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**HOLMES COMMUNITY COLLEGE**

Goodman, Mississippi

**Audited Financial Statements**

Year Ended June 30, 2012

**Fortenberry & Ballard, PC**  
Certified Public Accountants

# HOLMES COMMUNITY COLLEGE

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## FINANCIAL AUDIT REPORT

**FORTENBERRY & BALLARD, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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

Board of Trustees  
Holmes Community College  
Goodman, Mississippi

We have audited the accompanying financial statements of Holmes Community College as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of Holmes Community College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Holmes Community College Development Foundation for the years ended December 31, 2011 and 2010, a discretely presented component unit which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditor.

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

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Holmes Community College and of its discretely presented component unit, as of June 30, 2012 and December 31, 2011 and 2010, respectively, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2013, on our consideration of Holmes Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Holmes Community College's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*FORTENBERRY & BALLARD, PC*

Fortenberry & Ballard, PC  
March 20, 2013

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS



## **HOLMES COMMUNITY COLLEGE**

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

**For the Year Ended June 30, 2012**

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This section of Holmes Community College's (the "College") annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2012. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. A comparative analysis will be presented with figures from fiscal year ended June 30, 2011. The financial statements, footnotes and this discussion are the responsibility of management.

### **USING THE ANNUAL REPORT**

This annual report consists of a series of financial statements, prepared in accordance with the Government Accounting Standards Board Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*.

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

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

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

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

**HOLMES COMMUNITY COLLEGE**

## Management's Discussion and Analysis

For the Year Ended June 30, 2012

**Condensed Statement of Net Assets  
June 30, 2012 and 2011**

	<b>2012</b>		<b>2011</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
<b>ASSETS</b>				
Current assets	\$ 8,581,500	16.72%	10,612,489	20.33%
Noncurrent assets				
Other	60,227	.12	59,478	.11
Capital, net	42,670,744	83.16	41,524,690	79.55
Total assets	51,312,471	100.00	52,196,657	100.00
<b>LIABILITIES</b>				
Current liabilities	5,532,092	42.00	6,586,938	43.94
Noncurrent liabilities	7,640,000	58.00	8,404,033	56.06
Total liabilities	13,172,095	100.00	14,990,971	100.00
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	33,885,744	88.84	32,123,925	86.34
Restricted – expendable	2,783,761	7.30	2,443,157	6.57
Unrestricted	1,470,871	3.86	2,638,604	7.09
Total net assets	\$ 38,140,376	100.00%	37,205,686	100.00%

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

Cash and cash equivalents consist of cash in the College's bank accounts and certificates of deposits. The total amount of cash and cash equivalents reported as current assets on the College's financial statements were \$2,840,954 at June 30, 2012, which is a decrease compared to the June 30, 2011 figure of \$3,761,465.

**Accounts Receivable**

Accounts receivable relate to several transactions including local appropriations, student tuition and fees and auxiliary services vendor credits. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College's receivables totaled \$5,376,711 at June 30, 2012, which is a decrease compared to the June 30, 2011 figure of \$6,490,711.

## **HOLMES COMMUNITY COLLEGE**

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

**For the Year Ended June 30, 2012**

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#### **Noncurrent Assets**

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

Restricted cash and cash equivalents are those funds that are held in the bank accounts and certificates of deposits. The restricted cash and cash equivalents that are considered noncurrent are cash held in a money market account to meet the requirements for an unemployment compensation fund. Unemployment claims are paid out of unrestricted funds of the college. This account is simply maintained for legal compliance purposes. The amount of restricted cash and cash equivalents considered noncurrent at June 30, 2012 totaled \$60,227, which is an increase compared to \$59,478 at June 30, 2011.

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

Capital assets, net, consists of land, improvements, buildings, equipment, historical library holdings and construction in progress at June 30, 2012. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$42,670,744 at June 30, 2012 which is an increase from \$41,524,690 at June 30, 2011.

#### **Liabilities**

##### **Current Liabilities**

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

Accounts payable and accrued liabilities represent amounts due at June 30, 2012 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$3,779,956 at June 30, 2012, a decrease of \$887,056 over the balance of \$4,667,012 at June 30, 2011.

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

Long-term liabilities – current portion represents the portion of long-term debt that would be payable by the end of the June 30, 2012 fiscal year. The amount of the current portion of long-term debt at June 30, 2012 was \$1,036,426, an increase over the balance of \$996,732 on June 30, 2011.

##### **Noncurrent Liabilities**

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

This liability consists of long-term debt for outstanding bonds, notes, and capital leases. The total amount of the noncurrent portion of long-term debt was \$7,748,574 at June 30, 2012. This is a decrease from the balance of \$8,404,033 reported June 30, 2011.

## HOLMES COMMUNITY COLLEGE

### Management's Discussion and Analysis

For the Year Ended June 30, 2012

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#### Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2012 were \$38,140,376 which is an increase of \$934,690 from the balance of \$37,205,686, at June 30, 2011.

#### Analysis of Net Assets

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

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

	2012	2011
Scholarships and fellowships	\$ 1,123,751	1,077,765
Capital projects	163,653	129,356
Debt service	1,446,929	1,186,608
Unemployment funds	49,428	49,428
Total restricted net assets	<u>\$ 2,783,761</u>	<u>2,443,157</u>

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

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

	2012	2011
Unrestricted general fund	\$ 550,406	1,026,534
Unrestricted auxiliary fund	920,465	1,612,070
Total unrestricted net assets	<u>\$ 1,470,871</u>	<u>2,638,604</u>

