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SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Audited Financial Statements  
For the Year Ended June 30, 2008

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

FINANCIAL AUDIT REPORT

# *PATRICK E. LOWERY AND ASSOCIATES*

## *CERTIFIED PUBLIC ACCOUNTANTS*

*Member of Mississippi Society  
of Certified Public Accountants*

215 SOUTH RAILROAD AVENUE  
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456  
FAX (601) 833-9896  
EMAIL: [plowery3@bellsouth.net](mailto:plowery3@bellsouth.net)

*Member of American Institute  
of Certified Public Accountants*

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

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

We have audited the accompanying financial statements of the business type activities and the discretely presented component unit of Southwest Mississippi Community College as of and for the year ended June 30, 2008, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Southwest Mississippi Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

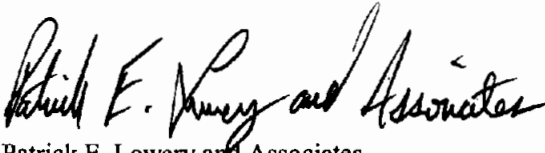
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and discretely presented component unit of Southwest Mississippi Community College, as of June 30, 2008, 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 February 20, 2009 on our consideration of Southwest Mississippi Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 16, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Patrick E. Lowery and Associates  
Certified Public Accountants

February 20, 2009

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS



# **SOUTHWEST MISSISSIPPI COMMUNITYY COLLEGE**

## **Office of Vice President of Business Affairs**

1156 College Drive Summit, MS 39666 Telephone 601-276-3704 Fax 601-276-3888 gsmith@smcc.edu

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

This section of the Southwest Mississippi Community College annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 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. We have included in this discussion comparative data for 2007. The financial statements, footnotes, and this discussion are the responsibility of management.

#### **Using this Annual Report**

This annual report consists of a series of financial statements, prepared in accordance with the Government Accounting Standards Board Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. We are in the sixth year of compliance with this standard. These financial statements differ significantly, in both form and the accounting principles used, from those presented prior to fiscal year 2003. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

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

#### **Reporting the College's Financial Activities**

##### ***Statement of Net Assets***

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

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

# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

## **Management's Discussion and Analysis For the Year Ended June 30, 2008**

### **Condensed Statement of Net Assets**

	<b>June 30, 2008</b>		<b>June 30, 2007</b>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<b>Assets</b>				
Current assets	\$ 11,908,456	.29	\$ 11,552,827	.29
Non-current assets				
Capital, net	28,098,491	.68	25,066,246	.63
Other	1,292,843	.03	2,869,899	.07
Total assets	<u>\$ 41,299,790</u>	<u>1.00</u>	<u>\$ 39,488,972</u>	<u>1.00</u>
<b>Liabilities</b>				
Current liabilities	\$ 1,758,121	.54	\$ 1,388,100	.51
Non-current liabilities	1,501,105	.46	1,320,975	.49
Total liabilities	<u>\$ 3,259,226</u>	<u>1.00</u>	<u>\$ 2,709,075</u>	<u>1.00</u>
<b>Net assets</b>				
Invested in capital assets, net	\$ 26,388,065	.69	\$ 23,598,456	.64
Restricted				
Non-expendable	896,370	.02	894,443	.03
Expendable	3,748,622	.10	6,283,823	.17
Unrestricted	7,007,507	.19	6,003,175	.16
Total net assets	<u>\$ 38,040,564</u>	<u>1.00</u>	<u>\$ 36,779,897</u>	<u>1.00</u>

The current asset position at June 30, 2008 is \$ 11,908,456. This represents primarily cash, short-term investments, accounts receivable, and inventories. Cash and short-term investments totaled \$9,536,569, accounts receivable totaled \$1,557,821 and are reported net of allowance for doubtful accounts of \$747,328, inventories for the book store and cafeteria totaled \$637,763, and prepaid expense totaled \$176,303. For the fiscal year ended June 30, 2007, the current asset position was \$11,552,827. Cash and short-term investments were \$9,796,890, accounts receivable were \$972,736 reported net of allowance for doubtful accounts of \$722,201, inventories were \$626,396, and prepaid expense was \$156,805.

The noncurrent asset position at June 30, 2008 is \$29,391,334. This represents restricted cash and cash equivalents, endowment and loan fund investments, capital assets, net of accumulated depreciation. Restricted cash and investments totaled \$1,292,843 and capital assets, net totaled \$28,098,491. For the fiscal year ended June 30, 2007, restricted cash and investments were \$1,269,456 and capital assets, net were \$25,066,246. Additionally, the College had \$1,600,443 on deposit with the State Bureau of Buildings, Grounds, and Real Property for the renovation of the W.S. Bryan Science Complex which was converted to capital assets during fiscal year 2008.

# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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

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

Current liabilities at June 30, 2008 are \$1,758,121. This consists primarily of accounts payable, accrued payroll, deferred revenue associated with early student registration for the fall 2008 academic semester, and the current portion of long-term debt. Accounts payable totaled \$552,679, salaries and benefits payable totaled \$521,928, deferred revenue totaled \$470,052, agency funds on deposit totaled \$4,141, and the current portion of long-term debt amounted to \$209,321. For the fiscal year ended June 30, 2007, current liabilities were \$1,388,100. Accounts payable were \$522,397, accrued payroll was \$405,921, deferred revenue was \$308,000, agency funds on deposit were \$4,967, and the current portion of long-term debt was \$146,815.

Noncurrent liabilities for the College consist exclusively of long-term debt due for capital lease purchase agreements. At June 30, 2008 noncurrent liabilities totaled \$1,501,105, as compared to \$1,320,975 at June 30, 2007. The College added \$456,300 in new long-term debt during the fiscal year 2008.

The largest position of the College's net assets (69 percent) is in the category of "invested in capital assets" (land, buildings, and equipment), less the related debt. The restricted portion of the net assets represents resources subject to external restrictions. Restricted non-expendable net assets consist of endowment gifts with specific restrictions on spending the principle given. Restricted expendable net assets consist of gifts with specific restrictions, grants from third-party agencies with expenditure restrictions, plant funds restricted for capital projects and debt service, and loan funds.

