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**PEARL RIVER COMMUNITY COLLEGE
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Year Ended June 30, 2008**

PEARL RIVER COMMUNITY COLLEGE

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FINANCIAL AUDIT REPORT

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

Dr. William A. Lewis, President
And Board of Trustees
Pearl River Community College
Poplarville, Mississippi 39470

We have audited the accompanying financial statements of the business type activities and the discretely presented component unit of Pearl River Community College as of the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of Pearl River Community College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 the discretely presented component unit of Pearl River Community College, as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year 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 May 31, 2009, on our consideration of Pearl River Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 7 through 15 is not required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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 Pearl River Community College's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not 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.

Herzog CPA Company, PLLC
Herzog CPA Company, PLLC
May 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Pearl River Community 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. The financial statements, footnotes, and this discussion are the responsibility of management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. These financial statements differ significantly, in both form and the accounting principles used, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

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

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or 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.

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, non-capital financing, capital and related financing, and investing activities.

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

Assets	2008	2007
Current Assets	\$ 17,721,221	\$ 16,596,920
Non-current Assets:		
Capital, Net	59,271,544	52,660,514
Other	<u>8,207,237</u>	<u>12,190,584</u>
Total Assets	<u>\$ 85,200,002</u>	<u>\$ 68,208,332</u>
Liabilities		
Current Liabilities	\$ 3,079,548	\$ 3,597,612
Non-current Liabilities	<u>16,291,133</u>	<u>17,088,244</u>
Total Liabilities	<u>19,370,681</u>	<u>20,685,856</u>
Net Assets		
Invested in Capital Assets, Net	43,149,088	35,792,222
Restricted:		
Nonexpendable	29,250	29,250
Expendable	5,044,264	11,779,104
Unrestricted	<u>17,606,719</u>	<u>13,161,586</u>
Total Net Assets	<u>\$ 65,829,321</u>	<u>\$ 60,762,162</u>

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the College's bank accounts, petty cash and certificates of deposit. The total amount of cash and cash equivalents reported as current assets on the College financial statements were \$6,221,183 at June 30, 2008, compared to the FY 2007 figure of \$9,673,269.

Accounts Receivable

Accounts receivable relate to several transactions including county appropriations, accrued interest, student tuition and fee billings, and auxiliary enterprise sales such as food service and bookstore. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College receivables totaled \$2,884,538 at June 30, 2008, compared to FY 2007, \$3,351,671.

Inventories

The College maintains inventories of resale merchandise as well as items for internal consumption. Books, student supplies, and institutional memorabilia make up the majority of the resale inventory. Inventories maintained for internal departmental use include paper goods. Inventories totaled \$838,393 at June 30, 2008, in comparison to \$697,279 for FY 2007.

Non-current assets

Cash and Cash Equivalents

Cash and cash equivalents are those funds that are held in the bank accounts. The cash and cash equivalents that are considered noncurrent are cash in endowment and other restricted funds. The amount of cash and cash equivalents considered noncurrent at June 30, 2008 totaled \$7,617,441 in comparison to \$6,520,097 for FY 2007.

Other Investments

Other long-term investments include bank certificates of deposit held by F.D.I.C. insured banks. The value at June 30, 2008 was \$29,250. There was no change in this balance from FY 2007.

Capital Assets, Net

Capital assets, net, consist of land, infrastructure, buildings, equipment, and historical library holdings at June 30, 2008. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$59,271,544 at June 30, 2008, in comparison to \$52,660,514 for FY 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 \$1,304,834 at June 30, 2008, in comparison to \$2,395,053 for FY 2007.

Long-Term Liabilities-Current Portion

Long-term liabilities-current portion, bonds, notes and capital leases, represents the portion of that would be payable by the end of the June 30, 2008 fiscal year. The amount of the current portion of bonds, notes and capital leases at June 30, 2008, was \$775,375 compared to \$755,758 for FY 2007.

Non-current Liabilities

Long-Term Liabilities

This liability consists of bonds, notes and capital leases. The total amount of the noncurrent portion of long-term liabilities was \$15,345,081 at June 30, 2008, compared to \$16,112,534 for FY 2007.

Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2008 were \$65,829,321 compared to \$60,762,162 for FY 2007.

Analysis of Net Assets

Restricted non-expendable net assets consist of endowment gifts with specific restrictions on spending the principal given.

Restricted expendable net assets consist of endowment gifts, gifts with specific restrictions, grants from third party agencies with expenditure restrictions, and loan funds.

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:

	2008	2007
Unrestricted General Fund	\$ 14,663,157	\$ 10,564,534
Unrestricted Auxiliary Fund	<u>2,943,562</u>	<u>2,597,052</u>
<i>Total Unrestricted Net Assets</i>	<u>\$ 17,606,719</u>	<u>\$ 13,161,586</u>

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

	<u>2008</u>	<u>2007</u>
Operating Revenues		
Tuition and Fees	\$ 3,148,489	\$ 4,175,725
Grants and Contracts	15,211,494	16,169,540
Sales and Services of Educational	573,935	292,252
Auxiliary Enterprises	<u>4,987,144</u>	<u>4,940,915</u>
Total Operating Revenues	23,921,062	25,578,432
Operating Expenses	<u>43,171,919</u>	<u>40,239,813</u>
Operating Loss	<u>(19,250,857)</u>	<u>(14,661,381)</u>
Non-operating Revenues		
State Appropriations	13,635,754	10,990,887
County Appropriations	4,417,168	4,118,201
Investment Income, Net	45,684	541,198
Other Non-operating Expenses	<u>5,271,718</u>	<u>8,560,132</u>
Net Non-operating Revenues	<u>23,370,324</u>	<u>24,210,418</u>
Income before Other Revenues	4,119,467	9,549,037
Capital Appropriations	<u>947,692</u>	<u>1,312,309</u>
Total Increase in Net Assets	5,067,159	10,861,346
Net Assets		
Net Assets - Beginning of Year	<u>60,762,162</u>	<u>49,900,816</u>
Net Assets - End of Year	<u>\$ 65,829,321</u>	<u>\$ 60,762,162</u>

Total operating loss for the fiscal year 2008 was \$19,250,857 compared to \$14,661,381 for FY 2007. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, the College will continue to 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 \$23,921,062, compared to \$25,578,432 for FY 2007. Tuition and fees were \$3,148,489, compared to \$4,175,725 for FY 2007. Operating expenses, including depreciation and amortization of \$2,445,192 totaled \$43,171,919. Of this total \$17,683,515, or 41%, was for instruction. Operating expenses for FY 2007, including depreciation of \$1,938,656, totaled \$40,239,813. Of this total \$16,172,942, or 40%, was for instruction.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$3,148,489 for FY 2008, in comparison to \$4,175,725 for FY 2007. The difference is due to the effects of Hurricane Katrina on tuition, fees, and enrollment.