**HOLMES COMMUNITY COLLEGE**

## Management's Discussion and Analysis

For the Year Ended June 30, 2012

<b>Condensed Statement of Revenues, Expenses and Changes in Net Assets</b>		
<b>For the Years Ended June 30, 2012 and 2011</b>		
	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Operating revenues		
Tuition and fees (net of scholarship allowances)	\$ 4,613,719	3,599,361
Grants and contracts	23,731,692	27,619,449
Sales and services	87,279	96,228
Auxiliary enterprises		
(Net of scholarship allowances)	939,481	766,010
Other operating revenue	669,775	491,017
Total operating revenues	<u>30,041,946</u>	<u>32,572,065</u>
Operating expenses	<u>52,377,157</u>	<u>51,581,178</u>
Net operating loss	<u>(22,335,211)</u>	<u>(19,009,113)</u>
Nonoperating revenues (expenses)		
State appropriations	16,109,056	14,392,376
Local appropriations	2,571,026	2,524,332
Investment income	15,329	35,458
Interest expense	(336,471)	(404,590)
Other nonoperating income (expense)	(12,872)	(3,207)
Nonoperating revenues, net	<u>18,346,068</u>	<u>16,544,369</u>
Loss before other revenues	<u>(3,989,143)</u>	<u>(2,464,744)</u>
State appropriations restricted for capital purposes	2,645,952	1,424,834
Local appropriations for capital purposes	2,277,881	2,212,172
Total other revenues	<u>4,923,833</u>	<u>3,637,006</u>
Change in net assets	<u>934,690</u>	<u>1,172,262</u>
Net assets		
Net assets at beginning of year	<u>37,205,686</u>	<u>36,033,424</u>
Net assets at end of year	<u>\$ 38,140,376</u>	<u>37,205,686</u>

## HOLMES COMMUNITY COLLEGE

### Management's Discussion and Analysis

For the Year Ended June 30, 2012

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Net operating loss for the fiscal year 2012 was \$(22,335,211), an increase of \$3,326,098 over the loss for fiscal year 2011. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, beginning in fiscal year 2003 and going forward, the College will show a significant operating loss.

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

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

Total operating revenues for fiscal year 2012 were \$30,041,946. Tuition and fees were \$4,613,719. The tuition allowance was \$10,682,856. Operating expenses, including depreciation of \$1,492,051, totaled \$52,377,157.

### Revenues

#### Operating Revenues

##### Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$15,296,575. The tuition allowance for the 2012 fiscal year was \$10,682,856.

##### Grants and Contracts

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

The following table details the College's grant and contract awards for the fiscal year ended June 30, 2012 with prior year figures:

	2012	2011
Federal	\$ 19,583,590	23,429,007
State	3,838,093	3,515,574
Nongovernmental	310,009	674,868
Total all sources	<u>\$ 23,731,692</u>	<u>27,619,449</u>

## HOLMES COMMUNITY COLLEGE

### Management's Discussion and Analysis

For the Year Ended June 30, 2012

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#### Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$669,775 for the 2012 fiscal year, an increase of \$178,758 compared to fiscal year 2011.

#### Sales and Services, Net

Auxiliary enterprises consist of housing and meal plans.

#### Operating Expenses

Operating expenses totaling \$52,377,157 include salaries and benefits of \$28,857,145, utilities of \$1,233,185, commodities of \$2,570,478, contractual services of \$5,060,255 and depreciation of \$1,492,051.

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

	June 30, 2012	June 30, 2011	Increase (Decrease)
Instruction	\$ 22,599,187	21,070,232	1,528,955
Academic support	719,347	690,949	28,398
Student services	3,643,206	3,527,220	115,986
Institutional support	7,492,444	6,952,300	540,144
Operations and maintenance of plant	6,234,357	6,123,869	110,488
Student financial aid (net of scholarship allowance)	9,117,777	10,701,832	(1,584,055)
Auxiliary enterprises	1,078,788	1,042,579	36,209
Depreciation	1,492,051	1,472,197	19,854
Total all sources	<u>\$ 52,599,377</u>	<u>51,581,19: 995,979</u>	

#### Nonoperating Revenues (Expenses)

##### State Appropriations

The College's largest source of nonoperating revenue is the State of Mississippi appropriation. The College received \$16,109,056 for fiscal year ended June 30, 2012. This represents an increase of \$1,716,680 from \$14,392,376 for the year ended June 30, 2011.

##### Local Appropriations

The College also receives revenue from the nine counties that make up its local district. They include Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Yazoo and Webster Counties. The College received \$2,571,026 for the 2012 fiscal year, which is an increase of \$46,694 over the \$2,524,332 received during the 2011 fiscal year.

## HOLMES COMMUNITY COLLEGE

### Management's Discussion and Analysis

For the Year Ended June 30, 2012

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#### Investment Income, Net

This includes the interest income from the cash in the bank accounts. \$15,329 was earned during the 2012 fiscal year versus the \$35,458 earned in the prior year.

#### Other Nonoperating Income (Expense)

Other nonoperating income (expense) typically consisting of interest expense on capital related debt and loss on disposal of assets for fiscal years 2012 and 2011 totaled \$(349,343) and \$(407,797), respectively.

#### Other Revenues

#### Local Appropriations for Capital Purposes

This includes revenue received from the nine county support districts for capital projects or retirement of debt during the fiscal year. The amount of this revenue totaled \$2,277,881 for the 2012 fiscal year, which is an increase of \$65,709 over the \$2,212,172 for the 2011 fiscal year.

#### State Appropriations for Capital Purposes

This is the amount of revenue received from the State of Mississippi to purchase, construct, renovate or repair capital assets during the fiscal year. The College received \$2,645,952 and \$1,424,834 in fiscal years 2012 and 2011, respectively, which is an increase of \$1,221,118.

#### Statement of Cash Flows

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

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

#### Condensed Statement of Cash Flows (Direct Method) For the Fiscal Years Ended June 30, 2012 and 2011

	June 30, 2012	June 30, 2011	Increase (Decrease)
Cash and cash equivalents provided (used) by			
Operating activities	\$ (20,144,541)	(17,953,632)	(2,190,909)
Noncapital financing activities	18,311,880	16,913,249	1,398,631
Capital and related financing activities	901,092	198,479	702,613
Investing activities	11,807	648,869	(637,062)
Net increase (decrease) in cash and cash equivalents	(919,762)	(193,035)	(726,727)
Cash and cash equivalents - beginning of year	3,820,943	4,013,978	(193,035)
Cash and cash equivalents - end of year	<u>\$ 2,901,181</u>	<u>3,820,943</u>	<u>(919,762)</u>



## **HOLMES COMMUNITY COLLEGE**

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

**For the Year Ended June 30, 2012**

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The major sources of funds included in operating activities include student tuition and fees, \$3,525,673, auxiliary enterprises, \$939,481, and grants and contracts, \$24,842,327. The major uses of funds were: payments made to employees, \$28,808,158; to scholarships and fellowships \$9,390,133; to suppliers \$2,565,890 for materials; to suppliers, \$4,679,375 for services.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$15,795,276. In addition, the college received \$2,545,984 from the nine counties that make up its district.