The following is a breakdown of the restricted net assets:

	<b>2008</b>	<b>2007</b>	<b>Increase (Decrease)</b>
Non-expendable endowment funds	\$ 896,370	\$ 894,443	\$ 1,927
Scholarships	39,000	9,648	29,352
Capital projects	156,996	2,895,201	(2,738,205)
Debt service	209,321	146,815	62,506
Loan funds	3,292,657	3,176,999	115,658
Other	50,648	55,160	(4,512)
Total restricted net assets	<u>\$ 4,644,992</u>	<u>\$ 7,178,266</u>	<u>\$ (2,533,274)</u>

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

	<b>2008</b>	<b>2007</b>	<b>Increase (Decrease)</b>
Unrestricted General Funds	\$ 4,360,510	\$ 3,580,966	\$ 779,544
Unrestricted Auxiliary Funds	2,552,059	2,338,192	213,867
Unrestricted Designated Funds	94,938	84,017	10,921
Total unrestricted net assets	<u>\$ 7,007,507</u>	<u>\$ 6,003,175</u>	<u>\$ 1,004,332</u>

# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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

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

### ***Statement of Revenues, Expenses and Changes in Net Assets***

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

### **Condensed Statement of Revenues and Changes in Net Assets**

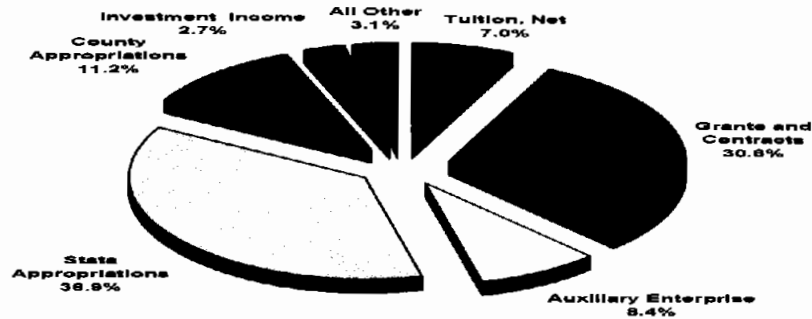
	<b>2008</b>	<b>2007</b>
<b>Operating revenues</b>		
Tuition and fees (net)	\$ 1,394,132	\$ 1,086,773
Grants and contracts	6,064,886	5,276,092
Sales and service	32,057	23,656
Auxiliary enterprises (net)	1,661,784	1,447,701
Other operating revenues	475,508	330,830
Total operating revenues	<u>9,628,367</u>	<u>8,165,052</u>
<b>Operating expenses</b>	<u>19,245,485</u>	<u>18,392,109</u>
Operating loss	<u>( 9,617,118)</u>	<u>(10,277,057)</u>
<b>Non-operating revenues (expenses)</b>		
State appropriations	7,304,755	6,094,290
County appropriations	2,225,447	2,189,128
Investment income, net	453,576	510,931
Other non-operating revenues	195,986	775,186
Interest on indebtedness	( 69,884)	( 59,698)
Net non-operating revenues (expenses)	<u>10,109,880</u>	<u>9,509,837</u>
Income (loss) before other revenues	<u>492,762</u>	<u>( 717,220)</u>
State capital use appropriations	<u>767,905</u>	<u>1,513,628</u>
Total increase in net assets	<u>1,260,667</u>	<u>796,408</u>
<b>Net assets</b>		
Net assets, beginning of year	<u>36,779,897</u>	<u>35,983,489</u>
Net assets, end of year	<u><b>\$ 38,040,564</b></u>	<u><b>\$ 36,779,897</b></u>

# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

## **Management's Discussion and Analysis For the Year Ended June 30, 2008**

### **Total Revenue by Source**

**2008**

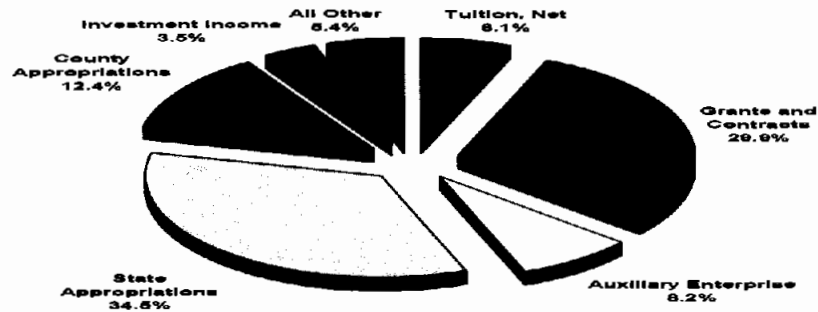


In fiscal year 2008 operating revenues totaled \$9,628,367 and non-operating revenues totaled \$10,179,764. The sources of operating revenue for the College are tuition and fees, grants and contracts, auxiliary services, and other operating revenues. The College's largest source on non-operating revenue is the State of Mississippi appropriation as well as support from the four counties comprising the college's district.

Total operating loss for the fiscal year 2008 was \$9,617,118. Because the State of Mississippi appropriation is not included within operating revenue per GASB no. 35, the college will always show a significant operating loss.

**SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

**2007**



In fiscal year 2007 operating revenues totaled \$8,165,052 and non-operating revenues totaled \$9,569,535. The total operating loss for the fiscal year 2007 was \$10,227,057.

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

**Operating Revenues**

- **Tuition and fees (net of tuition discount)** reflects an increase in Fiscal Year 2008 of \$307,359. Tuition and fees totaling \$1,394,132 are net of \$2,431,911 in scholarship allowances. Tuition discounting is calculated from student financial aid awards and related student refunds.
- **Grants and contracts revenue** increased in Fiscal Year 2008 by \$788,794. Grants and contracts revenue includes all federal and state restricted revenues made available by government agencies, as well as private agencies. Grant revenues are recorded only to the extent that the funds have been expended for exchange transactions. Non-exchange revenues are recorded when received or when eligibility criteria have been met.

# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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

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

The following table details the College's grant and contract awards for the fiscal years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Federal sources	\$ 4,373,561	\$ 3,923,500	\$ 450,061
State sources	1,596,325	1,268,092	328,233
Other sources	95,000	84,500	10,500
Total all sources	<u>\$ 6,064,886</u>	<u>\$ 5,276,092</u>	<u>\$ 778,794</u>

- **Auxiliary enterprises revenue**, net of fee discount, consists of enterprise entities that exist predominantly to furnish goods and services to students, faculty, staff, or the general public and charge a fee directly related to the cost of those goods or services. They are intended to be self-supporting.

Auxiliary enterprises primarily include the bookstore, student and campus housing, and food services. Auxiliary enterprises revenue, net of scholarship allowances, totaled \$1,661,784 for the fiscal year 2008 or an increase of \$214,083 over fiscal year 2007. The discount for scholarship allowance was \$566,171 for fiscal year 2008 and \$543,090 for fiscal year 2007.

	<u>2008</u>	<u>2007</u>
Bookstore	\$ 1,049,618	\$ 899,195
Student and campus housing	379,049	370,143
Food services	792,628	714,470
Other	6,660	6,983
Subtotal	\$ 2,227,955	\$ 1,990,791
Less: Scholarship allowances	<u>( 566,171)</u>	<u>( 543,090)</u>
Net auxiliary enterprises revenue	<u>\$ 1,661,784</u>	<u>\$ 1,447,701</u>

# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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

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

### **Operating Expenses**

Operating expenses for fiscal year 2008 totaled \$19,245,485 including salaries and benefits of \$10,803,396, scholarships of \$1,884,275, utilities of \$802,826, supplies of \$1,992,806, contractual services of \$1,954,126, travel of \$112,480, depreciation of \$1,266,613, and other operating expense of \$428,963. Operating expenses for fiscal year 2007 totaled \$18,392,109 including salaries and benefits of \$9,989,649, scholarships of \$1,527,598, utilities of \$745,083, supplies of \$2,277,704, contractual services of \$2,440,026, travel of \$94,443, depreciation of \$961,941, and other operating expense of \$355,665.

