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**HOLMES COMMUNITY COLLEGE**

Goodman, Mississippi

Audited Financial Statements

Year Ended June 30, 2008

# HOLMES COMMUNITY COLLEGE

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# **HOLMES COMMUNITY COLLEGE**

## **FINANCIAL AUDIT REPORT**



**INDEPENDENT AUDITORS' REPORT  
ON THE BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

Board of Trustees  
Holmes Community College  
Goodman, Mississippi

We have audited the accompanying financial statements of Holmes Community College as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of Holmes Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Holmes Community College Development Foundation for the year ended December 31, 2007, a discretely presented component unit which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditor.

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

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Holmes Community College and of its discretely presented component unit, as of June 30, 2008 and December 31, 2007, respectively, 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 December 10, 2008, on our consideration of Holmes Community College's internal control

over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 13, is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in black ink that reads "Home LLP". The signature is written in a cursive, flowing style.

Jackson, Mississippi  
December 10, 2008

# **HOLMES COMMUNITY COLLEGE**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# HOLMES COMMUNITY COLLEGE

## Management's Discussion and Analysis

For the Year Ended June 30, 2008

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This section of Holmes Community College's (the "College") annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2008. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. A comparative analysis will be presented with figures from fiscal year ended June 30, 2007. The financial statements, footnotes, and this discussion are the responsibility of management.

### USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the 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. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

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

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

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

**HOLMES COMMUNITY COLLEGE**

## Management's Discussion and Analysis

For the Year Ended June 30, 2008

**Condensed Statement of Net Assets  
June 30, 2008 and 2007**

	2008		2007	
	Amount	Percent	Amount	Percent
<b>ASSETS</b>				
Current assets	\$ 11,038,716	22.71%	\$ 15,931,868	30.72%
Noncurrent assets				
Capital, net	37,539,187	77.21	35,905,304	69.23
Other	42,811	.09	26,580	.05
Total assets	48,620,714	100.00	51,863,752	100.00
<b>LIABILITIES</b>				
Current liabilities	3,562,869	24.00	2,629,779	17.84
Noncurrent liabilities	11,249,455	76.00	12,111,838	82.16
Total liabilities	14,812,324	100.00	14,741,617	100.00
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	25,427,350	75.20	22,973,851	61.89
Restricted				
Expendable	2,077,698	6.15	2,674,081	7.21
Unrestricted	6,303,342	18.65	11,474,203	30.91
Total net assets	\$ 33,808,390	100.00	\$ 37,122,135	100.00%

**Assets****Current Assets****Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in the College's bank accounts and certificates of deposits. The total amount of cash and cash equivalents reported as current assets on the College's financial statements were \$1,530,205 at June 30, 2008, a decrease of \$1,665,153 from the balance of \$3,195,358 on June 30, 2007.

**Accounts Receivable**

Accounts receivable relate to several transactions including local appropriations, student tuition and fees and auxiliary services vendor credits. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College's receivables totaled \$3,233,540 at June 30, 2008, which is an increase compared to the June 30, 2007 figure of \$2,270,123.

## **HOLMES COMMUNITY COLLEGE**

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

**For the Year Ended June 30, 2008**

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#### **Noncurrent Assets**

##### **Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents are those funds that are held in the bank accounts and certificates of deposits. The restricted cash and cash equivalents that are considered noncurrent are cash held in a money market account to meet the requirements for an unemployment compensation fund. Unemployment claims are paid out of unrestricted funds of the college. This account is simply maintained for legal compliance purposes. The amount of restricted cash and cash equivalents considered noncurrent at June 30, 2008 totaled \$42,811, which is an increase compared to \$26,580 at June 30, 2007.

##### **Capital Assets, Net**

Capital assets, net, consists of land, improvements, buildings, equipment, historical library holdings and construction in progress at June 30, 2008. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$37,539,187 at June 30, 2008 which is a increase from \$35,905,304 at June 30, 2007.

#### **Liabilities**

##### **Current Liabilities**

##### **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities represent amounts due at June 30, 2008 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$2,337,873 at June 30, 2008, an increase of \$852,575 over the balance of \$1,485,298 at June 30, 2007.

##### **Long-Term Liabilities – Current Portion**

Long-term liabilities – current portion represents the portion of long-term debt that would be payable by the end of the June 30, 2008 fiscal year. The amount of the current portion of long-term debt at June 30, 2008 was \$862,383, an increase of \$42,767 over the balance of \$819,616 on June 30, 2007.

##### **Noncurrent Liabilities**

##### **Long-Term Liabilities**

This liability consists of long-term debt for outstanding bonds, notes, and capital leases. The total amount of the noncurrent portion of long-term debt was \$11,249,455 at June 30, 2008. This is a decrease of \$862,383 from the balance of \$12,111,838 reported June 30, 2007.

# HOLMES COMMUNITY COLLEGE

## Management's Discussion and Analysis

For the Year Ended June 30, 2008

### Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2008 were \$33,808,390 which is a decrease of \$3,313,745 from the balance of \$37,122,135, at June 30, 2007.