The source of funds for investing activities are the proceeds from the maturities of certificates of deposits, which were primarily sold in 2010.

### **Significant Capital Asset Transactions**

#### Grenada Classroom Facility

During the 2011 fiscal year, the College began the construction project of the Grenada Classroom Facility. Construction continued through fiscal year 2012 and will be completed in the fall of 2012.

#### District-Wide Phone System Upgrade

During the 2012 fiscal year, the College began to upgrade the district-wide phone system. The prior system was over ten years old, and the need for a new system was evident due to frequent system maintenance and repairs. The new project began in fiscal year 2012 and will be completed in fiscal year 2013.

Outstanding construction commitments for the year ended June 30, 2012 were approximately \$2,150,415.

### **Factors Impacting Future Periods**

There are a number of issues that are directly impacting the community college system as a whole. The level of State support is the main issue which will continue to have an impact on our financial position. This impacts the College's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

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

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

## **HOLMES COMMUNITY COLLEGE**

Management's Discussion and Analysis

For the Year Ended June 30, 2012

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### **Contact Information**

This financial report is designed to provide a general overview of the College's finances for all those with interest. Questions concerning any of the information contained in this report or requests for any additional information should be addressed to the Director of Business Services at Holmes Community College, No. 1 Hill Street, Post Office Box 369, Goodman, Mississippi 39079.

## AUDITED FINANCIAL STATEMENTS

# HOLMES COMMUNITY COLLEGE

## Statement of Net Assets

June 30, 2012

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### ASSETS

#### Current assets

Cash and cash equivalents	\$ 2,840,954
Short-term investments	363,835
Accounts receivables, net (Note 3)	<u>5,376,711</u>
Total current assets	<u>8,581,500</u>

#### Noncurrent assets

Restricted cash and cash equivalents	60,227
Capital assets, net of accumulated depreciation (Note 4)	<u>42,670,744</u>
Total noncurrent assets	<u>42,730,971</u>

Total assets	<u>51,312,471</u>
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### LIABILITIES

#### Current liabilities

Accounts payable and accrued liabilities	3,779,956
Deferred revenues	607,139
Long-term liabilities – current portion (Note 5)	<u>1,145,000</u>
Total current liabilities	<u>5,532,097</u>

#### Noncurrent liabilities

Long-term liabilities (Note 5)	<u>7,640,000</u>
Total liabilities	<u>13,172,095</u>

### NET ASSETS

Invested in capital assets, net of related debt	33,885,744
Restricted for	
Expendable	
Scholarships and fellowships	1,123,751
Capital projects	163,653
Debt service	1,446,929
Other purposes	49,428
Unrestricted	<u>1,470,871</u>
Total net assets	<u>38,140,376</u>
Total liabilities and net assets	<u>\$ 51,312,471</u>

The accompanying notes are an integral part of this statement.

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 As of December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 285,621	\$ 148,657
Certificates of deposits	129,144	129,144
Investments	2,839,946	2,842,400
Assets held in remainder trust	53,185	53,660
Beneficial interest in remainder trust	139,084	144,067
<b>Total assets</b>	<u>3,446,980</u>	<u>3,317,928</u>
 <b>Liabilities and Net Assets</b>		
<i>Liabilities:</i>		
Accrued salaries and benefits	-	31,700
Accrued utilities	-	-
Liabilities under remainder trust	53,185	53,660
<b>Total liabilities</b>	<u>53,185</u>	<u>85,360</u>
 <i>Net Assets:</i>		
Unrestricted	792,464	774,519
Temporarily restricted	2,501,317	2,458,049
Permanently restricted	100,014	-
<b>Total Net Assets</b>	<u>3,393,795</u>	<u>3,232,568</u>
 Total liabilities and net assets	<u>\$ 3,446,980</u>	<u>\$ 3,317,928</u>

See accompanying notes to financial statements.

**HOLMES COMMUNITY COLLEGE**  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2012

Operating revenues	
Tuition and fees (net of scholarship allowances of \$10,682,856)	\$ 4,613,719
Federal grants and contracts	19,583,590
State grants and contracts	3,838,093
Nongovernmental grants and contracts	310,009
Sales and services of educational departments	87,279
Auxiliary enterprises	
Student housing (net of scholarship allowances of \$495,168)	180,801
Food services (net of scholarship allowances of \$472,085)	236,936
Athletics	17,282
Other auxiliary revenues	504,462
Other operating revenues	669,775
	<hr/>
Total operating revenues	30,041,946
	<hr/>
Operating expenses	
Salaries and wages	22,663,408
Fringe benefits	6,193,737
Travel	568,939
Contractual services	5,060,255
Utilities	1,233,185
Scholarships and fellowships	9,390,133
Commodities	2,570,478
Depreciation expense	1,492,051
Other operating expense	3,204,971
	<hr/>
Total operating expenses	52,377,157
	<hr/>
Net operating loss	(22,335,211)
	<hr/>
Nonoperating revenues (expenses)	
State appropriations	16,109,056
Local appropriations	2,571,026
Investment income	15,329
Interest expense on capital asset-related debt	(336,471)
Other nonoperating income	(12,872)
	<hr/>
Nonoperating revenues, net	18,346,068
	<hr/>
Other revenues	
State appropriations restricted for capital purposes	2,645,952
Local appropriations restricted for capital purposes	2,277,881
	<hr/>
Total other revenues	4,923,833
	<hr/>
Change in net assets	934,690
	<hr/>
Net assets	
Net assets - beginning of year	37,205,686
	<hr/>
Net assets - end of year	\$ 38,140,376
	<hr/>

The accompanying notes are an integral part of this statement.