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 and 2007:

	<u>2008</u>	<u>2007</u>
Federal Sources:		
Department of Education	\$ 10,955,162	\$ 11,304,660
Other Sources	<u>4,256,332</u>	<u>4,864,880</u>
<i>Total All Sources</i>	<u>\$ 15,211,494</u>	<u>\$ 16,169,540</u>

Non-capital Gifts

This consists of gifts made to the College from a nongovernmental organization and/or individuals. The cash gifts totaled \$273,122 at June 30, 2008, compared to \$1,040,788 for FY 2007.

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$573,935 for the 2007 fiscal year.

Sales and Services, Net

Sales and services, net, consist of various enterprise entities that exist predominantly to furnish goods and services to students, faculty, staff, or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting. Auxiliary enterprises primarily include the College bookstore.

Operating Expenses

Operating expenses for FY 2008 totaling \$43,171,919 include salaries and benefits of \$22,665,629, scholarships and fellowships of \$4,620,149, utilities of \$1,576,969, supplies of \$5,312,817, services of \$6,087,512, and depreciation and amortization of \$2,445,192. Operating expenses for FY 2007 totaling \$40,239,813 include salaries and benefits of \$20,633,161, scholarships and fellowships of \$4,983,930, utilities of \$1,369,195, supplies of \$4,921,041, services of \$5,950,070, and depreciation and amortization of \$1,938,656.

	<u>2008</u>	<u>2007</u>
Expenses by Function:		
Instruction	\$ 17,683,515	\$ 16,172,942
Academic Support	1,007,102	880,653
Student Services	7,016,109	7,185,695
Institutional Support	4,850,114	5,178,578
Operations and Maintenance of Plant	5,373,578	4,615,692
Auxiliary Enterprises	4,796,309	4,268,597
Depreciation	<u>2,445,192</u>	<u>1,938,656</u>
<i>Total Operating Expenses by Function</i>	<u>\$ 43,171,919</u>	<u>\$ 40,239,813</u>

Non-operating Revenues (Expenses)

State Aid

The College's largest source of non-operating revenue is the State of Mississippi appropriation. The College received \$14,583,446 for 2007-2008 fiscal year, of which \$13,635,754 was for operations. In 2008, the College received \$947,692, in general obligation bonds of the State for capital improvements. During FY 2007, the College received \$12,303,196 of which \$10,990,887 was for operations. The College received \$1,312,309 in general obligation bonds of the State for capital improvements for FY 2007.

County Appropriations

The College also receives revenue from the six county district in which the school resides. The College uses the funding for salaries, benefits, and operational purposes. The College receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1st. The College received \$4,417,168 for the 2008 fiscal year from the counties and \$4,118,201 for FY 2007. This appropriation was fully recorded by the College during the fiscal year.

Investment Income, Net

This includes the interest income from the cash in the bank accounts. The investment income at June 30, 2008 was \$824,481 compared to the FY 2007 amount of \$1,097,054.

Other Non-operating Expenses

Total net other non-operating revenues/expenses amounted to \$5,271,718, compared to FY 2007 in the amount of \$8,560,132.

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) Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash and Cash Equivalents Provided (Used) by:		
Operating Activities	\$ (16,688,984)	\$(12,887,726)
Non-capital Financing Activities	22,603,371	23,593,035
Capital and Related Financing Activities	(9,116,590)	(7,724,206)
Investing Activities	<u>847,461</u>	<u>(733,098)</u>
Net Increase in Cash and Cash Equivalents	(2,354,742)	2,248,005
Cash and Cash Equivalents:		
Beginning of the Year	<u>16,193,366</u>	<u>13,945,361</u>
End of the Year	<u>\$ 13,838,624</u>	<u>\$16,193,366</u>

The major sources of funds for FY 2008 included in operating activities include student tuition and fees \$8,465,251, auxiliary enterprises \$4,987,144, and grants and contracts \$15,825,300. The major uses of funds were payments made to employees \$22,543,650, and to suppliers \$12,389,469. During FY 2007, the major sources of funds included in operating activities include student tuition and fees \$7,970,918, auxiliary enterprises \$4,940,915 and grants and contracts \$15,008,367. The major uses of funds during FY 2007 were payments made to employees \$20,492,919, and to suppliers \$10,562,627.

The largest inflow of cash for FY 2008 in the non-capital financing activities group is the State appropriation of \$13,584,246. This figure compares to the FY 2007 amount of \$11,465,771.

Significant Capital Asset Transactions

During the 2008 fiscal year, \$8,535,879 was paid for capital asset transactions. This figure compares to the fiscal year 2007 amount of \$11,282,523.

Factors Impacting Future Periods

There are a number of issues of Community College-wide importance that directly impacted the fiscal year 2008 financial situation. The level of State support, compensation increases, student tuition and fee increases, energy cost increases, and the effects of Hurricane Katrina impact the College's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

State appropriations contribute approximately fifty-seven percent of general operations' revenue. The level of State support is therefore one of the key factors influencing the College's financial condition.

The need to continue to address priority needs and requirements for deferred maintenance, new technology, repairs, and new construction projects is a large challenge facing the College in the years to come.

Various committees and individuals are assessing the College's performance toward identified goals and ways to achieve greater efficiencies and reduce expenditures in an effort to assist in meeting the future challenges.

August 29, 2005, brought an entirely new and unexpected challenge to this institution with the event of Hurricane Katrina. The College experienced an estimated \$50 million in structural damage with upwards of several hundred students not returning the Fall 2005 semester following the storm. The College's enrollment continued to experience a decline through the Spring 2006 semester as well.