### Analysis of Net Assets

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

The following is a breakdown of the restricted net assets with comparative figures:

	2008	2007
Scholarships and fellowships	\$ 982,374	\$ 1,094,728
Capital projects	781,817	1,313,188
Debt obligations	270,696	239,585
Unemployment funds	42,811	26,580
Total restricted net assets	<u>\$ 2,077,698</u>	<u>\$ 2,674,081</u>

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

The following is a breakdown of the unrestricted net assets with comparative figures:

	2008	2007
Unrestricted general fund	\$ 2,374,797	\$ 7,458,827
Unrestricted auxiliary fund	3,928,545	4,015,376
Total unrestricted net assets	<u>\$ 6,303,342</u>	<u>\$ 11,474,203</u>

**HOLMES COMMUNITY COLLEGE**

## Management's Discussion and Analysis

For the Year Ended June 30, 2008

**Condensed Statement of Revenues, Expenses and Changes in Net Assets  
For the Years Ended June 30, 2008 and 2007**

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Operating revenues		
Tuition and fees (net of scholarship allowances)	\$ 2,830,019	\$ 2,853,684
Federal appropriation	18,867	78,528
Grants and contracts	15,353,670	14,025,372
Sales and services	43,516	49,656
Auxiliary enterprises (Net of scholarship allowances)	1,269,931	993,716
Other operating revenue	147,834	199,005
Total operating revenues	<u>19,663,837</u>	<u>18,199,961</u>
Operating expenses	<u>42,468,998</u>	<u>38,071,067</u>
Net operating loss	<u>(22,805,161)</u>	<u>(19,871,106)</u>
Nonoperating revenues (expenses)		
State appropriations	15,266,508	13,548,882
Local appropriations	2,295,512	1,951,825
Investment income	468,807	590,700
Other nonoperating expenses	(641,917)	(558,280)
Nonoperating revenues, net	<u>17,388,910</u>	<u>15,533,127</u>
Loss before other revenues	<u>(5,416,251)</u>	<u>(4,337,979)</u>
State appropriations restricted for capital purposes	555,747	565,239
Local appropriations for capital purposes	1,546,759	1,324,835
Total other revenues	<u>2,102,506</u>	<u>1,890,074</u>
Change in net assets	<u>(3,313,745)</u>	<u>(2,447,905)</u>
Net assets		
Net assets at beginning of year	<u>37,122,135</u>	<u>39,570,040</u>
Net assets at end of year	<u>\$ 33,808,390</u>	<u>\$ 37,122,135</u>

# HOLMES COMMUNITY COLLEGE

## Management's Discussion and Analysis

For the Year Ended June 30, 2008

Net operating loss for the fiscal year 2008 was \$22,805,161, an increase of \$2,934,055 over the loss for fiscal year 2007. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, beginning in fiscal year 2003 and going forward, the College will show a significant operating loss.

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

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

Total operating revenues for fiscal year 2008 were \$19,663,837. Tuition and fees were \$2,830,019. The tuition discount was \$5,187,479. Operating expenses, including depreciation of \$1,515,203, totaled \$42,468,998.

### Revenues

#### Operating Revenues

##### Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$8,017,498. The tuition discount for the 2008 fiscal year was \$5,187,479.

##### Grants and Contracts

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

The following table details the College's grant and contract awards for the fiscal year ended June 30, 2008 with prior year figures:

	2008	2007
Federal	\$ 10,697,769	\$ 10,107,453
State	4,286,842	3,558,194
Nongovernmental	369,059	359,725
Total all sources	\$ 15,353,670	\$ 14,025,372

# HOLMES COMMUNITY COLLEGE

## Management's Discussion and Analysis

For the Year Ended June 30, 2008

### Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$147,834 for the 2008 fiscal year, a decrease of \$51,171 compared to fiscal year 2007.

### Sales and Services, Net

Auxiliary enterprises consist of housing and meal plans.

### Operating Expenses

Operating expenses totaling \$42,468,998 include salaries and benefits of \$23,883,312, utilities of \$1,428,208, supplies of \$2,099,344, contractual services of \$3,739,875 and depreciation of \$1,515,203.

### Operating Expenses by Function with prior year figures:

	June 30, 2008	June 30, 2007
Instruction	\$ 19,207,976	\$ 16,877,372
Academic support	695,049	612,082
Student services	3,189,026	2,846,561
Institutional support	5,703,965	5,849,439
Operations and maintenance of plant	5,292,751	3,620,443
Student financial aid (net of scholarship allowance)	5,891,129	5,860,595
Auxiliary enterprises	984,437	823,768
Depreciation	1,504,665	1,580,807
Total all sources	\$ 42,468,998	\$ 38,071,067

### Nonoperating Revenues (Expenses)

#### State Appropriations

The College's largest source of nonoperating revenue is the State of Mississippi appropriation. The College received \$15,266,508 for fiscal year ended June 30, 2008. This represents an increase of \$1,717,626 from \$13,548,882 for the year ended June 30, 2007.

#### Local Appropriations

The College also receives revenue from the nine counties that make up its local district. They include Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Yazoo and Webster Counties. The College received \$3,842,271 for the 2008 fiscal year from the local government of which \$2,295,512 was for nonoperating purposes and \$1,546,759 for capital projects or retirement of debt.

# HOLMES COMMUNITY COLLEGE

## Management's Discussion and Analysis

For the Year Ended June 30, 2008

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### Investment Income, Net

This includes the interest income from the cash in the bank accounts. \$468,807 was earned during the 2008 fiscal year.

### Other Nonoperating Expenses

Other nonoperating expenses consisting of interest expense on capital related debt for fiscal year 2008 totaled \$641,917.

### Other Revenues

### Local Appropriations for Capital Purposes

This includes revenue received from the nine county support districts for capital projects during the fiscal year. The amount of this revenue totaled \$1,546,759 for the 2008 fiscal year.

### State Appropriations for Capital Purposes

\$555,747 is the amount of revenue received from the State of Mississippi to purchase, construct, renovate, or repair capital assets during the 2008 fiscal year.