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Revenues, gains, and other support:</i>				
Contributions	\$ 170,162	42,049	100,000	312,211
Changes in split-interest agreement	-	(4,983)	-	(4,983)
Event revenue	63,784	-	-	63,784
Interest income	-	2,345	14	2,359
Investment earnings	33,664	33,663	-	67,327
Unrealized gains on investments	(29,806)	(29,806)	-	(59,612)
Net assets released from restrictions	-	-	-	-
<b><i>Total revenues, gains, and support</i></b>	<u>237,804</u>	<u>43,268</u>	<u>100,014</u>	<u>381,086</u>
<i>Expenses:</i>				
Program services:				
Scholarships	47,597	-	-	47,597
Mini grants	18,877	-	-	18,877
Phi Theta Kappa	2,000	-	-	2,000
<b><i>Total program services</i></b>	<u>68,474</u>	<u>-</u>	<u>-</u>	<u>68,474</u>
Supporting services:				
General and administrative	44,848	-	-	44,848
Special events direct costs	63,784	-	-	63,784
Fund raising	42,753	-	-	42,753
<b><i>Total supporting services</i></b>	<u>151,385</u>	<u>-</u>	<u>-</u>	<u>151,385</u>
<b><i>Total expenses</i></b>	<u>219,859</u>	<u>-</u>	<u>-</u>	<u>219,859</u>
<b><i>Increase in net assets</i></b>	<u>17,945</u>	<u>43,268</u>	<u>100,014</u>	<u>161,227</u>
Net assets at beginning of year	<u>774,519</u>	<u>2,458,049</u>	<u>-</u>	<u>3,232,568</u>
Net assets at end of year	<u>\$ 792,464</u>	<u>2,501,317</u>	<u>100,014</u>	<u>3,393,795</u>

*See accompanying notes to financial statements.*

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Revenues, gains, and other support:</i>				
Contributions	\$ 20,077	64,535	-	84,612
Changes in split-interest agreement	-	8,725	-	8,725
Event revenue	33,916	-	-	33,916
Interest income	-	4,135	-	4,135
Investment earnings	33,433	33,432	-	66,865
Unrealized gains on investments	125,086	125,087	-	250,173
Net assets released from restrictions	32,988	(32,988)	-	-
<b><i>Total revenues, gains, and support</i></b>	<u>245,500</u>	<u>202,926</u>	<u>-</u>	<u>448,426</u>
<i>Expenses:</i>				
Program services:				
Scholarships	57,549	-	-	57,549
Mini grants	18,859	-	-	18,859
Phi Theta Kappa	2,000	-	-	2,000
Support for Holmes Community College	1,313	-	-	1,313
<b><i>Total program services</i></b>	<u>79,721</u>	<u>-</u>	<u>-</u>	<u>79,721</u>
Supporting services:				
General and administrative	40,220	-	-	40,220
Special events direct costs	33,916	-	-	33,916
Fund raising	10,000	-	-	10,000
<b><i>Total supporting services</i></b>	<u>84,136</u>	<u>-</u>	<u>-</u>	<u>84,136</u>
<b><i>Total expenses</i></b>	<u>163,857</u>	<u>-</u>	<u>-</u>	<u>163,857</u>
<b><i>Increase in net assets</i></b>	<u>81,643</u>	<u>202,926</u>	<u>-</u>	<u>284,569</u>
Net assets at beginning of year	<u>692,876</u>	<u>2,255,123</u>	<u>-</u>	<u>2,947,999</u>
Net assets at end of year	<u>\$ 774,519</u>	<u>2,458,049</u>	<u>-</u>	<u>3,232,568</u>

*See accompanying notes to financial statements.*



**HOLMES COMMUNITY COLLEGE**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2012**

Cash flows from operating activities		Reconciliation of cash and cash equivalents to the statement of net assets	
Tuition and fees	\$ 3,525,673	Cash and cash equivalents classified as current assets	\$ 2,840,954
Grants and contracts	24,842,327	Cash and cash equivalents classified as noncurrent assets	60,227
Sales and services of educational departments	87,279		<u>2,901,181</u>
Payments to suppliers for materials	(2,565,890)		
Payments to employees for salaries and benefits	(28,808,158)	Reconciliation of operating loss to net cash	
Payments for utilities	(1,233,182)	used by operating activities	
Payments to travel	(568,939)		
Payments to suppliers for contractual services	(4,679,375)	Operating loss	(22,335,211)
Payments for scholarships and fellowships	(9,390,133)		
Auxiliary enterprise charges		Adjustments to reconcile operations loss to net cash	
Student housing	180,801	used by operating activities	
Food services	236,936	Depreciation expense	1,492,051
Athletics	17,282	Changes in assets and liabilities	
Other auxiliary enterprises	504,462	Accounts receivable	1,520,952
Other receipts (payments)	(2,293,624)	Accounts payables and accrued liabilities	(506,279)
Net cash used by operating activities	<u>(20,144,541)</u>	Deferred revenue	<u>(316,054)</u>
Cash flows from noncapital financing activities		Total adjustments	<u>2,190,670</u>
State appropriations	15,795,276		
Local appropriations	2,545,984	Net cash used by operating activities	<u>(20,144,541)</u>
Agency Transfers – in	109,792		
Agency Transfers – out	(139,172)		
Federal loan program receipts	6,044,058		
Federal loan program disbursements	(6,044,058)	Supplemental disclosure of cash flow information	
Net cash provided by noncapital financing activities	<u>18,311,880</u>	Capital assets purchased by the Bureau of Buildings	
		on behalf of the College	1,844,691
Cash flows from capital and related financing activities		Donated assets	<u>-</u>
Cash paid for capital assets	(1,214,608)		
State and local appropriations for capital purposes	3,487,464	Capital assets acquired	<u>1,884,691</u>
Principal paid on capital debt	(996,642)		
Interest paid on capital debt	(375,122)	Renovations and repairs purchased by the Bureau of Buildings	
Net cash provided by capital and related financing activities	<u>901,092</u>	on behalf of the College	<u>392,939</u>
Cash flows from investing activities		Total noncash contributions	<u>2,237,630</u>
Proceeds from sales and maturities of investments	-		
Interest received on investments	15,329		
Purchases of investments	(3,522)		
Net cash provided by investing activities	<u>11,807</u>		
Net decrease in cash and cash equivalents	<u>(919,762)</u>		
Cash and cash equivalents - beginning of the year	<u>3,820,943</u>		
Cash and cash equivalents - end of year	<u>\$ 2,901,181</u>		

The accompanying notes are an integral part of this statement.