While the institution's enrollment through FY 2008 has shown some rebound since the storm experience, the college is still involved in a claims dispute with the insurance company of record at the time of the hurricane. The claim is currently involved in the appraisal process, which is allowed under the terms of the insurance contract. It is estimated that the process will extend through the fall of 2009 before completion. In the meantime, the college is still underway with a number of repair and remediation projects in an effort to repair storm damage facilities with the limited insurance and grant funds made available to the college.

AUDITED FINANCIAL STATEMENTS

EXHIBIT A

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	6,221,183
Short-term investments		7,435,106
Accounts receivable, net		2,884,538
Interest Receivable		160,943
Inventories		838,393
Prepaid expenses		<u>181,058</u>
Total current assets		<u>17,721,221</u>

NON-CURRENT ASSETS

Restricted cash and cash equivalents		7,617,441
Endowment investments		29,250
Debt issuance cost, net of accumulated amortization		560,546
Capital assets, net of accumulated depreciation		<u>59,271,544</u>
Total non-current assets		<u>67,478,781</u>

Total assets \$ 85,200,002

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

EXHIBIT A
PAGE TWO

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF NET ASSETS
JUNE 30, 2008

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$	1,304,834
Deferred revenues		997,339
Long-term liabilities - current portion		<u>777,375</u>
Total current liabilities		<u>3,079,548</u>

NON-CURRENT LIABILITIES

Accrued leave liabilities		946,052
Long-term liabilities		<u>15,345,081</u>
Total noncurrent liabilities		<u>16,291,133</u>

Total Liabilities

19,370,681

NET ASSETS

Invested in capital assets, net of related debt		43,149,088
Restricted for:		
Nonexpendable:		
Scholarships and fellowships		29,250
Expendable:		
Scholarships and fellowships		7,756
Capital projects		2,004,042
Debt service		3,032,466
Unrestricted		<u>17,606,719</u>

Total net assets

\$ 65,829,321

EXHIBIT B

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF FINANCIAL POSITION

PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.

June 30, 2008

OPERATING FUNDS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds 6/30/2008
ASSETS				
Cash and Cash equivalents	\$ 212,094	\$ 183,076	\$ 919,379	\$ 1,314,549
Certificates of deposit	105,000	525,000	740,000	1,370,000
Treasury notes	-	-	10,082	10,082
Due from other funds	243,940	38,537	136,229	418,706
Prepaid Expenses	541	-	-	541
Pledges receivable	16,369	3,042	3,600	23,011
Common fund investments	389,290	-	-	389,290
Total current assets	967,234	749,655	1,809,290	3,526,179
Common fund investments, restricted	-	834,694	67,293	901,987
Investments, restricted	-	-	561,263	561,263
Property and equipment at cost less accumulated depreciation of \$36,742	9,495	-	-	9,495
Total Assets	\$ 976,729	\$ 1,584,349	\$ 2,437,846	\$ 4,998,924

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

EXHIBIT B
PAGE TWO

PEARL RIVER COMMUNITY COLLEGE
STATEMENT OF FINANCIAL POSITION

PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.

June 30, 2008

LIABILITIES AND NET ASSETS

Accounts payable
Due to Other Funds
Total current liabilities

OPERATING FUNDS			Total All Funds 6/30/2008
Unrestricted	Temporarily Restricted	Permanently Restricted	
\$ -	\$ 66,469	\$ -	\$ 66,469
103,568	40,107	275,031	418,706
103,568	106,576	275,031	485,175

NET ASSETS

Unrestricted
Temporarily restricted
Permanently restricted
Total net assets

873,161	1,477,773		873,161
		2,162,815	1,477,773
873,161	1,477,773	2,162,815	2,162,815
		2,162,815	4,513,749
\$ 976,729	\$ 1,584,349	\$ 2,437,846	\$ 4,998,924

Total liabilities and net assets

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

EXHIBIT C

PEARL RIVER COMMUNITY COLLEGE

STATEMENT REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2008

OPERATING REVENUES

Tuition and fees (net of scholarship allowances of \$5,347,315)	\$ 3,148,489
Federal grants and contracts	10,955,162
State grants and contracts	3,983,210
Non-governmental grants and contracts	273,122
Sales and services of educational departments	573,935
Auxiliary enterprises:	
Student housing	1,124,376
Food Services	991,515
Bookstore	<u>2,871,253</u>

Total operating revenues

23,921,062

OPERATING EXPENSES

Salaries and wages	17,884,631
Fringe Benefits	4,780,998
Travel	463,651
Contractual services	6,087,512
Utilities	1,576,969
Scholarships and fellowships	4,620,149
Commodities	5,312,817
Depreciation and amortization expense	<u>2,445,192</u>

Total operating expenses

43,171,919

OPERATING INCOME (LOSS)

(19,250,857)

NON-OPERATING REVENUES (EXPENSES)

State appropriations	13,635,754
Local appropriations	4,417,168
Investment Income	824,481
Interest expense on capital asset-related debt	(778,797)
Other non-operating revenues (expenses)	<u>5,271,718</u>

Total net non-operating revenues (expenses)

23,370,324

**INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS
AND LOSSES**

4,119,467

EXHIBIT C
PAGE TWO

PEARL RIVER COMMUNITY COLLEGE

**STATEMENT REVENUES, EXPENSES AND CHANGE IN NET ASSETS
YEAR ENDED JUNE 30, 2008**

State appropriations restricted for capital purposes	\$ <u>947,692</u>
CHANGE IN NET ASSETS	5,067,159
NET ASSETS	
Net Assets – Beginning of year	<u>60,762,162</u>
Net Assets – End of year	<u>\$ 65,829,321</u>

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

Exhibit D

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF ACTIVITIES

PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.