### Statement of Cash Flows

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

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

### Condensed Statement of Cash Flows (Direct Method) For the Fiscal Years Ended June 30, 2008 and 2007

	June 30, 2008	June 30, 2007
Cash and cash equivalents provided (used) by		
Operating activities	\$ (21,809,346)	\$ (18,122,031)
Noncapital financing activities	17,800,051	15,446,682
Capital and related financing activities	(2,258,677)	(781,918)
Investing activities	4,619,050	83,883
Net decrease in cash and cash equivalents	(1,648,922)	(3,373,384)
Cash and cash equivalents - beginning of year	3,221,938	6,595,322
Cash and cash equivalents - end of year	<u>\$ 1,573,016</u>	<u>\$ 3,221,938</u>

## **HOLMES COMMUNITY COLLEGE**

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

**For the Year Ended June 30, 2008**

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The major sources of funds included in operating activities include student tuition and fees, \$1,870,646, auxiliary enterprises, \$1,269,931, and grants and contracts, \$14,415,676. The major uses of funds were: payments made to employees, \$23,696,522; to scholarships and fellowships \$6,099,463; to suppliers, \$1,573,795 for materials; to suppliers, \$3,820,146 for services.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$15,601,254. In addition, the college received \$2,198,797 from the nine counties that make up its district.

The change in capital and related financing activities is due to the increase of expenditures related to capital improvements in 2008.

The source of funds for investing activities are the proceeds from the maturities of certificates of deposits, which were primarily sold in 2008.

#### **Factors Impacting Future Periods**

There are a number of issues that are directly impacting the community college system as a whole. The level of State support is the main issue which will continue to have an impact on our financial position. This is occurring at the same time we are experiencing an increase in enrollment and increases in compensation for quality faculty personnel and utility cost. This impacts the College's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

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

The College enjoys strong support from the local community both in individual and business support of our foundation and in local support for expansion and addition of existing programs. This support has helped the College to continue to serve the citizens of its nine county districts.

**HOLMES COMMUNITY COLLEGE**

**AUDITED FINANCIAL STATEMENTS**

**HOLMES COMMUNITY COLLEGE**

## Statement of Net Assets

June 30, 2008

**ASSETS**

## Current assets

Cash and cash equivalents	\$ 1,530,205
Short-term investments	6,274,971
Accounts receivables, net (Note 3)	<u>3,233,540</u>

Total current assets	<u>11,038,716</u>
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## Noncurrent assets

Restricted cash and cash equivalents	42,811
Capital assets, net of accumulated depreciation (Note 4)	<u>37,539,187</u>
Total noncurrent assets	<u>37,581,998</u>

Total assets	<u>\$ 48,620,714</u>
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**LIABILITIES**

## Current liabilities

Excess of outstanding checks over bank balance	\$ 413,201
Accounts payable and accrued liabilities	1,924,672
Deferred revenues	362,613
Long-term liabilities – current portion (Note 5)	<u>862,383</u>

Total current liabilities	3,562,869
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## Noncurrent liabilities

Long-term liabilities (Note 5)	<u>11,249,455</u>
Total liabilities	<u>14,812,324</u>

**NET ASSETS**

Invested in capital assets, net of related debt	25,427,350
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## Restricted for

Expendable	
Scholarships and fellowships	982,374
Capital projects	781,817
Debt service	270,696
Other purposes	42,811

Unrestricted	<u>6,303,342</u>
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Total net assets	<u>33,808,390</u>
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Total liabilities and net assets	<u>\$ 48,620,714</u>
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See accompanying notes.

# **HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION**

## **Statement of Assets, Liabilities and Net Assets**

December 31, 2007

### **ASSETS**

#### **Current assets**

Cash and cash equivalents	\$ 145,525
The Common Fund	<u>3,038,249</u>

Total cash and cash equivalents	<u>3,183,774</u>
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Total current assets	<u>3,239,774</u>
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Property and equipment	<u>96,656</u>
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Total assets	<u>\$ 3,336,430</u>
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### **LIABILITIES AND NET ASSETS**

#### **Current liabilities**

Accrued salaries and benefits	\$ <u>16,916</u>
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Total current liabilities	<u>16,916</u>
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### **NET ASSETS**

Unrestricted	957,247
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Temporarily restricted	1,600,659
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Permanently restricted	<u>761,608</u>
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Total net assets	<u>3,319,514</u>
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Total liabilities and net assets	<u>\$ 3,336,430</u>
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See accompanying notes.

**HOLMES COMMUNITY COLLEGE**  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2008

Operating revenues	
Tuition and fees (net of scholarship allowances of \$5,187,479)	\$ 2,830,019
Federal appropriations	18,867
Federal grants and contracts	10,697,769
State grants and contracts	4,286,842
Nongovernmental grants and contracts	369,059
Sales and services of educational departments	43,516
Auxiliary enterprises	
Student housing (net of scholarship allowances of \$97,265)	337,107
Food services (net of scholarship allowances of \$118,880)	418,362
Athletics	12,184
Other auxiliary revenues	502,278
Other operating revenues	147,834
Total operating revenues	<u>19,663,837</u>
Operating expenses	
Salaries and wages	18,813,156
Fringe benefits	5,070,156
Travel	535,253
Contractual services	3,739,875
Utilities	1,428,208
Scholarships and fellowships	6,099,463
Supplies	2,099,344
Depreciation expense	1,504,665
Other operating expense	3,178,878
Total operating expenses	<u>42,468,998</u>
Net operating loss	<u>(22,805,161)</u>
Nonoperating revenues (expenses)	
State appropriations	15,266,508
Local appropriations	2,295,512
Investment income	468,807
Interest expense on capital asset-related debt	(641,917)
Nonoperating revenues, net	<u>17,388,910</u>
Other revenues	
State appropriations restricted for capital purposes	555,747
Local appropriations restricted for capital purposes	1,546,759
Total other revenues	<u>2,102,506</u>
Change in net assets	<u>(3,313,745)</u>
Net Assets	
Net assets - beginning of year	<u>37,122,135</u>
Net assets - end of year	<u>\$ 33,808,390</u>

See accompanying notes.

**HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION**

## Statement of Support, Revenue and Expenses

Year Ended December 31, 2007

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Revenues and gains				
Contributions	\$ 70,172	\$ 6,000	\$ 118,334	\$ 194,506
Interest income	-	-	2,623	2,623
Short-term investment earnings	41,365	27,645	6,501	75,511
Unrealized market gains	115,060	76,720	18,068	209,848
Total revenue and gains	226,597	110,365	145,526	482,488
Expenses				
Scholarships and program expenses	53,197	10,542	39,516	103,255
Common Fund fees	4,031	5,870	868	10,769
Mini grant expenses	21,574	-	-	21,574
Total expenses	78,802	16,412	40,384	135,598
Changes in net assets	147,795	93,953	105,142	346,890
Net assets at the beginning of the year	809,452	1,506,706	656,466	2,972,624
Net assets at end of year	\$ 957,247	\$ 1,600,659	\$ 761,608	\$ 3,319,514

See accompanying notes.

Cash flows from operating activities		Reconciliation of cash and cash equivalents to the statement of net assets	
Tuition and fees	\$ 1,870,646	Cash and cash equivalents classified as current assets	\$ 1,530,205
Federal appropriations	18,867	Cash and cash equivalents classified as noncurrent assets	42,811
Grants and contracts	14,415,676		
Sales and services of educational departments	43,516		
Other revenue	147,834		\$ 1,573,016
Payments to suppliers for materials	(1,573,795)		
Payments to employees for salaries and benefits	(23,696,522)		
Payments for utilities	(1,427,908)		
Payments to travel	(535,253)		
Payments for contractual services	(3,820,146)		
Payments for scholarships and fellowships	(6,099,463)		
Auxiliary enterprise charges			
Student housing	337,107		
Food services	418,362		
Athletics	12,184		
Other auxiliary enterprises	502,278		
Other receipts (payments)	(2,422,729)		
Net cash used by operating activities	(21,809,346)		
			995,815
			<u>\$ (21,809,346)</u>
Cash flows from noncapital financing activities			
State appropriations	15,601,254		
Local appropriations	2,198,797		
Federal loan program receipts	6,161,695		
Federal loan program disbursements	(6,161,695)		
Net cash provided by noncapital financing activities	17,800,051		
			120,480
			<u>\$ 435,267</u>
Cash flows from capital and related financing activities			
Cash paid for capital assets	(3,018,068)		
State and local appropriations for capital purposes	2,102,506		
Principal paid on capital debt and leases	(819,616)		
Interest paid on capital debt and leases	(523,499)		
Net cash used by capital and related financing activities	(2,258,677)		
			<u>\$ 2,102,506</u>
Cash flows from investing activities			
Proceeds from sales and maturities of investments	17,134,529		
Interest received on investments	468,807		
Purchases of investments	(12,984,286)		
Net cash provided by investing activities	4,619,050		
Net decrease in cash and cash equivalents	(1,648,922)		
Cash and cash equivalents - beginning of the year	3,221,938		
Cash and cash equivalents - end of year	\$ 1,573,016		

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# HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

## Statement of Cash Flows Year Ended December 31, 2007

Cash flows from operating activities	
Cash received from contributions	\$ 138,506
Increase in accruals	-
Scholarships, mini grants and program expenses	(117,634)
Net cash provided by operating activities	<u>20,872</u>
Cash flows from investing activities	
Purchase of property and equipment	(49,646)
Sale of contributed marketable securities	
Interest and dividends received reinvested	78,133
Unrealized market gains	209,848
Common Fund fees	(10,769)
Net cash provided by investing activities	<u>227,566</u>
Net increase in cash and cash equivalents	248,438
Cash and cash equivalents at beginning of year	<u>2,935,336</u>
Cash and cash equivalents at end of year	<u>\$ 3,183,774</u>
Reconciliation of change in net assets to net cash provided by operating activities	
Change in net assets	\$ 346,890
Add (deduct)	
Donated real estate held for sale	(56,000)
Interest for reinvestment	(78,073)
Unrealized market gains & losses	(209,848)
Sale of contributed marketable securities	-
Increase in accrual	-
Common Fund fees	10,769
Depreciation	7,134
Net cash provided by operating activities	<u>\$ 20,872</u>

See accompanying notes.

# HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2008

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies

#### Reporting Entity

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

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

#### 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 GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, issued in June and November, 1999, respectively. The College 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.

#### Basis of Accounting

The basic financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting 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, which is in accordance with accounting principles generally accepted in the United States of America.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College applies the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB") issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. FASB statements issued subsequent to November 30, 1989 are not applicable.

# HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2008

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Continued

#### Cash Equivalents

The College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

#### Short-Term Investments

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

#### 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. Management estimates the allowance for doubtful accounts based on historical data as well as the current aging of the accounts receivables. When management determines that an account is uncollectible, the account is written off against the allowance for doubtful accounts. Accounts receivables are recorded net of an allowance for doubtful accounts.

#### 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.

#### 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. 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. See Note 4 for additional details concerning useful lives, salvage values and capitalization thresholds.

#### 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.

## HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2008

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Continued

##### 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.

##### 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 allowance, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances and (3) most federal and state grants and contracts.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state and local appropriations and investment income.

##### State and Local Appropriations

The College receives funds from the State of Mississippi based on the number of full-time students actually enrolled and in attendance on the last day of the sixth week of the fall semester of the previous year, counting only those students who reside within the State of Mississippi. Beginning with the 2004 fiscal year, a new funding formula is being phased in over a 5-year period which will shift the funding calculation from a predominantly full-time equivalent formula which is based on total credit hours generated by all students with special consideration given only to high cost programs. The College also receives income from the nine counties that make up its local district, which includes Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Yazoo and Webster Counties.

##### Scholarship Discounts and Allowance

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

## HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2008

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Continued

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.