HOLMES COMMUNITY COLLEGE DEVELOPMENT FOUNDATION, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ 161,226	\$ 284,569
Adjustments to reconcile changes in net assets		
Net unrealized (gains) losses on investments	59,612	(250,173)
Change in value of trust	5,458	2,319
Actuarial gain (loss) on split interest agreement	(475)	(11,044)
Payments of annuity obligations	10,000	10,000
Changes in operating assets and liabilities:		
Accrued expenses	<u>(31,700)</u>	<u>9,710</u>
Net cash provided (used) by operating activities	<u>204,121</u>	<u>45,381</u>
<i>Cash flows from investing activities:</i>		
Net (increase) in temporary cash investments	-	(2,545)
Purchases of investment shares	(67,326)	(66,865)
Proceeds from sales of investment shares	-	100,000
Payments of investment fees	<u>10,169</u>	<u>8,542</u>
Net cash provided (used) by investing activities	<u>(57,157)</u>	<u>39,132</u>
<i>Cash flows from financing activities:</i>		
Payments of annuity obligations	<u>(10,000)</u>	<u>(10,000)</u>
Net cash provided by financing activities	<u>(10,000)</u>	<u>(10,000)</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	136,964	74,513
<i>Cash and cash equivalents as of beginning of year</i>	<u>148,657</u>	<u>74,144</u>
<i>Cash and cash equivalents as of end of year</i>	<u><u>\$ 285,621</u></u>	<u><u>\$ 148,657</u></u>

*Required disclosure*

The Foundation expended no cash for interest or income taxes.

*See accompanying notes to financial statements.*

**Notes to the Financial Statements**  
For the Year Ended  
June 30, 2012

# HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2012

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies

#### Reporting Entity

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

The College is locally-governed by a 22 member Board of Trustees, selected by the Board of Supervisors of Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Webster and Yazoo Counties who support the district through locally assessed ad valorem tax millage. One of the trustees from each of the supporting counties must be the Superintendent of Education, unless the superintendent chooses not to serve, in which case the county Board of Supervisors shall fill the vacancy in accordance with Section 37-29-65, Miss. Code Ann. (1972). Each board member is appointed for a 5-year term. In addition, the College works jointly with the Mississippi State Board for Community and Junior Colleges, which coordinates the efforts of all 15 community colleges as they serve the taxpayers of the State of Mississippi.

Holmes Community College Development Foundation, Inc. (the "Foundation") is a not-for-profit entity established to solicit and manage funds for the benefit of Holmes Community College (the "College"). The membership of the Foundation represents the nine county districts served by the College and is led by a Board of Directors elected by the membership.

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

#### Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"), including GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, issued in June and November, 1999, respectively. The College follows the "business-type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive look at the College's financial activities.

#### Basis of Accounting

The basic financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay, which is in accordance with accounting principles generally accepted in the United States of America.

# HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2012

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Continued

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

#### Cash Equivalents

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

#### Short-Term Investments

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

#### Accounts Receivables, Net

Accounts receivables consist of tuition and fees charged to students, state appropriations, amounts due from state and federal grants and contracts, local governments and credits due to the College from vendors. Management estimates the allowance for doubtful accounts based on historical data as well as the current aging of the accounts receivables. When management determines that an account is uncollectible, the account is written off against the allowance for doubtful accounts. Accounts receivables are recorded net of an allowance for doubtful accounts.

#### Restricted Cash and Cash Equivalents

Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as restricted cash and cash equivalents on the statement of net assets.

#### Capital Assets, Net of Accumulated Depreciation

Capital assets are recorded at cost at the date of acquisition, or if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. Expenditures for construction in progress are capitalized as incurred. See Note 4 for additional details concerning useful lives, salvage values and capitalization thresholds.

# HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2012

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Continued

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Reserves* ("GASB No. 42"), management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of a capital assets occurs.

#### 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.

#### Compensated Absences

The College does not provide for the accumulation of leave beyond one year. Therefore, no accrual for compensated absences has been recorded in the financial statements.

#### Classification of Revenues

The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowance, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances and (3) most federal and state grants and contracts.

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

#### State and Local Appropriations

The College receives funds from the State of Mississippi through the State Board of Community College and Junior Colleges. The appropriations are distributed to community and junior colleges based on a funding formula which has been approved by all of the presidents of the colleges. Currently, the first 15 percent of the appropriations are split equally among the colleges and the remaining 85 percent of the appropriations are allocated based on the College's full-time equivalency ("FTE") basis, with some special considerations given only to high cost programs. The College also receives income from the nine counties that make up its local district, which includes Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Yazoo and Webster Counties.

## HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2012

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Continued

##### Scholarship Discounts and Allowance

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

##### Net Assets

Net assets are classified according to external donor restrictions or availability of assets for satisfaction of college obligations. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. 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 \$1,470,871 at June 30, 2012, includes \$920,465 reserved for auxiliaries and a remaining unreserved amount of \$550,406.

#### Note 2. Cash and Investments

##### **Policies**

Investment policies as set forth by policy and state statute authorize the College to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market funds, U.S. Treasury bills and notes, and repurchase agreements. In 2012, short-term investments were comprised of certificates of deposit with maturities greater than three months. All certificates of deposit are scheduled to mature within twelve months or less.

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

# HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2012

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Continued

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 ("FDIC").

### Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2012:

Student tuition	\$ 8,791,251
Federal, state, and private grants and contracts	2,301,864
State appropriations	592,599
Other	142,509
Total accounts receivable	11,828,223
Less allowance for doubtful accounts	6,451,512
Net accounts receivable	\$ 5,376,711

### Note 4. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2012 is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable capital assets				
Land	\$ 3,150,507	-	-	3,150,507
Construction in progress	738,376	2,483,861	728,682	2,493,555
Total nondepreciable capital assets	3,888,883	2,483,861	728,682	5,644,062
Depreciable capital assets				
Buildings	46,360,065	-	-	46,360,065
Improvements other than buildings	5,789,253	320,360	-	6,109,613
Equipment	6,376,082	503,689	320,373	6,559,398
Library books	1,506,988	71,749	87,510	1,491,227
Total depreciable capital assets	60,032,388	895,798	407,883	60,520,303



**HOLMES COMMUNITY COLLEGE**

For the Year Ended June 30, 2012

**NOTES TO FINANCIAL STATEMENTS****Note 4. Continued**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Less accumulated depreciation for				
Buildings	13,874,509	875,866	-	14,750,375
Improvements other than buildings	1,782,805	208,440	-	1,991,245
Equipment	5,544,083	337,392	307,500	5,573,975
Library books	1,195,184	70,352	87,510	1,178,026
Total accumulated depreciation	22,396,581	1,492,050	395,010	23,493,621
Total depreciable capital assets, net	37,635,807	(596,252)	12,873	37,026,682
Capital assets, net	\$ 41,524,690	1,887,609	741,555	42,670,744

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

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

Outstanding construction commitments for the year ended June 30, 2012 were approximately \$2,150,415.

**Note 5. Long-Term Liabilities**

Long-term liabilities of the College consist of bonds and notes payable that are expected to be liquidated at least one year from June 30, 2012.

Information regarding original issue amounts, interest rates and maturity dates for bonds and notes included in the long-term liabilities balance at June 30, 2012, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

**HOLMES COMMUNITY COLLEGE**  
For the Year Ended June 30, 2012

**NOTES TO FINANCIAL STATEMENTS**

**Note 5. Continued**

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Bonded debt								
Facilities Bond, 2003	\$ 6,500,000	3.4% - 4.15%	2025	\$ 5,150,000	-	4,875,000	275,000	275,000
Facilities Bond, 2005	2,625,000	2.8% - 3.8%	2020	1,765,000	-	1,590,000	175,000	175,000
G.O. Refunding Bond, 2012	7,935,000	2.0% - 2.85%	2025	-	7,935,000	-	7,935,000	500,000
Total bonded debt				6,915,000	7,935,000	6,465,000	8,385,000	950,000
Notes payable								
DOE college facilities note	1,200,000	5.50%	2018	510,765	-	510,765	-	-
Educational facilities notes, 1998	2,215,000	4.13% - 5.88%	2013	585,000	-	185,000	400,000	195,000
Dormitory notes, 2000	4,000,000	4.95% - 6.0%	2015	1,390,000	-	1,390,000	-	-
Total other long-term liabilities				2,485,765	-	2,085,765	400,000	195,000
TOTAL				\$ 9,400,765	7,935,000	8,550,765	8,785,000	1,145,000

## HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2012

### NOTES TO FINANCIAL STATEMENTS

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#### Note 5. Continued

	<b>Bonded Debt</b>	<b>Notes Payable</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 950,000	195,000	300,881	1,445,881
2014	970,000	205,000	167,081	1,342,081
2015	990,000	-	143,453	1,133,453
2016	640,000	-	123,652	763,652
2017	660,000	-	110,852	770,852
2018 – 2022	2,780,000	-	360,424	3,140,424
2023 – 2025	1,395,000	-	78,428	1,473,428
Totals	\$ 8,385,000	400,000	1,284,771	10,069,771

#### Note 6. Pension Plan

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

Funding policy – PERS members are required to contribute 9.00 percent of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The rate was 12.00 percent from July 1, 2011 until January 1, 2012. The rate for the rest of the fiscal year was 12.93 percent of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the Mississippi State Legislature. The College's contributions to PERS for the years ended June 30, 2012, 2011 and 2010 were \$2,657,099, \$2,308,586 and \$2,406,498, respectively, equal to the required contribution for each year.

**HOLMES COMMUNITY COLLEGE**

For the Year Ended June 30, 2012

**NOTES TO FINANCIAL STATEMENTS****Note 7. Natural Classifications with Functional Classifications**

The College's operating expenses by functional classification were as follows for the year ended June 30, 2012:

<b>Functional Classification</b>	<b>Salaries and Wages</b>	<b>Fringe Benefits</b>	<b>Travel</b>	<b>Contractual Services</b>	<b>Utilities</b>
Instruction	\$ 15,398,523	3,960,315	254,249	1,267,804	15,194
Academic support	413,645	123,421	3,866	58,538	-
Student services	1,985,239	600,652	135,991	350,117	-
Institutional support	2,911,106	839,125	116,748	1,887,635	-
Operation of plant	1,717,064	585,774	58,085	739,654	1,217,991
Student aid	-	-	-	-	-
Auxiliary enterprises	237,831	84,450	-	756,507	-
Depreciation	-	-	-	-	-
Total operating Expenses	\$ 22,663,408	6,193,737	568,939	5,060,255	1,233,185

<b>Functional Classification</b>	<b>Scholarships and Fellowships</b>	<b>Commodities</b>	<b>Depreciation Expense</b>	<b>Other</b>	<b>Total</b>
Instruction	\$ 272,356	831,618	-	599,128	22,599,187
Academic support	-	32,009	-	87,868	719,347
Student services	-	516,046	-	55,161	3,643,206
Institutional support	-	203,196	-	1,534,634	7,492,444
Operation of plant	-	987,609	-	928,180	6,234,357
Student aid	9,117,777	-	-	-	9,117,777
Auxiliary enterprises	-	-	-	-	1,078,788
Depreciation	-	-	1,492,051	-	1,492,051
Total operating expenses	\$ 9,390,133	2,570,478	1,492,051	3,204,971	52,377,157

**Note 8. Subsequent Events**

The College has evaluated subsequent events through March 20, 2013, which is the date the financial statements were available to be issued.

(1) *Significant Accounting Policies*

(a) *Organization and Purpose*

Holmes Community College Development Foundation, Inc. (the Foundation) is a non-profit organization established to solicit and manage funds for the benefit of Holmes Community College (the College). The membership of the Foundation represents the nine county district served by the College and is led by a Board of Directors elected by the membership.

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

(b) *Basis of Accounting*

These financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

The financial statements report amounts in three classes of net assets - unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets - based on the existence or absence of donor-imposed restrictions.