### **Expenses by Function:**

	<b>2008</b>	<b>2007</b>	<b>Increase (Decrease)</b>
Instruction	\$ 7,861,077	\$ 7,277,224	\$ 583,853
Academic support	458,806	412,005	46,801
Student services	1,908,228	1,778,015	130,213
Institutional support	1,845,940	1,698,799	147,141
Operation of physical plant	1,949,304	2,590,334	( 641,030)
Student financial aid	1,884,275	1,487,670	396,605
Auxiliary enterprises	2,071,242	2,186,121	( 114,879)
Depreciation	1,266,613	961,941	304,672
Total Operating Expenses	<b>\$ 19,245,485</b>	<b>\$ 18,392,109</b>	<b>\$ 853,376</b>

### **Non-Operating Revenues (Expenses)**

- **State appropriation** funding is the College's largest source of non-operating revenue. This appropriation is for the educational and general operations of the College. The college received \$7,304,755 in 2008 as compared to \$6,094,290 in 2007, or an increase of \$1,210,465. This increase served to recover some of the overall \$1,552,063 in state appropriation funding cuts experienced since Fiscal Year 2000.
- **Local county appropriation** increased only slightly for fiscal year 2007. This revenue is received from the four counties (Amite, Pike, Walthall, and Wilkinson) of the State Community College District in which the College resides. The College received \$2,225,447 for fiscal year 2008, compared to \$2,189,128 for fiscal year 2007.



# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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

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

- **Investment income, net** includes interest income earned on cash in the bank accounts, mutual funds, and the school's investment pooling account net of any fees charged. Investment income for fiscal year 2008 was \$453,576, compared to \$510,931 in fiscal year 2007. The decrease is due to falling interest rates and the use of plant funds previously invested to complete the renovation of the W.S. Bryan Science Complex.
- **Capital appropriations** consist of construction and renovation expenditures made by the State Bureau of Buildings, Grounds, and Real Property Management on behalf of the College. Funds totaling \$767,905 for fiscal year 2008 and \$1,513,628 for fiscal year 2007 were expended for the renovation of the W.S. Bryan Science Complex.
- **Interest expense of capital asset related debt** consists of the amount the College incurred during fiscal year for debt expense. The total expense was \$69,884 for fiscal year 2008, compared to \$59,698 for fiscal year 2007. \$450,366 in new long-term debt was added to existing debt by the College in fiscal year 2008.

### ***Statement of Cash Flows***

Another way to assess the financial health of the College is to look at the statement of cash payments of the College during a period. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the College during the fiscal period. The statement of cash flows also help users assess:

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

The statement of cash flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing, and investing activities.

### **Condensed Statement of Cash Flows (Direct Method)**

	<b>2008</b>	<b>2007</b>
Cash and Cash Equivalents Provided (Used) By:		
Operating activities	\$ ( 7,039,204)	\$ (10,411,904)
Noncapital financing activities	9,706,895	9,054,283
Capital/Related financing activities	( 3,358,021)	( 1,366,867)
Investing activities	1,094,656	702,024
Net Increase in Cash and Cash Equivalents	404,146	( 2,022,464)
Cash and Cash Equivalents – Beginning of Year	935,245	2,957,709
Cash and Cash Equivalents – End of Year	<b>\$ 1,339,391</b>	<b>\$ 935,245</b>

# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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

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

The major sources of funds comprising operating activities for fiscal year 2008 include student tuition and fees, \$1,258,890; auxiliary enterprises, \$1,680,364; and grants and contracts, \$5,668,447. The major uses of funds were payments made to employees, \$10,687,389; and to suppliers, \$4,444,771; and for scholarships, \$1,884,275.

In comparison, the major sources of funds comprising operating activities for fiscal year 2007 include student tuition and fees, \$1,140,248; auxiliary enterprises, \$1,444,961; and grants and contracts, \$4,867,822. The major uses of funds were payments made to employees, \$9,946,198; to suppliers, \$4,819,716; and for scholarships, \$1,527,598.

The largest inflow of cash in the non-capital financing activities group is the state appropriation of \$7,285,024 and county appropriation of \$2,225,447 for fiscal year 2008, compared to state appropriation of \$6,086,726 and county appropriation of \$2,189,128 for fiscal year 2007.

### **Capital Asset Transactions**

The College capitalizes assets that have a value or cost equal to or greater than \$5,000 at the date of acquisition and an expected useful life of more than one year. Repairs and renovations that do not extend the life of the building beyond the expected useful life at acquisition, nor increase the future service potential of the building are expensed and not capitalized.

Equipment and property under capital lease are depreciated over their useful lives, generally 3 to 20 years beginning in the year of acquisition. Buildings and improvements (or infrastructure) are depreciated over their estimated useful lives, generally 20 to 40 years for buildings and 20 years for improvements beginning in the year that the construction is completed or, if purchased after construction, when acquired. Library books and software are depreciated over 10 years. When a construction project is completed, the capital project costs are moved from the construction in progress account to either buildings or improvements as appropriate.

As shown in the following table, the College increased its net capital assets by \$3,032,245 during the fiscal year 2008.

	<b>2008</b>	<b>2007</b>	<b>Increase (Decrease)</b>
Land	\$ 122,124	\$ 122,124	\$ -
Construction in progress	12,000	2,617,670	( 2,605,670)
Buildings	30,760,928	26,571,613	4,189,315
Improvements	6,548,209	5,014,706	1,533,503
Machinery and equipment	2,066,160	1,909,090	157,070
Library books and media	1,018,834	1,011,320	7,514
Software	400,000	-	400,000
Capital lease	2,111,173	1,660,807	450,366
Total capital assets	43,039,304	38,907,330	4,132,098
Accumulated depreciation	( 14,940,937)	( 13,841,084)	( 1,099,853)
Net capital assets	<b>\$ 28,098,491</b>	<b>\$ 25,066,246</b>	<b>\$ 3,032,245</b>

# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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

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

In addition to costs incurred, the College had \$12,000 in outstanding commitments for construction projects as of June 30, 2008.

Major changes in capital assets during fiscal year 2008 came from an increase in building renovations relating to the improvements and modernization of the campus. The largest project involved the complete renovation of the W.S. Bryan Science Complex which totaled \$4,017,542. Funding for this project came primarily from State capital improvement bonds and appropriations from the four counties comprising the College's district.