YEAR ENDED JUNE 30, 2008

	OPERATING FUNDS			Total All Funds 6/30/2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 81,793	\$ 640,297	\$ 642,747	\$ 1,364,837
Other	52,319	156,161	-	208,480
Dividend and Interest Income	58,534	82,996	13,763	155,293
Unrealized gain (loss) on investments	(21,668)	(42,372)	50,460	(13,580)
Net assets released from restriction:				
Expiration of usage restrictions	728,811	(594,204)	(134,607)	-
Total revenues, gains, and other support	899,789	242,878	572,363	1,715,030
EXPENSES				
Program services:				
Scholarships	446,172	-	-	446,172
Educational departments	209,973	-	-	209,973
Service awards	3,067	-	-	3,067
Special projects	88,336	-	-	88,336
Total program services	747,548	-	-	747,548

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

EXHIBIT D
PAGE TWO

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF ACTIVITIES

PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.

YEAR ENDED JUNE 30, 2008

	OPERATING FUNDS			Total All Funds 6/30/2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Supporting services:				
General administration	\$ 109,588	\$ -	\$ -	\$ 109,588
Fund raising expense	22,954	-	-	22,954
Alumni activities	10,611	-	-	10,611
Total supporting services	143,153	-	-	143,153
Total expenses	890,701	-	-	890,701

Change in net assets 9,088 242,878 572,363 824,329

NET ASSETS:

Beginning of year	864,073	1,234,895	1,590,452	3,689,420
End of year	\$ 873,161	\$ 1,477,773	\$ 2,162,815	\$ 4,513,749

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

EXHIBIT E

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 8,465,251
Grants and contracts	15,825,300
Sales and services of educational departments	402,440
Other sales and services	573,935
Payments to suppliers	(12,389,469)
Payments to employees for salaries and benefits	(22,543,650)
Payments for utilities	(1,567,316)
Payments for travel	(475,155)
Payments for scholarships and fellowships	(9,967,464)
Auxiliary enterprise charges:	
Student housing	1,124,377
Food services	991,514
Bookstore	<u>2,871,253</u>
Net cash used by operating activities	<u>(16,688,984)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State appropriations	13,584,246
Local appropriations	4,403,787
Other Sources	<u>4,615,338</u>
Net cash provided by non-capital financing activities	<u>22,603,371</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(8,535,879)
Principal paid on capital debt and leases	(757,836)
Interest paid on capital debt and leases	(782,568)
Capital appropriations received	947,693
Proceeds from bonds	<u>12,000</u>
Net cash used by capital and related financing activities	<u>(9,116,590)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received on investments	<u>847,461</u>
Net cash provided by investing activities	<u>847,461</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(2,354,742)

CASH AND CASH EQUIVALENTS BALANCES

Beginning of year	<u>16,193,366</u>
End of year	<u>\$ 13,838,624</u>

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

EXHIBIT E
PAGE TWO

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating (loss)	\$ (19,250,857)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	2,445,192
Amortization	20,890
(Increase) decrease in assets:	
Receivables, net	467,133
Inventories	141,114
Prepaid expenses	56,883
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	(1,069,677)
Deferred revenues	556,538
Deposits refundable	(56,200)
Total adjustments	<u>2,561,873</u>
Net cash used by operating activities	<u>\$ (16,688,984)</u>

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

EXHIBIT F

PEARL RIVER COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS
PEARL RIVER COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.
YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets	\$ 824,329
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Depreciation	2,414
Unrealized losses on investments	13,580
(Increase) decrease in:	
Pledges receivable	7,969
Prepaid insurance	
Increase (decrease) in:	
Accounts payable	23,108
Contributions restricted for permanent investment	(642,747)
Net cash (used by) operating activities	<u>228,653</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Construction and purchase of assets	(4,838)
Investment in common fund	<u>(29,050)</u>
Net cash provided by investing activities	<u>(33,888)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Contributions restricted for permanent investment	<u>642,747</u>
Net cash provided by financing activities	<u>642,747</u>

NET INCREASE IN CASH 837,512

CASH BALANCES

Beginning of year	<u>477,037</u>
End of year	<u>\$ 1,314,549</u>

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

NOTES TO FINANCIAL STATEMENTS

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity - Pearl River Community College was founded in 1924 and is one of Mississippi's fifteen (15) public community colleges. The legal authority for the establishment of Pearl River Community College is found in Section 37-29-31, Miss. Code Ann. (1972).

Pearl River Community College is locally-governed by a sixteen-member Board of Trustees, selected by the Board of Supervisors of Forrest, Hancock, Jefferson Davis, Lamar, Marion, and Pearl River 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 five-year term. In addition, Pearl River 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.

Pearl River Community College reports the following discretely presented component unit:

Pearl River Community College Development Foundation, Inc. (Foundation) - The Foundation is a legally separate, tax-exempt nonprofit organization founded in 1987. The Foundation acts primarily as a fund raising organization to supplement the resources available to Pearl River Community College (College) in support of its programs.

Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the College by the donors.

During the year ended June 30, 2008, the Foundation distributed \$219,293 to the College. Of this amount, \$164,041 was for scholarships and \$55,252 was for salary reimbursement.