*Unrestricted net assets* - net assets which represent resources generated from operations or that are not subject to donor-imposed stipulations. Unrestricted net assets include contributions designated to a particular scholarship or program for which the use or purpose is unrestricted.

*Temporarily restricted net assets* - net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

*Permanently restricted net assets* - net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donor of these assets permits the Foundation to use all or part of the income earned on related investments for general or specific purposes in support of the College.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenditures 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 or by law. Expirations of restrictions on net assets (ie., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Restricted contributions are reported as unrestricted support if the restrictions are met in the same reporting period.

Income and realized and unrealized gains and losses on investments of permanently restricted net assets are reported as follows:

- ♦ as increases in permanently restricted net assets if the terms of the gift or the Foundation's interpretation of relevant state law require that gains be added to the principal of permanent endowment fund;
- ♦ as increases or decreases in temporarily restricted net assets if the terms of the gift impose restrictions on their use;
- ♦ as increases or decreases in unrestricted net assets in all other cases.

*(c) Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Such estimates include the present value discount rates applied to liabilities under split interest agreements and fair market values of certain investments. Actual results could differ significantly from those estimates.

The Foundation's investments are exposed to several risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of the investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's financial statements.

*(d) Income Taxes*

The Foundation is a non-profit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. The Foundation files form 990 annually with the Internal Revenue Service. The Foundation, as trustee, also files form 5227 *Split-Interest Trust Information Return* for the Charitable Remainder Annuity Trust.

The Foundation adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 48 ("FIN 48"), *"Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109."* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, *"Accounting for Income Taxes"*. This interpretation prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Holmes Community College Development Foundation, Inc.  
Notes to Financial Statements  
December 31, 2011 and 2010

Based on its analysis, management has determined that the adoption did not have a material impact to the Foundation's financial statements. However, the Foundation's conclusions regarding FIN 48 may be subject to review and adjustment at a later date based on factors including, but not limited to, further implementation guidance expected from the FASB, and ongoing analyses of tax laws, regulations and interpretations thereof.

*(e) Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, demand deposit accounts, savings account, and money market accounts.

*(f) Certificates of Deposits*

Certificates of deposits with local financial institutions bear interest rates of .75% to 1.05% and mature in six to twelve months. For purposes of cash flows, the Foundation considers certificates of deposit as investments.

*(g) Investments*

Investments are recorded at fair value. The fair values of all investments are based on quoted market prices and other observable inputs such as quoted prices for similar assets, quoted prices in inactive markets, or inputs corroborated by observable market data.

The Foundation's investments consist of ownership shares in *Commonfund*, an organization which provides investment management products and related services exclusively to nonprofit organizations. The Foundation invest in shares of two funds of *Commonfund*, *Multi-Strategy Equity Fund* and *Multi-Strategy Bond Fund*. The investment objectives of these funds are designed to add value above the returns of the U.S. equity market as measured by the S&P 500 index and broad U.S. bond market as measured by the Barclays Aggregate Bond Index and to reduce volatility in comparison to that of investing in those equity and bond indexes.

Net unrealized gains and losses due to fluctuations in valuations, investment earnings, and management and investment fees are recorded as revenues and expenses in the reporting period. Investment earnings are reinvested monthly and fees are paid monthly through redemption of shares.

*(h) Contributed Services*

During the years, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. Many individuals volunteer their time and perform a variety of tasks that assist the Foundation.

*(i) Donated Assets*

Material noncash donations are recorded as contributions at their estimated fair values at the date of donation. Any donated assets used in program services are recorded as functional expenses at their donated fair value.

*(j) Related Party Transactions*

Directors and officers of the Foundation give much of their time voluntarily and often make financial contributions. No record of voluntary time is kept and any financial contribution made by related party is treated the same as any other outside donor. Out of pocket expenses related to business of the Foundation are reimbursed to officers or directors upon presentation of detailed receipts by the related party.

*(k) Fair Value of Financial Instruments*

The carrying amounts reported in the statements of financial position for cash, assets held in remainder trust, and accrued expenses approximate fair value because of the immediate or short-term maturities of these financial instruments. The fair values of beneficial interest in remainder trust and liabilities under remainder trust approximate carrying values at December 31, 2011 due to discount rates and actuarial assumptions used in the calculation of the Foundation's interest and liabilities.

*(l) Split Interest Agreement*

During 2009, donors established a charitable remainder annuity trust naming the Foundation as trustee and remainder beneficiary. Under the terms of the trust agreement, \$10,000 is to be paid annually to the donors for life with any remainder assets transferred to the Foundation. Based on the donors' life expectancies and 3.5% and 4% discount rates for 2011 and 2010 respectively, the fair values of the Foundation's remainder interest were estimated to be \$139,084 and \$144,067 respectively for 2011 and 2010 and are recorded as temporarily restricted contributions. The resulting liabilities for annuity payments were recorded at the present value of an annuity using the same discount rates and applicable life expectancies of the donors. The beneficial interest and liabilities will be revalued annually based upon applicable life expectancies and current returns on assets held in the trust at the date of revaluation. Trust assets are invested with a local investment firm.

Changes in split-interest agreement consists of the following:

	<u>For the Years Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 7,133	\$ 4,668
Realized and unrealized gains and losses- net	(2,591)	5,332
Actuarial change	475	8,725
Annuity payments	(10,000)	(10,000)
	<u>\$ (4,983)</u>	<u>\$ 8,725</u>

*(m) Reclassifications*

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

*(n) Subsequent Events*

In connection with the preparation of the financial statements and in accordance with the recently issued SFAS No. 165, *Subsequent Events*, the Foundation evaluated events after the balance sheet date of December 31, 2011 through August 22, 2012, which was the date the financial statements were available to be issued.



**(2) Fair Value Measurement**

The Foundation adopted SFAS No. 157 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 provides a framework for consistent fair valuation based on the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurement involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are follows:

- ♦ Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- ♦ Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- ♦ Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of December 31, 2011.