Other larger projects, all completed with local funding sources, include a new eight-lane track facility totaling \$674,602, the addition of two parking lots and campus road improvements totaling \$310,378, and the installation of new administrative software totaling \$400,000.

The design and development phase for a new men's dormitory also neared completion at fiscal year end. Projected construction costs of \$10,500,000 may require a delay in continuing the project.

### **Long-Term Debt Activities**

The College has only recently incurred long-term debt through capital lease agreements to promote energy savings. The savings in energy costs are projected to be sufficient to pay the indebtedness and the associated interest expense. Prior to fiscal year 2007, the College had not experienced long-term debt for any purpose since the fiscal year ended June 30, 1987. As shown in the following chart, the College increased its long-term debt by \$242,636 through a new lease-purchase agreement totaling \$450,366 for a 100 ton chiller unit used in the W.S. Bryan Science Complex renovation project.

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Capital leases payable	<u>\$ 1,710,426</u>	<u>\$ 1,467,790</u>	<u>\$ 242,636</u>
Total long-term liabilities	<u>\$ 1,710,426</u>	<u>\$ 1,467,790</u>	<u>\$ 242,636</u>

### **Factors Impacting Future Periods**

Southwest Mississippi Community College, like many institutions across the nation, is feeling the pressure of the current economic climate. The Governor has imposed two budget cuts totaling five percent of general fund state appropriations for the current fiscal year 2009. All state agencies and state-supported educational institutions have been put on notice that restoration of budget reductions for fiscal year 2010 is not likely.

# **SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE**

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

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

In addition to the state budget impact, the recent worldwide credit and financial crisis has and will continue to impact multiple funding facets that support the College. The credit problems associated with housing will reduce local tax revenue from the four counties within the College district. Lowered interest rates on investments have already greatly affected income on which the College has depended. It will take time to repair the damage.

In meeting these difficult and challenging times, the College is financially well-positioned to implement a strategy in meeting the risks of reduced budgets while at the same time ensuring core mission services are achieved.

First, in times of economic downturn, the College has always risen to the challenge and opportunity for leadership, innovation, and achievement. Beginning in fiscal year 2000, budget reductions in state appropriations totaling more than \$1.5M were experienced. Prior to that time, state appropriations comprised approximately 65% of revenue sources for the College. That total dropped to 46% in one year. Over a four year period, additional reductions were absorbed and the College continued its growth with balanced budgets and an increase in net assets each year. This flexibility and commitment of its administration, faculty, and staff in cost containment exhibited over many years as well as ongoing efforts toward revenue diversification will provide the necessary resources to weather the current economic problems.

Secondly, while state appropriations have been reduced during difficult times, the State of Mississippi maintains a high degree of fiscal responsibility and continues to provide strong support for all levels of its educational institutions. In other words, the College knows that the State will be there for them in a huge way no matter what.

Additionally, while enrollment has increased moderately except during the immediate aftermath of Hurricane Katrina, it has been the norm in Mississippi for laid off workers to return to school for retraining or the pursuit of new career avenues. As a true "community" college offering academic transfer work, career and technical education, as well as workforce training and re-training, we are positioned to experience rapid growth.

Finally, the standard set by the College's management has always been to operate well within budgeted amounts and with the minimum of administrative and management positions - employees "wear a number of hats". As a result, for the last fifteen years, the College has maintained unrestricted net assets totaling at least 35% of its operating budgets. For the fiscal year ended June 30, 2008, unrestricted net assets were \$7,007,507 or 44% of the fiscal year 2008 total operating budgets of \$15,916,425.

While it is not possible to predict the ultimate results, management believes that the College's financial condition is strong enough to support the College in whatever is asked of it.

### **CONTACTING THE COMMUNITY COLLEGE'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact Grady Smith, Vice President of Business Affairs, Southwest Mississippi Community College, 1156 College Drive, Summit, MS 39666, or telephone 601-276-3704, or by e-mail at [gsmith@smcc.edu](mailto:gsmith@smcc.edu).

AUDITED FINANCIAL STATEMENTS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Statement of Net Assets

June 30, 2008

ASSETS

Current assets:

Cash and cash equivalents	\$	1,311,378
Short term investments		8,225,191
Accounts receivables, net		636,071
Due from State General Fund		117,041
Grants and contracts receivable, net		804,709
Inventories		637,763
Prepaid expenses		176,303
Total Current Assets		<u>11,908,456</u>

Noncurrent assets:

Restricted cash and cash equivalents		28,013
Endowment investments		900,652
Other long term investments (land in loan funds)		364,178
Capital assets, net of accumulated depreciation		28,098,491
Total Noncurrent Assets		<u>29,391,334</u>
Total Assets		<u>41,299,790</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities		552,679
Deferred revenues		470,052
Accrued payroll		521,928
Deposits Refundable		4,141
Long-term liabilities - current portion		209,321
Total Current Liabilities		<u>1,758,121</u>

Noncurrent liabilities:

Long-term liabilities		<u>1,501,105</u>
Total Noncurrent Liabilities		<u>1,501,105</u>
Total Liabilities		<u>3,259,226</u>

NET ASSETS

Invested in capital assets, net of related debt		26,388,065
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Restricted for:

Nonexpendable:

Scholarships and fellowships		896,370
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Restricted for:

Expendable:

Scholarships and fellowships		39,000
Capital projects		156,996
Debt service		209,321
Loans to students		3,292,657
Other purposes		50,648

Unrestricted:

Total Net Assets	\$	<u><u>38,040,564</u></u>
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Southwest Mississippi Community College Foundation, Inc.  
Statement of Financial Position  
June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Assets</b>				
Cash and Investments	\$ 74,668	\$ 57,304	\$ 41,676	\$ 173,648
Investments	30,742	22,732	18,106	71,580
Capital assets, net of accumulated depreciation	40,096	-	-	40,096
Total Assets	<u>\$ 145,506</u>	<u>\$ 80,036</u>	<u>\$ 59,782</u>	<u>\$ 285,324</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 3,282	\$ 16,966	\$ -	\$ 20,248
<b>Net Assets</b>				
Unrestricted	142,224	-	-	142,224
Temporarily Restricted	-	63,070	-	63,070
Permanently Restricted	-	-	59,782	59,782
Total Net Assets	<u>\$ 142,224</u>	<u>\$ 63,070</u>	<u>\$ 59,782</u>	<u>\$ 265,076</u>

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

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

Operating Revenues:

Tuition and fees (net of scholarship allowances of \$2,431,911 )	\$	1,394,132
Federal grants and contracts		4,373,561
State grants and contracts		1,596,325
Nongovernmental grants and contracts		95,000
Sales and services of educational departments		32,057
Auxiliary enterprises (net of scholarship allowance of \$566,171)		1,661,784
Gifts and contributions		228,402
Other operating revenues		<u>247,106</u>