- 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 - for 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.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- D. Cash Equivalents - For purposes of the Statement of Cash Flows, the College considers all highly liquid investments with an original maturity of three (3) 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 Receivable, Net - Accounts receivable 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 receivable are recorded net of an allowance for doubtful accounts.
- G. Student Notes Receivable, Net - Student notes receivable consist of federal, state and institutional loans made to students for the purpose of paying tuition and fee charges. Loan balances expected to be paid during the next fiscal year are presented on the Statement of Net Assets as current assets. Those balances that are either in deferment status or expected to be paid back beyond the next fiscal year are presented as non-current assets on the Statement of Net Assets.
- H. Inventories - Inventories consist of the bookstore and printing supplies. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out ("FIFO") basis or the average cost basis.
- I. 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.
- J. 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.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- K. Capital Assets, Net of Accumulated Depreciation - Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See Note 5 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose.
- L. 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.
- M. Compensated Absences - Twelve-month employees earn annual personal leave at a rate of eighteen (18) days per year for three (3) months to three (3) years of service, twenty-one (21) days per year for three (3) to eight (8) years of service, twenty-four (24) days per year for eight (8) to fifteen (15) years of service and twenty-seven (27) days per year for over fifteen (15) years of service. Personal leave accrual is also provided for eleven (11) month, ten (10) month, nine and one-half (9.5) month and nine (9) month employees. Part-time regular employees working twenty (20) hours or more per week shall accrue the same personal leave benefits as full-time employees on a pro rata basis as full-time employees with a comparable length of contract. There is no requirement that annual leave be taken and there is no maximum accumulation. Upon retirement from employment, each employee shall be paid for not more than thirty days of unused accumulated personal leave. This payment shall be made based on the remaining number of days (up to 30) after the employee has banked all applicable unused personal leave as creditable service for the purposes of the retirement system. Such payment shall be made by the College at a rate equal to fifty percent (50%) of the employee's daily rate of pay based on their annual primary contract. The liability for accrued leave at June 30, 2008, as reported in the Statement of Net Assets is \$946,052. The current portion cannot be reasonably estimated. Therefore, all liability for accrued leave is classified as long-term.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- N. Classification of Revenues - The College has classified its revenues as either operating or non-operating revenues according to the following criteria:
- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances and (3) most federal, state and local grants and contracts.
- Non-operating revenues: Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating 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.
- O. State Appropriations - Pearl River Community College receives funds from the State of Mississippi based on the number of full-time students actually enrolled and in attendance on the last day of the sixth week of the fall semester of the previous year, counting only those students who reside within the State of Mississippi. Beginning with the 2004 fiscal year, a new funding formula is being phased in over a five-year period which will shift the funding calculation from a predominantly full-time student formula, weighted by type of student, to a full-time equivalent formula which is based on total credit hours generated by all students with special consideration given only to high cost programs.
- P. 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.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Q. Net Assets - GASB Statement No. 34 reports equity as "Net Assets" rather than "Fund Balance". Net assets are classified according to external donor restrictions or availability of assets for satisfaction of College obligations. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes and fund held in federal loan programs.

The unrestricted net asset balance of \$17,606,719 at June 30, 2008, includes \$838,393 reserved for inventories, \$2,943,562 reserved for auxiliaries, and a remaining amount of \$13,824,764.

- R. Blended Component Unit - The Pearl River Community College Student Housing Corporation, although legally separate from the College, is so intertwined with the College that is, in substance, the same as the College. The College appoints the Corporation's Board. Therefore, this component unit is reported as if it is part of the College.

- S. Changes in Accounting Standards - As required, the College has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Policies:

- A. 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.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED JUNE 30, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont.)

The carrying amount of the College's deposits with financial institutions reported in the accompanying financial statements was \$21,302,980, of which \$7,464,356 were certificates of deposit. The bank balance was \$23,966,368.

The College has money fund accounts with balances of \$470 at June 30, 2008, none of which is insured or collateralized. These accounts are the funds established by the issuances of bonds by the Pearl River Community College Student Housing Corporation.

Custodial Credit Risk – Deposits

Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the College's deposits may not be returned to it. The College does not have a deposit policy for custodial credit risk. As of June 30, 2008, the College's bank balance was not exposed to custodial credit risk.

B. Investments

As of June 30, 2008, the College had the following investments.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
Short Term Investments			
Certificates of Deposit	Less than 1	\$ 7,435,106	AAA
Endowment Investments			
Certificates of deposit	Less than 1	\$ 29,250	AAA

Interest Rate Risk

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

Credit Risk

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

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 investments. The College does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2008, the College's investment balance was not exposed to custodial credit risk.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED JUNE 30, 2008

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont.)

Concentration of Credit Risk

Disclosures of investments by amount and issuer for any issuer that represents five percent (5%) or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. Government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2008, the College had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Bank Plus Certificate of Deposit	\$ 548,674	7.35%
Bank Plus Certificate of Deposit	570,185	7.64%
Priority One Bank Certificate of Deposit	3,006,772	40.28%
Priority One Bank Certificate of Deposit	1,055,100	14.14%
Priority One Bank Certificate of Deposit	1,113,523	14.92%
First Southern Bank Certificate of Deposit	1,040,852	13.94%

NOTE 3 - ACCOUNTS RECEIVABLE

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

Student tuition	\$ 3,992,132
Federal, state, and private grants and contracts	1,870,206
Local appropriations	147,712
Other	<u>39,397</u>
Total accounts receivable	6,049,447
Less allowance for doubtful accounts	<u>(3,164,909)</u>
Net accounts receivable	\$ 2,884,538

PEARL RIVER COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS

PAGE 8

YEAR ENDED JUNE 30, 2008

NOTE 4 - NOTES RECEIVABLE FROM STUDENTS

Notes receivable from students are payable in installments over a period of up to ten (10) years, commencing three (3) to twelve (12) months from the date of separation from the institution. The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the institution at June 30, 2008.

	Interest Rates	June 30, 2007	Current Portion	Non-Current Portion
Nursing student loans	3 % to 5%	18,719		18,719
Total notes receivable		18,719		18,719
Less allowance for doubtful accounts		18,719		18,719
Net notes receivable		\$ -	\$ -	\$ -

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 458,882	\$ -	\$ -	\$ -	\$ 458,882
Construction in progress	16,477,655	8,277,260		(11,832,662)	\$ 12,922,253
Total nondepreciable capital assets	\$ 16,936,537	\$ 8,277,260	\$ -	\$ (11,832,662)	\$ 13,381,135

PEARL RIVER COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS

PAGE 9

YEAR ENDED JUNE 30, 2008

NOTE 5 - CAPITAL ASSETS (Cont.)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Depreciable Capital Assets:					
Improvements other than buildings	\$ 22,641,271	\$ -	\$ -	\$ 8,605,688	\$ 31,246,959
Buildings	24,717,254			3,226,974	27,944,228
Equipment	6,787,685	616,228	(470,530)		6,933,383
Library Books	1,136,444	153,495	(150,820)		1,139,119
Leased property under capital leases	1,028,697	12,000	-		1,040,697
Total depreciable capital assets	56,311,351	781,723	(621,350)	11,832,662	68,304,386
Less accumulated depreciation for:					
Improvements other than buildings	7,912,702	1,139,123	-	-	9,051,825
Buildings	6,410,608	568,332			6,978,940
Equipment	5,249,095	550,471	(446,879)		5,352,687
Library Books	658,525	113,913	(150,820)		621,618
Leased property under capital leases	356,444	52,463			408,907
Total accumulated depreciation	20,587,374	2,424,302	(597,699)	-	22,413,977
Total depreciable capital assets, net	35,723,977	(1,642,579)	(23,651)	11,832,662	45,890,409
Capital assets, net	\$ 52,660,514	\$ 6,634,681	\$ (23,651)	\$ -	\$ 59,271,544

PEARL RIVER COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
PAGE TEN
YEAR ENDED JUNE 30, 2008

NOTE 5 - CAPITAL ASSETS (Cont.)

