E. LOWERY AND ASSOCIATES
Certified Public Accountants

August 15, 2008

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | |
|---|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section ____ .510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Student financial aid cluster: | |
| CFDA # 84.007 | |
| CFDA # 84.033 | |
| CFDA # 84.063 | |
| CFDA # 84.375 | |
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? | Yes |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No |

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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