Total Operating Revenues		<u>9,628,367</u>
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Operating Expenses:

Salaries and wages	8,437,471
Fringe benefits	2,365,925
Travel	112,480
Contractual services	1,954,126
Utilities	802,826
Scholarships and fellowships	1,884,275
Commodities	1,992,806
Depreciation expense	1,266,613
Other operating expense	<u>428,963</u>

Total Operating Expenses	<u>19,245,485</u>
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Operating Income (Loss)	<u>(9,617,118)</u>
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Nonoperating Revenues (Expenses):

State appropriations	7,304,755
Local appropriations	2,225,447
Net unrealized and realized gains on investments	90,793
Investment income	453,576
Interest expense on capital asset-related debt	(69,884)
Other nonoperating revenues (expenses)	<u>105,193</u>

Total Net Nonoperating Revenues (Expenses)	<u>10,109,880</u>
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Income (Loss) before Other Revenues, Expenses, Gains and Losses	<u>492,762</u>
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State appropriations restricted for capital purposes	<u>767,905</u>
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Change in Net Assets	1,260,667
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Net Assets:

Net Assets - Beginning of Year	<u>36,779,897</u>
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Net Assets - End of Year	\$ <u><u>38,040,564</u></u>
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The notes to the financial statements are an integral part of this statement.



Southwest Mississippi Community College Foundation, Inc.  
Statement of Activities  
For the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains and Support				
Contributions	\$ 10,433	\$ 31,700	\$ 9,500	\$ 51,633
Fund Raising	5,405	3,900		9,305
Investment Income	3,864	300	52	4,216
Total Revenues, Gains and Support	<u>19,702</u>	<u>35,900</u>	<u>9,552</u>	<u>65,154</u>
Expenses				
Program Services				
Scholarships	300	6,250		6,550
Purchases for SMCC		11,710		11,710
Other Expenses				
Depreciation Expense	2,408			2,408
Management and General	27,783	11,044		38,827
Total Expenses	<u>30,491</u>	<u>29,004</u>	<u>-</u>	<u>59,495</u>
Increase in Net Assets	(10,789)	6,896	9,552	5,659
Net Assets at Beginning of Year	<u>153,013</u>	<u>56,174</u>	<u>50,230</u>	<u>259,417</u>
Prior Period Adjustment				
Net Assets at End of Year	<u>\$ 142,224</u>	<u>\$ 63,070</u>	<u>\$ 59,782</u>	<u>\$ 265,076</u>

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Statement of Cash Flows

For the Year Ended June 30, 2008

Cash Flows from Operating Activities:

Tuition and fees	\$ 1,258,890
Grants and contracts	5,668,447
Sales and services of educational departments	116,729
Payments to suppliers	(4,444,771)
Payments to employees for salaries and benefits	(10,687,389)
Cash received (paid) on deposits	(826)
Payments for utilities	(802,826)
Payments for scholarships and fellowships	(1,884,275)
Auxiliary enterprise charges	1,680,364
Other receipts (payments)	<u>2,056,453</u>

Net Cash Provided (Used) by Operating Activities (7,039,204)

Cash Flows from Noncapital Financing Activities:

State appropriations	7,285,024
Local appropriations	2,225,447
Grants for other than capital purchases	90,793
Other sources (uses)	<u>105,631</u>

Net Cash Provided (Used) by Noncapital Financing Activities 9,706,895

Cash Flows from Capital and Related Financing Activities:

Capital appropriations	767,905
Proceeds from issuance of debt	450,366
Cash paid for capital assets	(4,298,858)
Principal paid on capital debt and leases	(207,730)
Interest paid on capital debt and leases	<u>(69,884)</u>

Net Cash Provided (Used) by Capital and Related Financing Activities (3,358,201)

Cash Flows from Investing Activities:

Proceeds from sales and maturities of investments	13,546,080
Interest and dividends received on investments	453,576
Purchases of investments	<u>(12,905,000)</u>

Net Cash Provided (Used) by Investing Activities 1,094,656

Net Increase (Decrease) in Cash and Cash Equivalents 404,146

Cash and Cash Equivalents - Beginning of the Year 935,245

Cash and Cash Equivalents - End of Year \$ 1,339,391

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE  
Statement of Cash Flows  
For the Year Ended June 30, 2008 (continued from previous page)

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

Operating income (loss)	\$ <u>(9,617,118)</u>
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	1,266,613
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Receivables, net	(168,915)
Intergovernmental receivables	(396,439)
Inventories	( 11,367)
Other assets	1,580,945
Increase (decrease) in liabilities:	
Accounts payables and accrued liabilities	29,844
Accrued payroll	116,007
Deferred revenues	162,052
Deposits refundable	<u>( 826)</u>
Total adjustments	<u>2,577,914</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>(7,039,204)</u></u>

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

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

Cash and cash equivalents classified as current assets	\$ 1,311,378
Cash and cash equivalents classified as non-current assets	<u>28,013</u>
	\$ <u><u>1,339,391</u></u>

Southwest Mississippi Community College Foundation, Inc.  
Statement of Cash Flows  
For the Year Ended June 30, 2008

Cash Flows From Operating Activities:	
Increase in net assets	\$ 5,659
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Contributions received for permanent investment	(9,500)
Depreciation	2,408
Net unrealized losses on investments	3,272
Increase (decrease) in:	
Accounts payable and accrued liabilities	20,248
Net cash provided by operating activities	<u>22,087</u>
Cash Flows From Investing Activities:	
Purchase of fixed assets	(6,574)
Purchase of Investments	(74,852)
Net cash (used) by investing activities	<u>(81,426)</u>
Cash Flows From Financing Activities:	
Contributions restricted for permanent investment	9,500
Net cash provided by financing activities	<u>9,500</u>
Net Increase in Cash	(49,839)
Cash Balance	
Beginning of Year	<u>223,487</u>
End of Year	<u>\$ 173,648</u>

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

## SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

### Notes to Financial Statements For the Year Ended June 30, 2008

(1) Summary of Significant Accounting Policies.

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

Southwest Mississippi Community College is governed by a seventeen member board of trustees, selected by the boards of supervisors of Amite, Pike, Walthall, and Wilkinson counties who support the district through locally assessed ad valorem tax millage. One of the trustees from each of the supporting counties must be the county superintendent of education, unless the superintendent chooses not to serve, in which case the county board of supervisors shall fill the vacancy in accordance with Section 37-29-65, Miss. Code Ann. (1972). Each board member is appointed for a 5-year term. In addition, Southwest Mississippi Community College works jointly with the Mississippi State Board for Community and Junior Colleges, which coordinates the efforts of all 15 community colleges as they serve the taxpayers of the State of Mississippi.

Southwest Mississippi Community College reports the following discretely presented component unit: Southwest Mississippi Community College Foundation, Inc. (Foundation)– The Foundation is a legally separate, tax-exempt nonprofit organization. The Foundation acts primarily as a fund raising organization to supplement the resources available to Southwest Mississippi Community College (College) in support of its programs.