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	10%	5,000
Library books	10 years	10%	--

NOTE 6 - LONG-TERM LIABILITIES

Long-term liabilities of the College consists of notes and bonds payable, capital lease obligations and certain other liabilities that are expected to be liquidated at least one (1) year from June 30, 2008. The various leases cover a period not to exceed five (5) years. The College has the option to prepay all outstanding payments less any unearned interest to fully satisfy the obligation. There is also a fiscal funding addendum stating that if funds are not appropriated for periodic payment for any future fiscal period, the lessee will not be obligated to pay the remainder of the total payments due beyond the end of the current fiscal period.

Information regarding original issue amounts, interest rates and maturity dates for bonds, notes and capital leases 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.

(See Schedule on Next Page)

PEARL RIVER COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS

PAGE 11
YEAR ENDED JUNE 30, 2008

NOTE 6 - LONG TERM LIABILITIES (CONT.)

Description and Purpose	Original Issue	Annual Interest Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Bonded Debt:								
Housing Revenue Bonds of 1967	150,000	3.00%	2007	\$ 6,000		\$ 6,000	\$ -	\$ -
District building notes, Series 1994	825,000	5.00% to 5.9%	2009	155,000		75,000	80,000	80,000
Educational facilities notes, Series 1995	1,600,000	4.3% to 6.125%	2011	565,000		130,000	435,000	135,000
Educational facilities notes, Series 2004	1,660,000	3.00% to 4.20%	2019	1,485,000		95,000	1,390,000	95,000
Student Housing Corporation, Series 2005	10,595,000	3.75% to 5.35%	2036	10,430,000		175,000	10,255,000	180,000
Career Tech Series 2007	3,330,000		2022	3,330,000		165,000	3,165,000	170,000
Total bonded debt				15,971,000	-	646,000	15,325,000	660,000
Capital Leases:								
Copier					12,000	2,010	9,990	2,286
Energy Lease 2000	1,020,130	5.50%	2015	645,076		66,175	578,901	69,865
Total capital leases				645,076	12,000	68,185	588,891	72,151
Other Long-Term Liabilities:								
Revenue shortfall note	225,245	2.70%	2006	252,216		43,651	208,565	45,224
CAPS loan	600,000	3.70%	2012	252,216		43,651	208,565	45,224
Total other long-term liabilities								
Total				\$ 16,868,292	\$ 12,000	\$ 757,836	\$ 16,122,456	\$ 777,375
Due within one year							777,375	
Total long-term liabilities							\$ 15,345,081	
2008	\$ 660,000	\$ 72,151	\$ 45,224	\$ 755,622	\$ 1,532,997			
2009	605,000	76,147	46,925	720,369	1,448,441			
2010	635,000	80,366	48,691	688,114	1,452,171			
2011	505,000	84,819	50,524	658,244	1,298,587			
2012	525,000	87,021	17,201	631,514	1,260,736			
2013-2017	2,960,000	188,387	-	2,753,194	5,901,581			
2018-2022	2,935,000	-	-	2,044,950	4,979,950			
2023-2027	2,000,000	-	-	1,480,450	3,480,450			
2028-2032	2,590,000	-	-	872,050	3,462,050			
2033-2037	1,910,000	-	-	156,755	2,066,755			
Totals	\$ 15,325,000	\$ 588,891	\$ 208,565	\$ 10,761,262	\$ 26,883,718			

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE TWELVE

YEAR ENDED JUNE 30, 2008

NOTE 7 - OPERATING LEASES

Leased property under operating leases is composed of various office equipment. The following is a schedule by years of the future minimum rental payments required under those operating leases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	104,812
2010	76,202
2011	41,783
2012	7,410
Thereafter	-
<i>Total minimum payments required</i>	<u>\$ 230,207</u>

The total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the fiscal year ending June 30, 2008, was \$95,284.

PEARL RIVER COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS

PAGE 13

YEAR ENDED JUNE 30, 2008

NOTE 8 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The College's operating expense by functional classifications were as follows for the year ended June 30, 2008.

Functional Classification	Salaries and Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships and Fellowships	Commodities	Depreciation and amortization Expense	Total
Instruction	\$ 11,450,313	\$ 2,905,023	\$ 229,960	\$ 672,146	\$ 10,593	\$ 791,826	\$ 1,623,654	\$ -	\$ 17,683,515
Academic support	653,395	190,733	703	40,093	-	-	122,178	-	1,007,102
Student services	2,052,848	525,212	189,997	333,062	-	3,518,209	396,781	-	7,016,109
Institutional support	2,130,744	602,348	40,752	1,474,733	2,990	236,278	362,269	-	4,850,114
Operation of plant	1,194,689	427,655	589	1,706,766	1,516,539	-	527,340	-	5,373,578
Auxiliary enterprises	402,642	130,027	1,650	1,860,712	46,847	73,836	2,280,595	-	4,796,309
Depreciation	-	-	-	-	-	-	-	2,445,192	2,445,192
Total operating expenses	\$ 17,884,631	\$ 4,780,998	\$ 463,651	\$ 6,087,512	\$ 1,576,969	\$ 4,620,149	\$ 5,312,817	\$ 2,445,192	\$ 43,171,919

NOTE 9 - CONSTRUCTION COMMITMENTS AND FINANCING

The College has contracted for various construction projects as of June 30, 2008. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

Project Title	Total Costs to Complete	Federal Sources	State Sources	Institutional Funds	Other
Nursing Wellness Center-Repairs	\$ 420,131	\$ -	\$ 420,131	\$ -	\$ -
Stadium Renovation	512,595	-	512,595	-	-
Transportation facility	364,095	-	364,095	-	-
Total	\$ 1,296,821	\$ -	\$ 1,296,821	\$ -	\$ -

On August 29, 2005, Hurricane Katrina caused extensive damage to portions of the southeast United States, including the area where the College campuses are located. It is estimated the College received \$50 million in structural damage.