#### Net Assets

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, consist 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 \$6,303,342 at June 30, 2008, includes \$3,928,545 reserved for auxiliaries and a remaining unreserved amount of \$2,374,797.

#### Note 2. Cash and Investments

##### **Policies**

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. In 2008, short-term investments were comprised of certificates of deposit with maturities greater than three months. All certificates of deposit are scheduled to mature within twelve months or less.

Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits might not be recovered. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the 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 Depositary Insurance Corporation ("FDIC").

**HOLMES COMMUNITY COLLEGE**

For the Year Ended June 30, 2008

**NOTES TO FINANCIAL STATEMENTS****Note 3. Accounts Receivable**

Accounts receivable consisted of the following at June 30, 2008:

Student tuition	\$ 3,859,407
Federal, state, and private grants and contracts	594,249
State appropriations	271,385
Other	1,285,819
Total accounts receivable	6,010,860
Less allowance for doubtful accounts	2,777,320
Net accounts receivable	<u>\$ 3,233,540</u>

**Note 4. Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2008 is presented as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Nondepreciable capital assets				
Land	\$ 2,999,007	\$ 10,000	\$ -	\$ 3,009,007
Construction in progress	-	2,111,008	-	2,111,008
Total nondepreciable capital assets	2,999,007	2,121,008	-	5,120,015
Depreciable capital assets				
Buildings	39,519,162	66,670	-	39,585,832
Improvements other than buildings	3,479,525	334,490	-	3,814,015
Equipment	5,756,123	552,669	251,686	6,057,106
Library books	1,406,913	63,711	38,664	1,431,960
Total depreciable capital assets	50,161,723	1,017,540	290,350	50,888,913
Less accumulated depreciation for				
Buildings	10,753,155	757,371	-	11,510,526
Improvements other than buildings	1,108,638	124,765	-	1,233,403
Equipment	4,300,164	555,455	251,686	4,603,933
Library books	1,093,469	67,074	38,664	1,121,879
Total accumulated depreciation	17,255,426	1,504,665	290,350	18,469,741
Total depreciable capital assets, net	32,906,297	(487,125)	-	32,419,172
Capital assets, net	<u>\$ 35,905,304</u>	<u>\$ 1,633,883</u>	<u>\$ -</u>	<u>\$ 37,539,187</u>

# HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2008

## NOTES TO FINANCIAL STATEMENTS

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### Note 4. Continued

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:

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

### Note 5. Long-Term Liabilities

Long-term liabilities of the College consist of bonds and notes payable that are expected to be liquidated at least one year from June 30, 2008.

Information regarding original issue amounts, interest rates and maturity dates for bonds and notes included in the long-term liabilities balance at June 30, 2008, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

**HOLMES COMMUNITY COLLEGE**  
For the Year Ended June 30, 2008

**NOTES TO FINANCIAL STATEMENTS**

**Note 5. Continued**

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2008	Due Within One Year
<b>Bonded debt</b>								
Facilities Bond, 2003	\$ 6,500,000	3.4% - 4.15%	2025	\$ 6,090,000	\$ -	\$ 220,000	\$ 5,870,000	\$ 230,000
Facilities Bond, 2005	2,625,000	2.8% - 3.8%	2020	2,360,000	-	140,000	2,220,000	145,000
Total bonded debt				8,450,000	-	360,000	8,090,000	375,000
<b>Notes payable</b>								
DOE college facilities note	1,200,000	5.5%	2018	726,454	-	49,616	676,838	52,383
Educational facilities notes, 1998	2,215,000	4.13% - 5.88%	2013	1,235,000	-	150,000	1,085,000	160,000
Dormitory notes, 2000	4,000,000	4.95% - 6.0%	2015	2,520,000	-	260,000	2,260,000	275,000
Total other long-term liabilities				4,481,454	-	459,616	4,021,838	487,383
Total				\$ 12,931,454	\$ -	\$ 819,616	12,111,838	\$ 862,383
Due within one year							<u>862,383</u>	
Total long-term liabilities							<u>\$ 11,249,455</u>	

## HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2008

### NOTES TO FINANCIAL STATEMENTS

#### Note 5. Continued

	<b>Bonded Debt</b>	<b>Notes Payable</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 375,000	\$ 487,383	\$ 490,063	\$ 1,352,446
2010	390,000	510,303	454,017	1,354,320
2011	410,000	538,387	415,926	1,364,313
2012	430,000	566,642	375,126	1,371,768
2013	450,000	600,079	333,491	1,383,570
2014 – 2018	2,580,000	1,319,044	1,093,919	4,992,963
2019 – 2023	2,490,000	-	476,888	2,966,888
2024 – 2028	965,000	-	60,355	1,025,355
Totals	\$ 8,090,000	\$ 4,021,838	\$ 3,699,785	\$ 15,811,623

#### Note 6. Pension Plan

Plan description – The College participates in the Public Employee's 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 percent of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 11.85 percent 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 year ended June 30, 2008, was \$2,080,032, equal to the required contribution for the year.