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

During the year ended June 30, 2008, the Foundation distributed \$ 18,260.00 to the college.

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements  
For the Year Ended June 30, 2008

- G. Inventories - Inventories consist of bookstore inventory and food service supplies. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out ("FIFO") basis or the average cost basis.
- H. Restricted Cash and Cash Equivalents - Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as restricted cash and cash equivalents on the Statement of Net Assets.
- I. Endowment Investments - Endowment investments are generally subject to the restrictions of donor gift instruments. They include true endowment funds, which are funds received from a donor with the restrictions that only the income is to be utilized; term endowment funds, which are funds for which the donor has stipulated that the principal may be expended after a stated period or on the occurrence of a certain event, and quasi endowment funds, which are funds established by the governing board to function like an endowment fund but may be totally expended at any time at the discretion of the governing board.
- J. Capital Assets, Net of Accumulated Depreciation - Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See note 4 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose.
- K. Deferred Revenues - Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- L. Compensated Absences -The college does not provide for the accumulation of leave beyond one year. Therefore, no accrual for compensated absences has been recorded in the financial statements.
- M. Classification of Revenues - The college has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) most federal, state and local grants and contracts. Gifts (pledges) that are received on an installment basis are recorded at net present value.

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

- N. State Appropriations -Southwest MississippiCommunity 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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements  
For the Year Ended June 30, 2008

fall semester of the previous year, counting only those students who reside within the State of Mississippi. A new funding formula is being phased in over a 5-year period which will shift the funding calculation from a predominantly full-time student formula, weighted by type of student, to a full-time equivalent formula which is based on total credit hours generated by all students with special consideration given only to high cost programs.

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

The unrestricted net asset balance of \$7,007,507 at June 30, 2008, includes \$637,763 reserved for inventory and \$6,369,744 remaining for other purposes.

(2) Cash and Investments

Policies:

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

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the college's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. The carrying amount of the College's deposits with financial institutions was \$1,333,816 and the bank balance was \$1,429,083. There is \$5,575 in petty cash.

Custodial Credit Risk.

Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the College will not be able to recover deposits of collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to Financial Statements For the Year Ended June 30, 2008

manages that risk on behalf of the College. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the College. As of June 30, 2008, none of the College's bank balance of \$1,429,083 was exposed to custodial credit risk.

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

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

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Endowment Investments	\$ 900,652	\$ 850,606
Other short term investments	8,225,191	8,916,317
Long term investments	<u>364,178</u>	<u>364,178</u>
Total Investments	<u>\$ 9,490,021</u>	<u>\$ 10,131,101</u>

The following table summarizes the categorization of investments at June 30, 2008:

<u>Investment Type</u>	<u>Maturity (in Years)</u>	<u>Fair Value</u>	<u>Rating</u>
Money Market Funds	Less than 1	\$ 7,321,180	Not Rated
Real Estate	N/A	364,178	Not Rated
Equity Securities	Less than 1	87,810	BBB+ to AAA
U. S. Government Bonds	1 to 10	1,500,223	AAA
Municipal Bonds	1 to 10	<u>216,630</u>	AA to AAA
Total Investments		<u>\$ 9,490,021</u>	

**Interest Rate Risk.** Per GASB Statement No. 40, interest rate risk is defined as the risk a government may face should interest rate variances affect the fair value of investments. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses interest rate risk.

**Credit Risk.** The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses credit risk. The credit risk ratings above are issued upon standards set by Standards and Poor's or Moody's Ratings Services.

**Custodial Credit Risk - Investments.** Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the college will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The college does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2008, none of the college's investment balance of \$9,490,021 was exposed to custodial credit risk.



# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to Financial Statements For the Year Ended June 30, 2008

*Concentration of Credit Risk.* Per GASB Statement No. 40, a disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued of explicitly guaranteed by the U. S. Government, investments in mutual funds and external investment pools, and other pooled investments. The State of Mississippi Institutions of Higher Learning System does not presently have a formal policy that addresses concentration of credit risk. As of June 30, 2008, the college had the following investments that represent five percent or more of the total investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage Of Total Investments</u>
Dreyfus Treasury/Agency Money Market	7,307,410	77.00%
Federal National Mortgage Association	500,223	5.27%
Federal Home Loan Mortgage Corporation	<u>1,000,000</u>	10.53%
Total	\$ <u>8,807,633</u>	

(3) Accounts Receivable.

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

Student tuition	\$ 1,294,230
Auxiliary enterprises and other operating activities	424
Federal, state, and private grants and contracts	778,231
State appropriations	117,041
Local appropriations	65,785
Other	<u>49,437</u>
Total Accounts Receivable	2,305,148
Less allowance for doubtful accounts	<u>(747,328)</u>
Net Accounts Receivable	\$ <u>1,557,820</u>

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to Financial Statements For the Year Ended June 30, 2008

(4) Capital Assets.

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

	Beginning Balance	Additions	Deletions	Completed Construction	Ending Balance
<b>Nondepreciable Capital Assets:</b>					
Land	\$ 122,124				122,124
Construction in progress	2,617,670	3,914,936		(6,520,606)	12,000
<b>Total Nondepreciable Capital Assets</b>	<b>2,739,794</b>	<b>3,914,936</b>		<b>(6,520,606)</b>	<b>134,124</b>
<b>Depreciable Capital Assets:</b>					
Improvements other than buildings	5,014,706	1,533,503			6,548,209
Buildings	22,534,183	62,410			22,596,593
Building improvements	4,037,430	4,126,905			8,164,335
Equipment	1,909,090	322,467	165,396		2,066,160
Software	0	400,000			400,000
Library books	1,011,320	8,278	764		1,018,834
Leased property under capital leases	1,660,807	450,366			2,111,173
<b>Total Depreciable Capital Assets</b>	<b>36,167,536</b>	<b>6,903,929</b>	<b>166,161</b>		<b>42,905,304</b>
<b>Less Accumulated Depreciation for:</b>					
Improvements other than buildings	1,824,898	234,818			2,059,716
Buildings	8,604,160	431,753			9,035,913
Building improvements	824,978	318,099			1,143,077
Equipment	1,598,873	128,796	160,396		1,567,273
Software	0	32,000			32,000
Library books	855,311	36,700	6,364		885,647
Leased property under capital leases	132,864	84,447			217,311
<b>Total Accumulated Depreciation</b>	<b>13,841,084</b>	<b>1,266,613</b>	<b>166,760</b>		<b>14,940,937</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>22,326,452</b>	<b>5,637,316</b>	<b>599</b>	<b>(6,520,606)</b>	<b>27,964,367</b>
<b>Capital Assets, Net</b>	<b>\$ 25,066,246</b>	<b>9,552,252</b>	<b>599</b>	<b>(6,520,606)</b>	<b>28,098,491</b>

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

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

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to Financial Statements For the Year Ended June 30, 2008

### 5) Long-term Liabilities.

Long-term liabilities of the college consist of an energy efficiency lease obligation that is expected to be liquidated at least one year from June 30, 2008. The lease covers a period not to exceed ten years. The college has the option to prepay all outstanding payments less any unearned interest to fully satisfy the obligation.