PEARL RIVER COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

PAGE FOURTEEN

YEAR ENDED JUNE 30, 2008

NOTE 10 - PENSION PLAN

Plan Description - Pearl River 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 11.30% 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, 2008, 2007 and 2006 were \$1,922,019, \$1,659,040, and \$1,412,568, respectively, equal to the required contributions for each year.

NOTE 11 - 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.

NOTE 12 - CONCENTRATIONS

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

NOTE 13 - CONTINGENCIES

The College is party to legal proceedings, many of which occur in the normal course of operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the College with respect to the various proceedings. However, the College's legal counsel believes that the ultimate liability resulting from these lawsuits will not have a material adverse effect of the financial position of the College.

***PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS***

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pearl River Community College Development Foundation, Inc., a nonprofit organization, was founded in 1987. The Foundation's mission is to raise funds in order to provide scholarships, faculty awards, teacher grants and endowments for the students and faculty of Pearl River Community College. Revenue is derived primarily from outside contributors.

The accounting policies of Pearl River Community College Development Foundation, Inc. conform to accounting principles generally accepted in the United States of America applicable to nonprofit organizations. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting - The financial statements of the Foundation have been prepared using the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

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. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined and presented for the Foundation as a whole in accordance with the provisions of Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations".

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donations of property, equipment, marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose.

Fair Value of Financial Instruments - The carrying amount at June 30, 2008 for cash and cash equivalents, certificates of deposit, treasury notes, investments, pledges receivable, accounts payable, and accrued expenditures are a reasonable estimate of their fair values.

Income Taxes - The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
PAGE TWO
YEAR ENDED JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Investments - The Foundation accounts for investments in accordance with SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increase 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.

Cash and Cash Equivalents - For purposes of the Statement of Financial Position and the Statement of Cash Flows, cash and cash equivalents are considered to be all unrestricted highly liquid investments with maturities of three months or less at the time of acquisition.

Contributed Facilities - The Foundation occupies without charge certain premises located in Pearl River Community College owned buildings. The Foundation does not have a lease with the College for the office space and office furniture which is for future benefits to be received from the Foundation. The College also provides other operating expenses, such as staff payroll and benefits, which have been shown on the Statement of Activities as both support and general administration expenses. The value of the office space, office furniture and utilities has not been included in the Statement of Activities because they cannot be reasonably determined.

Fixed Assets - The Foundation's fixed assets consist of computer equipment and office furniture. All assets are valued at cost and depreciated using the straight-line method over the estimated useful life of the asset. Office furniture and equipment are being depreciated over 5-7 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations. Depreciation charged to expense in the current year totaled \$2,414.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Net Assets - Net assets of the Foundation consist of the following:

Unrestricted - These amounts are available for general obligations of the Foundation and for operating activities such as general scholarships, awards, projects, administration, etc.

Temporarily restricted - These amounts are restricted by donors to be used for a specific purpose or scholarship.

Permanently restricted - (Scholarship endowments) - These amounts are permanently restricted by donors and cannot be used by the Foundation. Income and capital gains may or may not be used depending on the endowment agreement.

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
PAGE THREE
YEAR ENDED JUNE 30, 2008**

NOTE 2 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 3 - FUND RAISING

The Foundation conducts various fundraising events throughout the year. Fundraising revenue included under revenues in the Statement of Activities are for funds received from contributors related to a fundraising activity.

The fund raising expenses included under supporting services in the Statement of Activities are for expenses incurred in inducing others to contribute money for which the contributor will receive no direct economic benefit, such as printing, mailing and maintaining mailing lists.

NOTE 4 - CONCENTRATIONS OF CREDIT RISK

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

Financial instruments that potentially subject the Foundation to credit risk include cash and investments.

Deposits are maintained at several financial institutions. The FDIC provides up to \$100,000 coverage at each institution. At June 30, 2008, \$1,922,164 of cash deposits were uninsured. Because the Foundation is classified as a private non-profit foundation, many financial institutions will not pledge securities for deposits in excess of FDIC coverage. However, management feels there is minimal risk exposure as a result of this uninsured balance.

The Foundation's investments are not collateralized. Future changes in market prices may make such investments less valuable.

NOTE 5 - COMMON FUND INVESTMENTS

During the year ended June 30, 1996, the Foundation received a \$250,000 Endowment Challenge Grant. This grant, along with the funds raised during the Endowment Challenge period, was invested with "The Common Fund - Investment Management for Educational Institutions."

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
PAGE FOUR
YEAR ENDED JUNE 30, 2008**

NOTE 5 - COMMON FUND INVESTMENTS (Cont.)

The activity in the Common Fund for the year ended June 30, 2008, was as follows:

Market Value at June 30, 2007	\$ 1,331,279
Purchases	-
Income	33,035
Market losses	(68,005)
Expenses	<u>(5,032)</u>

Market value at June 30, 2008 **\$ 1,291,277**

Cost basis at June 30, 2008 **\$ 800,104**

The Foundation is restricted from spending the fund corpus for twenty (20) years from the grant date. The Foundation is allowed to spend fifty percent (50%) of the income earned each year; however, it is not the Foundation's intent to do so.

NOTE 6 - PLEDGES RECEIVABLE

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

Unrestricted	\$ 16,369
Temporarily restricted	3,042
Permanently restricted	<u>3,600</u>

Total **\$ 23,011**

These pledges are due as follows:

Due in less than one year	\$ 20,011
Due in one to five years	<u>3,000</u>

Total **\$ 23,011**

No provision has been made for uncollectible amounts as management believes that all will be collected.