#### Note 7. Natural Classifications with Functional Classifications

The College's operating expenses by functional classification were as follows for the year ended June 30, 2008:

**HOLMES COMMUNITY COLLEGE**

For the Year Ended June 30, 2008

**NOTES TO FINANCIAL STATEMENTS****Note 7. Continued**

<b>Functional Classification</b>	<b>Salaries and Wages</b>	<b>Fringe Benefits</b>	<b>Travel</b>	<b>Contractual Services</b>	<b>Utilities</b>
Instruction	\$ 12,735,877	\$ 3,209,877	\$ 229,445	\$ 782,603	\$ 14,272
Academic support	358,632	103,524	6,433	47,510	-
Student services	1,889,419	573,672	107,281	183,690	-
Institutional support	2,178,236	615,962	133,994	1,821,776	-
Operation of plant	1,389,497	470,959	58,100	278,218	1,413,936
Student aid	-	-	-	-	-
Auxiliary enterprises	261,495	96,162	-	626,078	-
Depreciation	-	-	-	-	-
Total operating expenses	\$ 18,813,156	\$ 5,070,156	\$ 535,253	\$ 3,739,875	\$ 1,428,208

<b>Functional Classification</b>	<b>Scholarships and Fellowships</b>	<b>Commodities</b>	<b>Depreciation Expense</b>	<b>Other</b>	<b>Total</b>
Instruction	\$ 208,334	\$ 786,843	\$ -	\$ 1,240,725	\$ 19,207,976
Academic support	-	28,257	-	150,693	695,049
Student services	-	383,281	-	51,683	3,189,026
Institutional support	-	194,131	-	759,866	5,703,965
Operation of plant	-	706,688	-	975,353	5,292,751
Student aid	5,891,129	-	-	-	5,891,129
Auxiliary enterprises	-	144	-	558	984,437
Depreciation	-	-	1,504,665	-	1,504,665
Total operating expenses	\$ 6,099,463	\$ 2,099,344	\$ 1,504,665	\$ 3,178,878	\$ 42,468,998

**Note 8. New Accounting Pronouncements***Government Accounting Standards Board Statement No. 45 ("GASB No. 45")*

The College will adopt GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during fiscal year 2009. This statement addresses how state and local governments should account for and report costs and obligations related to postemployment benefits ("OPEB"). Management has not evaluated the effect of adopting this Statement.

**HOLMES COMMUNITY COLLEGE**  
For the Year Ended June 30, 2008

**NOTES TO FINANCIAL STATEMENTS**

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**Note 8. Continued**

*Governmental Accounting Standards Board Statement No. 51 ("GASB No. 51")*

This statement requires that all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009 over a three year period. Management has not evaluated the impact of adopting this pronouncement.

# HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

Year Ended December 31, 2007

## NOTES TO FINANCIAL STATEMENTS

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### NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Activities

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

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

#### Financial Statement Presentation

The Foundation's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Under GASB Statement No. 34, the Foundation is required to present a statement of net asset and classified between current and noncurrent assets and liabilities, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows using the direct method. The organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### Basis of Accounting

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

#### Support, Revenue and Gifts

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

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

# HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

Year Ended December 31, 2007

## NOTES TO FINANCIAL STATEMENTS

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### Support, Revenue and Gifts (continued)

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

### Income Taxes

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

### Contributed Services

During the years ended December 31, 2007 and 2006 the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

### Estimates

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

### Property and Equipment

It is the Foundation's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Property and equipment are depreciated using the straight-line method.

### Investments

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 position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

# HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

Year Ended December 31, 2007

## NOTES TO FINANCIAL STATEMENTS

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

### NOTE B – INVESTMENTS – THE COMMON FUND

Investments in The Common Fund are considered cash equivalents. The Foundation invests cash in excess of current needs in The Common Fund consisting of two mutual funds: (1) Multi-Strategy Equity Fund and (2) Multi-Strategy Bond Fund. Dividends and interest earned are reinvested. The Common Fund charges investment fees and the fees are redeemed monthly by the fund. Balances in The Common Fund at December 31, 2007 were approximately 66.14 percent equity and 33.86 percent fixed income compared to 65.38 percent equity and 34.62 percent fixed at December 31, 2006.

#### Five Year Comparison – The Common Fund

	2003	2004	2005	2006	2007	5-yr Total
Income earned	\$ 57,206	\$ 53,800	\$ 57,173	\$ 66,452	\$ 75,511	\$ 310,142
Net unrealized market Gains	360,166	198,293	118,455	213,356	209,848	1,100,118
Fund fees	(7,366)	(8,313)	(8,848)	(9,541)	(10,769)	(44,837)
Transfers out	(199,529)	-	(94,048)	(40,000)	-	(333,577)
Net change	210,477	243,780	72,732	230,267	274,590	1,031,846
Balance beginning of year	2,006,403	2,216,880	2,460,660	2,533,392	2,763,659	2,006,403
Balance end of year	\$ 2,216,880	\$ 2,460,660	\$ 2,533,392	\$ 2,763,659	\$ 3,038,249	\$ 3,038,249
Increase from beginning balance	20.43%	11.00%	6.78%	10.67%	9.93%	51.42%

### NOTE C – FEDERAL FINANCIAL ASSISTANCE

The Foundation applied for a matching grant of \$500,000 from the United States Government in March 1991. This grant was made to the Foundation on March 5, 1992. The \$500,000 grant and \$500,000 matching funds were invested as a temporarily restricted cash asset in The Common Fund, Westport, Connecticut. At the end of 20 years (March 2012), the \$1,000,000 becomes unrestricted. Until that time, only one-half of the income from the fund may be used for scholarships and other educational activities of the College.

# HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION

Year Ended December 31, 2007

## NOTES TO FINANCIAL STATEMENTS

### NOTE C – Continued

As of the financial statement dates, the following describes the endowment balances related to the federal grant and matching funds:

	2007	2006
Original endowment amount	\$ 1,000,000	\$ 1,000,000
Net income to date (including unrealized market gains and losses and fees)	1,288,002	1,013,412
Total endowment value	2,288,002	2,013,412
Fifty percent of net income available to be used	(644,001)	(506,706)
Remaining balance temporarily restricted	\$ 1,644,001	\$ 1,506,706

The investment in The Common Fund is comprised of funds from the endowment (federal grant and matching funds), some scholarship funds (permanently restricted), and unrestricted funds in excess of current needs.