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

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Beginning Balance	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Capital Leases:								
Energy efficiency lease	1,660,807	3.91 %	2016	1,467,790		146,815	1,320,975	152,654
Bryan science chiller	450,366	5.34 %	2014		450,366	60,915	389,451	56,667
Total				<u>1,467,790</u>	<u>450,366</u>	<u>207,730</u>		<u>209,321</u>
Due within one year							<u>209,321</u>	
Total Long Term Liabilities							<u>1,501,105</u>	

Long-term debt will mature as follows:

	Capital Leases	Interest	Total
2009	209,321	68,292	277,613
2010	218,460	59,154	277,613
2011	228,006	49,608	277,613
2012	237,978	39,636	277,613
2013	248,395	29,218	277,613
2014-2016	<u>568,267</u>	<u>27,432</u>	<u>595,699</u>
	<u>1,710,426</u>	<u>273,340</u>	<u>1,983,766</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to Financial Statements  
For the Year Ended June 30, 2008

(7) Functional Classification of Operating Expenses

Functional Classification	Natural Classification								Total
	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships Fellowships	Commodities	Depreciation Expense	Other
Instruction	5,375,849	1,414,759	54,664	482,523	0	0	256,360	0	276,922
Academic Support	320,815	79,598	1,523	12,608	0	0	7,847	0	36,415
Student Services	1,109,507	316,659	37,228	228,849	570	0	200,070	0	15,345
Institutional Support	826,086	262,294	17,458	525,573	60,952	0	60,283	0	93,294
Operation of Plant	398,200	129,450	1,607	703,413	479,383	0	233,713	0	3,538
Student financial aid	0	0	0	0	0	1,884,275	0	0	0
Auxiliary Enterprises	407,014	163,165	0	1,160	261,921	0	1,234,533	0	3,449
Depreciation	0	0	0	0	0	0	0	1,266,613	0
<b>Total Operating Expenses</b>	<b>8,437,471</b>	<b>2,365,925</b>	<b>112,480</b>	<b>1,954,126</b>	<b>802,826</b>	<b>1,884,275</b>	<b>1,992,806</b>	<b>1,266,613</b>	<b>428,963</b>
									<b>19,245,485</b>

# SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

## Notes to Financial Statements For the Year Ended June 30, 2008

### (8) 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	Funded by			
		Federal Sources	State Sources	Institutional Funds	Other
Renovation of old cafeteria	950,000		950,000		
Holmes Student Union- Moisture remediation	210,000		180,000	30,000	
Total	\$ 1,180,000	0	1,130,000	30,000	0

The college has suspended the Bureau of Buildings project for construction of a new dormitory. The cost estimates were higher than originally anticipated so the project has been put on hold until the college can secure alternate financing. The amount of \$12,000 in construction in progress on the capital asset schedule is preliminary costs associated with the dormitory project. The funds available from the Bureau of Buildings that had been assigned to the dormitory project have been assigned to the above alternative projects.

### (9) Pension Plan.

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

**Funding policy** - PERS members are required to contribute 7.25% of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 11.3% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the Mississippi State Legislature. The college's contributions to PERS for the years ending June 30, 2008, 2007 and 2006 were \$938,880, \$837,493, and \$733,528, respectively, equal to the required contributions for each year.

### (10) Risk Management.

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees or students; and natural disasters. The College carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### (11) Concentrations.

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

**Southwest Mississippi Community College Foundation, Inc.**  
Summit, Mississippi  
Notes to the Financial Statements  
For the Year Ended June 30, 2008

Note 1 Summary of Significant Accounting Policies

Statement of Organizational Activities

The purpose of the Foundation is to operate exclusively for educational and scientific purposes, all for the public welfare, and to this end to promote, encourage, and assist all forms of education and research at Southwest Mississippi Community College. The Foundation is an auxiliary organization of the College and administers scholarships to both students and faculty members and raises funds to supplement different areas of the entire college.

Basis of Presentation

The Foundation prepares its financial statements on the accrual basis of accounting. The accounts of the Foundation are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. In accordance with SFAS No. 117, fund balances are classified on the statement of financial position as unrestricted, temporarily restricted, or permanently restricted net assets, based on the absence or existence and type of donor-imposed restrictions.

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose having been accomplished and/or the stipulated time period having elapsed, are reported as transfers between the applicable classes of net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts, unconditional promises to give, trusts and remainder interests, income, and gains which can be expended but for which restrictions have not yet been met. Examples of such restrictions would be where donors have specified the purpose for which the net assets are to be spent such as for capital projects or athletic programs.

**Southwest Mississippi Community College Foundation, Inc.**  
Summit, Mississippi  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2008

Permanently Restricted Net Assets

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

Income Taxes

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

Donated Assets

Donated marketable securities are disposed of upon receipt and are then recorded as contributions at the amount of proceeds received from the sale. Donations of equipment are not recorded in the financial statements. These items are recorded in a separate ledger with no value assigned to them. These items are distributed to the department within the College as designated by the donor, or if undesignated, to the department of the College that has the greatest need for the donated assets as determined by the Board of Directors.

Donated Services and Facilities

The Foundation receives a substantial amount of services donated by citizens interested in the Foundation's programs. Because of the difficulty in assigning values for such services, these items are generally not reflected in the accompanying financial statements. The Foundation also receives office space from Southwest Mississippi Community College and a substantial amount of services donated by employees of the College. No amount for rent expense has been included in these financial statements and these employees' salaries and related expenses are not included in the Foundation's financial statements but are included in the College's financial statements.

**Southwest Mississippi Community College Foundation, Inc.**  
Summit, Mississippi  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2008

**Cash and Cash Equivalents**

Cash and cash equivalents are considered to be all highly liquid investments with maturities of six months or less at the time of acquisition.

**Investments**

The Foundation has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported 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.

**Fixed Assets**

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

**Estimates**

The preparation of these financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Functional Allocation of Expenses**

The costs of providing various programs and related supporting services have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.



**Southwest Mississippi Community College Foundation, Inc.**

Summit, Mississippi

Notes to the Financial Statements (Continued)

For the Year Ended June 30, 2008

**Note 2 Capital Assets**

Capital assets are summarized as follows:

Total Capital Assets	\$ 84,705
Less: Accumulated Depreciation	<u>(44,609)</u>
Net Capital Assets	<u>\$ 40,096</u>

**Note 3 Concentrations of Credit Risk**

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash. The Foundation places its cash with creditworthy, high quality financial institutions. Cash deposits in excess of \$100,000 are not insured by the FDIC.