**PEARL RIVER COMMUNITY COLLEGE
DEVELOPMENT FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS
PAGE FIVE
YEAR ENDED JUNE 30, 2008**

NOTE 7 - RESTRICTIONS ON NET ASSETS

Net assets were released from donor restrictions by meeting the time restrictions or by incurring expenses satisfying the purpose restrictions specified by donors as follows:

Restriction accomplished:	
Scholarships	\$ 446,172
Educational departments	209,973
Other	<u>72,666</u>
	<u>\$ 728,811</u>

Temporarily and permanently restricted net assets at June 30, 2008, were restricted as follows:

Temporarily restricted:	
Scholarships and grants	<u>\$ 1,477,773</u>

Permanently restricted:	
Endowment scholarships and grants	<u>\$ 2,162,815</u>

***PEARL RIVER COMMUNITY COLLEGE
SUPPLEMENTARY INFORMATION***

SCHEDULE 1

PEARL RIVER COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Student Financial Aid - Cluster			
<u>U.S. Department of Education</u>			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		\$ 163,628
Federal Family Education Loans (FFEL)	84.032		4,327,791
Federal Work-Study Program (FWS)	84.033		168,172
Federal Pell Grant Program	84.063		7,950,430
Total U.S. Department of Education			<u>12,610,021</u>
Total Student Financial Aid Cluster			<u>12,610,021</u>
Other Programs			
<u>U.S. Department of Agriculture</u>			
Pass-through programs from:			
Mississippi Community College Foundation-Mississippi Rural Health Corporation Program - Cooperative Extension Service	10.500		<u>17,258</u>
Total U.S. Department of Agriculture			<u>17,258</u>
<u>U.S. Department of Commerce</u>			
Pass-through programs from:			
Mississippi Extension Partnership of Mississippi	11.611		<u>10,823</u>

SCHEDULE 1
PAGE 2

PEARL RIVER COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Justice</u>			
Public Safety Partnership & Community Policing Grants	16.710		\$ 2,134
Total U.S. Department of Justice			2,134
<u>U.S. Department of Labor</u>			
<u>WIA Cluster:</u>			
Southern Mississippi Planning and Development - WIA Adult Programs	17.258		63,622
Mississippi Employment Security Commission - WIA Dislocated Workers	17.260		29,913
Total WIA Cluster			93,535
Southern Mississippi Planning and Development- WIA Youth Programs	17.261		637,781
Total U.S. Department of Labor			731,316
<u>National Aeronautics and Space Administration</u>			
Pass-through program from:			
University of Mississippi - Aerospace Education Services Program	43.001		140,568
Total National Aeronautics and Space Administration			140,568

SCHEDULE 1
PAGE 3

PEARL RIVER COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Trio - Student Support Services	84.042		300,894
Subtotal Trio-Student Support Services			300,894
Hurricane Education Recovery Awards Program	84.938		648,053
Hurricane Katrina Foreign Contributions Awards Program	84.940		128,018
			776,071
Pass-through programs from:			
Mississippi Department of Education - Vocational Education - Basic Grants to States	84.048		293,738
Mississippi Department of Education - Tech-Prep Education	84.243		327,972
Mississippi Department of Education - Academic Competitiveness Program	84.375		50,209
Subtotal pass-through programs			671,919
Total U.S. Department of Education			1,748,884

SCHEDULE 1
PAGE 4

PEARL RIVER COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Student Financial Aid - Cluster			
<u>U.S. Department of Health & Human Services</u>			
Pass-through program from:			
Mississippi Department of Mental Health Developmental Disabilities	96.630		
Basic Support and Advocacy Grants			\$ 3,945
Total U.S. Department of Health & Human Services			3,945
Total other programs			2,654,928
Total Expenditures of Federal Awards			\$ 15,264,949

PEARL RIVER COMMUNITY COLLEGE

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

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.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

HERZOG CPA COMPANY, PLLC

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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. William A. Lewis, President
And Board of Trustees
Pearl River Community College
Poplarville, Mississippi 39470

We have audited the financial statements of the business type activities of Pearl River Community College as of and for the year ended June 30, 2008, as listed in the table of contents and have issued our report thereon dated May 31, 2009. 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 Pearl River 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 primary government financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pearl River Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pearl River 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned cost to be a significant deficiency in internal control over financial reporting. The finding is identified as number 08-1.

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 statement will not be prevented or detected by the entity's internal control.

Our consideration of the 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, 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.

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and question costs. We did not audit the College's response and, accordingly, we express no opinion on it.

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.

Herzog CPA Company, PLLC
Herzog CPA Company, PLLC
May 31, 2009

HERZOG CPA COMPANY, PLLC

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

Dr. William A. Lewis, President
And Board of Trustees
Pearl River Community College
Poplarville, MS 39470

Compliance

We have audited the compliance of Pearl River Community College with 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. 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, Pearl River 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 Pearl River 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 exist when the design or operation of the 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 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 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.

Herzog CPA Company, PLLC
Herzog CPA Company, PLLC
May 31, 2009

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

HERZOG CPA COMPANY, PLLC

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

Dr. William A. Lewis, President
And Board of Trustees
Pearl River Community College
Poplarville, MS 39470

We have audited the financial statements of Pearl River Community College as of and for the year ended June 30, 2008, and have issued our report thereon dated May 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have also performed procedures to test compliance with certain 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.

Herzog CPA Company, PLLC
Herzog CPA Company, PLLC
May 31, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PEARL RIVER COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(s) identified that is not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(s) identified not considered to be material weaknesses? No

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section __.510(a)? No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
17.261	WIA Youth Programs
84.007	Student Financial Aid Cluster-FSEOG
84.032	Student Financial Aid Cluster-FFEL
84.033	Student Financial Aid Cluster-FWS
84.063	Student Financial Aid Cluster-PELL
84.938	Hurricane Education Recovery Awards Program

Dollar threshold used to distinguish between Type A and Type B programs: \$328,114

Auditee qualified as low-risk auditee? Yes

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 OMB Circular A-133, Section __.315(b)? No

PEARL RIVER COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE TWO

YEAR ENDED JUNE 30, 2008

Section II - Financial Statement Findings

Significant Deficiency

08-1. Finding

The petty cash counts for Woodall Technology Center and the business office at the Hattiesburg Campus were not properly accounted for at the date of the audit petty cash count.

Recommendation

Petty Cash accounting reports should be submitted weekly to the Poplarville business office.

Response

Internal procedures will be established that will require the weekly submission of petty cash accounting reports to the Poplarville Business Office.

Section III - Federal Award Findings and Questioned Costs

None