### NOTE D – PROPERTY AND EQUIPMENT

During 2007, the Foundation purchased a piano with accessories for the College's President's home. The Foundation also paid for costs of a new courtyard. The breakdown for the new capital additions is as follows:

Computer lab – Grenada	\$ 29,178
Piano, bench and accessories	18,500
Courtyard addition	57,178
Total	104,856
Less current year's depreciation	(8,200)
Net book value	\$ 96,656

Depreciation is provided using the straight-line method with estimated useful lives of assets ranging 5-39 years.

### NOTE E – SIGNIFICANT CONCENTRATION OF CREDIT RISK

The Foundation has concentrated its risk for cash by maintaining deposits in one bank. The excess of the deposit liabilities reported by the bank over amounts covered by federal insurance totaled \$15,105 at December 31, 2007, and \$71,677 at December 31, 2006.

# **HOLMES COMMUNITY COLLEGE**

## **SUPPLEMENTARY INFORMATION**

**HOLMES COMMUNITY COLLEGE**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2008**

<b>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
Student Financial Aid Cluster			
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		\$ 119,662
Federal Family Education Loans (FFEL)	(1) 84.032		3,920,006
Federal Work-study Program (FWS)	84.033		205,172
Federal Pell Grant Program	84.063		8,897,305
Leveraging Educational Assistance Partnership (LEAP)	84.069		3,928
Academic Competitiveness Grant (ACG)	84.375		91,200
Total U.S. Department of Education			13,237,273
Total Student Financial Aid Cluster			13,237,273
Other Programs			
U.S. Department of Agriculture			
Mississippi Community College Foundation			
Distance Learning and Telemedicine Loans and Grants	10.855		18,867
Total U.S. Department of Agriculture			18,867
National Institute for Standards and Technology			
Pass-through programs from			
Mississippi Technology Alliance - Manufacturing Extension Partnership	11.611		35,000
Total National Institute for Standards and Technology			35,000
WIA Cluster			
U.S. Department of Labor			
Pass-through programs from			
Mississippi Employment Security Commission -			
WIA Adult Program	17.258		242,332
WIA Youth Program	17.259		6,009
WIA Dislocated Workers	17.260		59,078
Central Mississippi Planning & Development District -			
WIA Adult Program	17.258		41,533
WIA Youth Program	17.259		26,218
WIA Dislocated Workers	17.260		41,666
South Delta Planning & Development District -			
WIA Adult Program	17.258		28,038
WIA Dislocated Workers	17.260		28,037
Three Rivers Planning & Development District -			
WIA Adult Program	17.258		24,997
WIA Dislocated Workers	17.260		24,997
Mississippi State Board for Community and Junior Colleges			
WIA Adult Program	17.258		6,667
WIA Youth Program	17.259		6,667
WIA Dislocated Workers	17.260		6,666
Total WIA Cluster			542,905

**HOLMES COMMUNITY COLLEGE**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2008**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Mississippi Employment Security Commission - Trade Adjustment Assistance (TAA)	17.245		\$ 17,319
Mississippi State Board for Community & Junior Colleges - Pilots, Demonstrations and Research Project	17.261		125,020
Total U.S. Department of Labor			<u>685,244</u>
U. S. Department of Education TRIO - Student Support Services	84.042A		<u>265,838</u>
Pass-through programs from			
Mississippi State Board for Community and Junior Colleges - Adult Education - State Grant Program	84.002		194,411
Mississippi Department of Education - Vocational Education - Basic Grants to States	84.048		422,403
Mississippi Department of Education - Tech Prep	84.243		<u>97,870</u>
Subtotal pass-through programs			<u>714,684</u>
Total U.S. Department of Education			<u>980,522</u>
Total Expenditures of Federal Awards			<u>\$ 14,956,906</u>

**Notes to Schedule of Expenditures of Federal Awards**

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

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

## **HOLMES COMMUNITY COLLEGE**

### **REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

**INDEPENDENT AUDITORS' 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***

Board of Trustees  
Holmes Community College  
Goodman, Mississippi

We have audited the financial statements of Holmes Community College as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. We did not audit the financial statements of the discretely presented component unit, Holmes Community College Development Foundation, which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us. This report, insofar as it relates to the amounts included for the above mentioned entity, is based on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Holmes Community College Foundation, audited by another auditor, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Holmes Community College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Holmes Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Holmes Community 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 entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting. The related finding reference numbers are 2008-1, 2008-2, 2008-3 and 2008-4.

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 entity'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 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 Holmes 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*.

This report is intended solely for the information and use of Holmes Community 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 those specified parties.

A handwritten signature in black ink that reads "Home LLP". The signature is written in a cursive, flowing style.

Jackson, Mississippi  
December 10, 2008

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

Board of Trustees  
Holmes Community College  
Goodman, Mississippi

Compliance

We have audited the compliance of Holmes Community College with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Holmes Community College's major federal programs are identified in the summary of auditors' 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 Holmes Community College's management. Our responsibility is to express an opinion on Holmes Community College's compliance based on our audit.

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

In our opinion, Holmes Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

## Internal Control Over Compliance

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

Our consideration of 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 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, as defined above.

This report is intended solely for the information and use of Holmes Community 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 those specified parties.

A handwritten signature in black ink, appearing to read "Home LLP".

Jackson, Mississippi  
December 10, 2008

# **HOLMES COMMUNITY COLLEGE**

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Board of Trustees  
Holmes Community College  
Goodman, Mississippi

We have audited the financial statements of Holmes Community College as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. We did not audit the financial statements of the discretely presented component unit, Holmes Community College Development Foundation, which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us. This report, insofar as it relates to the amounts included for the above mentioned entity, is based on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Holmes Community College Development Foundation, audited by another auditor, were not audited in accordance with *Government Auditing Standards*.

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

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

This report is intended solely for the information and use of Holmes Community 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 those specified parties.