The Foundation receives a substantial amount of support from Southwest Mississippi Community College. A significant reduction in the level of this support, if it were to occur, would have an affect on the Foundation's programs and activities.

**Note 4 Investments**

Investments of all funds are included in a pooled investment fund. The pool is operated on a "market value" basis whereby each addition to the pool is assigned a number of units based on the market value per fund at the beginning of the month within which the addition takes place.

Pooled investments at June 30, 2008 consist of the following:

	<u>Market Value</u>
Stock Mutual Funds	\$42,148
Bond Mutual Funds	<u>29,432</u>
Total Investments	<u>\$71,580</u>

**Southwest Mississippi Community College Foundation, Inc.**  
Summit, Mississippi  
Notes to the Financial Statements (Continued)  
For the Year Ended June 30, 2008

Investment Income for the year ended June 30, 2008 was calculated as follows:

Interest and Dividends	\$7,488
Unrealized Gains and Losses	<u>(3,272)</u>
Net Investment Income	<u>\$4,216</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

SUPPLEMENTAL INFORMATION

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

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Entity Number</u>	<u>Federal Expenditures</u>
<b>Student Financial Aid - Cluster:</b>			
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	\$	124,118
Federal Academic Competitive Grant Program (ACG)	84.375		67,357
Federal Work-study Program (FWS)	84.033		77,750
Federal Pell Grant Program	84.063		<u>3,390,902</u>
Total Student Financial Aid Cluster			<u>3,660,127</u>
<b>Other Programs:</b>			
<b>Pass-through programs from:</b>			
Mississippi State Board for Community & Junior Colleges - Adult Education - State Grant Program	84.002		70,747
Mississippi Post Secondary Education Financial Assistance Board - Leveraging Educational Assistance Partnership	84.069		6,645
Mississippi Department of Education - Vocational Education - Basic Grants to States	84.048		167,785
Mississippi Department of Education - Tech Prep Education	84.243		<u>93,554</u>
Subtotal pass-through programs			<u>338,731</u>
Total U.S. Department of Education			<u>3,998,858</u>
<b>U.S. Department of Housing and Urban Development</b>			
<b>Pass-through program from:</b>			
Mississippi Development Authority Community Development Block Grant	14.228		<u>20,593</u>
Total U.S. Department of Housing and Urban Development			<u>20,593</u>
<b>U.S. Department of Labor</b>			
<b>Pass-through programs from:</b>			
Central Mississippi Planning and Development District			
WIA Adult Programs	17.258		26,584
WIA Youth Activities	17.259		17,315
WIA Dislocated Worker	17.260		<u>26,391</u>
Total WIA Cluster			<u>70,290</u>
Mississippi Employment Security Commission- WIA Trade Adjustment Assistance	17.245		<u>186,458</u>
State Board of Community and Junior Colleges WIA Accountability Project	17.261		<u>16,922</u>
Total U.S. Department of Labor			<u>273,670</u>

U. S. Department of Homeland Security

Pass through programs from:

Mississippi Emergency Management Agency - Disaster Grants		
Public Assistance (Presidentially Declared Disasters)	97.036	<u>59,240</u>

Total U. S. Department of Homeland Security		<u>59,240</u>
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Total Expenditures of Federal Awards		\$ <u><u>4,352,361</u></u>
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Notes to Schedule of Expenditures of Federal Awards

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

# *PATRICK E. LOWERY AND ASSOCIATES*

## *CERTIFIED PUBLIC ACCOUNTANTS*

*Member of Mississippi Society  
of Certified Public Accountants*

*Member of American Institute  
of Certified Public Accountants*

215 SOUTH RAILROAD AVENUE  
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456  
FAX (601) 833-9896  
EMAIL: plowery3@bellsouth.net

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

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

We have audited the financial statements of the business type activities of Southwest Mississippi Community College as of and for the year ended June 30, 2008, which collectively comprise Southwest Mississippi Community Colleges' financial statements and have issued our report thereon dated February 20, 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 the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

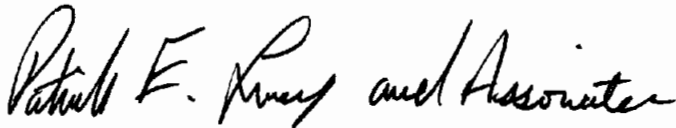
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests 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 the College, Members of the Legislature, entities with accreditation overview, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



PATRICK E. LOWERY AND ASSOCIATES  
Certified Public Accountants

February 20, 2009



# *PATRICK E. LOWERY AND ASSOCIATES*

## *CERTIFIED PUBLIC ACCOUNTANTS*

*Member of Mississippi Society  
of Certified Public Accountants*

215 SOUTH RAILROAD AVENUE  
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456  
FAX (601) 833-9896  
EMAIL: plowery3@bellsouth.net

*Member of American Institute  
of Certified Public Accountants*

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

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

#### Compliance

We have audited the compliance of Southwest Mississippi Community College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 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, Southwest Mississippi Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

#### Internal Control Over Compliance

The management of Southwest Mississippi Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control

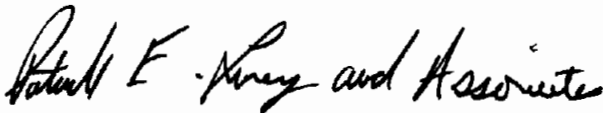
over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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



PATRICK E. LOWERY AND ASSOCIATES  
Certified Public Accountants

February 20, 2009

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

# **PATRICK E. LOWERY AND ASSOCIATES**

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of Certified Public Accountants*

*Member of American Institute  
of Certified Public Accountants*

215 SOUTH RAILROAD AVENUE  
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456  
FAX (601) 833-9896  
EMAIL: plowery3@bellsouth.net

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

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

We have audited the financial statements of Southwest Mississippi Community College as of and for the year ended June 30, 2008, and have issued our report thereon dated February 20, 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 of America.

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

The results of those procedures and our audit of the financial statements disclosed the following immaterial instance of noncompliance with state laws and regulations. Our finding and recommendation and your response is as follows:

Finding:

Section 31-7-13 Miss. Code Ann. (1972) states, "Purchases which involve an expenditure of more than \$5,000 but not more than \$25,000 may be made from the lowest and best bidder without publishing or posting advertisement for bids, provided at least two competitive written bids have been obtained. In our examination of purchase orders in excess of \$5,000, we observed a purchase in the amount of \$5,160 for which no competitive bids or quotes were obtained.

Recommendation:

The College should obtain bids for all purchases that exceed \$5,000.

Community College Response:

Southwest Community College will obtain competitive bids or quotes for all purchases to be made over \$5,000.

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



PATRICK E. LOWERY AND ASSOCIATES  
Certified Public Accountants

February 20, 2009

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2008

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2008

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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