Jackson, Mississippi  
December 10, 2008

## **HOLMES COMMUNITY COLLEGE**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**HOLMES COMMUNITY COLLEGE**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2008

**Section 1: Summary of Auditors' Results**

Financial Statements:

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

Federal Awards:

- |    |  |             |
|----|--|-------------|
| 4. | Type of auditors' report issued on compliance for major federal program:               | Unqualified |
| 5. | Internal control over major program:   |             |
| a. | Material weakness(es) identified?  | No          |
| b. | Significant deficiencies 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 program identified as a major program:   |             |

Student Financial Aid Cluster

CFDA #84.007  
CFDA #84.032  
CFDA #84.033  
CFDA #84.063  
CFDA #84.069  
CFDA #84.375

U.S. Department of Labor – WIA Cluster

CFDA #17.258  
CFDA #17.259  
CFDA #17.260

U.S. Department of Labor – Pilot, Demonstrations and Research Projects  
CFDA #17.261

**HOLMES COMMUNITY COLLEGE**  
Schedule of Findings and Questioned Costs - continued  
Year Ended June 30, 2008

**Section 1: Summary of Auditors' Results**

- |     |   |           |
|-----|---|-----------|
| 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        |

**Section 2: Financial Statement Findings**

**Finding 2008-1: Review of Period-End Journal Entries**

Period end journal entries are not reviewed prior to posting in the general ledger. In the course of selectively reviewing journal entries, we noted that the entries are prepared and posted to the accounting records by an Accounting Department employee without review or approval. In order to avoid erroneous or unauthorized journal entries being posted, we recommend that the Executive Vice President, or his designee, review and approve all period-end journal entries and their supporting documentation, and initial the support for the entries to document their approval. This process would improve controls over adjustments to the general ledger.

**Finding 2008-2: Approval Of New Vendors**

Accounts Payable Clerk has the ability to add new vendors and process checks to those vendors. The risk of entering a fictitious vendor and the actual payment to that vendor is mitigated by the Business Manager's review of the check register. We also noted that no one, other than the Accounts Payable Clerk, reviews the actual invoices, nor is there an edit report produced on a regular basis that lists all new vendors entered into the system. We recommend restricting the number of users who can enter and alter vendor information. An edit report showing all vendors that have recently been added to the system or changes made to current vendor information should be produced and reviewed by the Business Manager or Vice President of Academic Affairs. This would improve controls as currently it could be possible for employees to enter a fictitious vendor into the system and then send fictitious invoices to Holmes Community College (the "College") thereby diverting funds for personal use.

**Finding 2008-3: Safeguards Over Blank Check Stock**

Merchants and Farmers Bank checkbook is stored on a shelf next to the Payroll Clerk's desk. Blank checks are stored in an unlocked area in close proximity to the business office. Access to the blank checks is not restricted. To strengthen internal control, we recommend that all checks

**HOLMES COMMUNITY COLLEGE**  
Schedule of Findings and Questioned Costs - continued  
Year Ended June 30, 2008

**Finding 2008-3: Safeguards Over Blank Check Stock - continued**

be properly secured in a locked safe, with access limited to authorized employees. Voided checks should be mutilated properly (signature block removed and check noted as "void") and an accounting for all checks issued or voided during the month should be performed during the bank reconciliation and/or monthly closing process.

**Finding 2008-4: Holding Checks And Deficient Receiving Controls**

The College has the ability to process checks before an item has been properly received, and the Accounts Payable Clerk will hold the check until further notice of actual receipt. Holding checks occurs primarily at year-end when departments have excess funds in their budget and want to expense an item in the current fiscal year. This practice disrupts the proper recording of accounts payable as well as cash at year-end. We recommend that additional cash management practices be implemented so that checks are not written until goods or services have been received by the College.

**Section 3. Findings and Questioned Costs for Federal Awards**

No matters were reported.

**HOLMES COMMUNITY COLLEGE**  
Summary Schedule of Prior Year Audit Findings  
Year Ended June 30, 2008

The prior year single (or organization-wide) audit disclosed no significant findings, and no significant uncorrected or unresolved findings exist.

## **HOLMES COMMUNITY COLLEGE**

### **Corrective Action Plan For the Year Ended June 30, 2008**

As required by Section 315 (b) of OMB Circular A-133, Holmes Community College has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2008:

#### Finding      Corrective Action Plan Details

2008-1      Name of Contact Person Responsible for Corrective Action:

Sonny Sparks, Business Manager

Corrective Action Planned:

All period end journal entries will be reviewed and approved by the Executive Vice President before they are posted to the general ledger.

Anticipated Completion Date:

November 10<sup>th</sup>, 2008

2008-2      Name of Contact Person Responsible for Corrective Action:

Sonny Sparks, Business Manager

Corrective Action Planned:

All new vendors will be entered by the Purchasing Department. A new report will list new vendors and will be reviewed by the Business Manager.

Anticipated Completion Date:

October 27<sup>th</sup>, 2008

## **HOLMES COMMUNITY COLLEGE**

### **Corrective Action Plan For the Year Ended June 30, 2008**

<u>Finding</u>	<u>Corrective Action Plan Details</u>
----------------	---------------------------------------

2008-3	Name of Contact Person Responsible for Corrective Action:
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Sonny Sparks, Business Manager

Corrective Action Planned:

All check stock and check books will be put in the safe located in the Business Office. Reconciliations are done monthly to ensure that voided checks are accounted for. The Accounts Payable Clerk will retain all documentation regarding voided checks.

Anticipated Completion Date:

October 27<sup>th</sup>, 2008

2008-4	Name of Contact Person Responsible for Corrective Action:
--------	---

Sonny Sparks, Business Manager

Corrective Action Planned:

Only invoices that have been fully processed through the system and the item has been received by the receiving department will have a check cut at year end and mailed.

Anticipated Completion Date:

November 10<sup>th</sup>, 2008