	Level 1	Level 2	Level 3	Total
Commonfund Multi Strategy Equity Fund	\$ 120,768	1,422,527	124,771	1,668,066
Commonfund Multi Strategy Bond Fund	6,211	1,152,427	13,242	1,171,880
Total investments	126,979	2,574,954	138,013	2,839,946
Certificates of deposits	-	129,144	-	129,144
Assets held in remainder trust	53,185	-	-	53,185
Beneficial interest in remainder trust	-	-	139,084	139,084
Totals	<u>\$ 180,164</u>	<u>2,704,098</u>	<u>277,097</u>	<u>3,161,359</u>

The following table includes a rollforward of the amounts for the year ended December 31, 2011 for investments classified within Level 3.

	Commonfund Investments	Beneficial interest in remainder trust	Totals
Balance as of December 31, 2010	\$ 154,858	144,067	\$ 257,057
Purchases/Sales	(27,599)	-	(27,599)
Net transfers	-	-	-
Gains (losses)	10,754	(4,983)	5,771
Balance as of December 31, 2011	<u>\$ 138,013</u>	<u>139,084</u>	<u>277,097</u>

Holmes Community College Development Foundation, Inc.  
Notes to Financial Statements  
December 31, 2011 and 2010

**(3) Investments-Commonfund**

The following schedule summarizes transactions in investments in *Commonfund*:

	<i>Multi Strategy Equity</i>	<i>Multi Strategy Bond</i>	<i>Totals</i>
	<u>2011</u>		
Fund balance 1-01-11	\$ 1,743,078	1,099,322	2,842,400
Income reinvested	22,678	44,649	67,327
Fees	(6,978)	(3,191)	(10,169)
Withdrawals	-	-	-
Unrealized gains	<u>(90,710)</u>	<u>31,098</u>	<u>(59,612)</u>
Fund balance 12-31-11	<u>1,668,068</u>	<u>1,171,878</u>	<u>2,839,946</u>
	<u>2010</u>		
Fund balance 1-01-10	\$ 1,585,175	1,048,729	2,633,904
Income reinvested	20,812	46,053	66,865
Fees	(5,813)	(2,729)	(8,542)
Withdrawals	(60,000)	(40,000)	(100,000)
Unrealized gains	<u>202,904</u>	<u>47,269</u>	<u>250,173</u>
Fund balance 12-31-10	<u>1,743,078</u>	<u>1,099,322</u>	<u>2,842,400</u>

A five year summary of performance of the investment in *Commonfund's Multi-Strategy Equity* and *Multi-Strategy Bond Fund* is as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>5 Years</u>
Income	75,511	67,774	71,335	66,865	67,327	348,812
Net unrealized market gains (losses)	209,848	(864,174)	487,578	250,173	(59,612)	23,813
Fund fees	(10,769)	(8,572)	(8,286)	(8,542)	(10,169)	(46,338)
Transfers out	-	(150,000)	-	(100,000)	-	(250,000)
Net Change	274,590	(954,972)	550,627	208,496	(2,454)	76,287
Balance beginning of Year	<u>2,763,659</u>	<u>3,038,249</u>	<u>2,083,277</u>	<u>2,633,904</u>	<u>2,842,400</u>	<u>2,763,659</u>
Balance end of Year	<u>3,038,249</u>	<u>2,083,277</u>	<u>2,633,904</u>	<u>2,842,400</u>	<u>2,839,946</u>	<u>2,839,946</u>
Increase (decrease) from initial balances	<u>9.93%</u>	<u>-31.43%</u>	<u>26.43%</u>	<u>7.92%</u>	<u>-0.001%</u>	<u>2.76%</u>

Holmes Community College Development Foundation, Inc.  
Notes to Financial Statements  
December 31, 2011 and 2010

**(4) Federal Financial Assistance**

The Foundation applied for and received a Federal matching grant of \$500,000 in March, 1992. The \$500,000 grant and \$500,000 matching funds were invested temporarily in investment funds managed by *Commonfund* of Wilton, Connecticut. At the end of the time restriction, March, 2012, the entire balance of \$1,000,000 becomes unrestricted. Until the expiration of the time restriction, only fifty-percent of the income from the endowment fund may be used for scholarships and other educational activities of the College.

The following table summarizes the original endowment investment and changes during the reported fiscal years.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
	<u>2011</u>		
Endowment balance beginning of year	\$ 575,864	1,676,585	2,252,449
Net investment income	26,675	26,675	53,350
Unrealized gains (losses)	(23,618)	(23,618)	(47,236)
Withdrawals	-	-	-
Endowment balance end of year	<u>578,921</u>	<u>1,679,642</u>	<u>2,258,563</u>
	<u>2010</u>		
Endowment balance beginning of year	577,091	1,677,092	2,254,183
Net investment income	28,579	28,579	57,158
Unrealized gains (losses)	(29,806)	(29,086)	(58,892)
Withdrawals	-	-	-
Endowment balance end of year	<u>\$ 575,864</u>	<u>1,676,585</u>	<u>2,252,449</u>

The Foundation's investment committee is responsible for investment policies, return objectives and risk parameters for the endowment fund. Currently the endowment's return objectives are preservation of principal with enough investment return to exceed bank deposit returns. The nature of the Foundation's investment strategy is balanced with an approximately 59% to 41% equity to fixed income ratio. Appropriations for expenditures from the endowment fund are periodically made as financial needs arise to fund support and expenses of the College, from amounts classified as unrestricted.

Holmes Community College Development Foundation, Inc.  
Notes to Financial Statements  
December 31, 2011 and 2010

**(5) Net Assets**

Temporarily restricted net assets at December 31, 2011 and 2010 were available for scholarships and other related support of the College. Permanently restricted net assets are restricted permanently and seventy five percent of the annual earnings are available for scholarships.

**(6) Concentration of Credit Risk**

The Foundation has concentrated its risk for cash and certificates of deposits in one bank. The excess of the deposit liabilities reported by the bank over amounts covered by federal insurance amounted to \$135,104 at December 31, 2011 and \$1,634 at December 31, 2010.

**(7) Support for the College**

Support for Holmes Community College for fiscal year 2011 and 2010 consisted of:

	<u>2011</u>	<u>2010</u>
Chapel disbursements	\$ -	1,313
	<u>\$ -</u>	<u>1,313</u>

**(8) General and Administrative Expense**

G & A expenses for fiscal year 2011 and 2010 consisted of:

	<u>2011</u>	<u>2010</u>
Office expense	\$ 2,564	3,312
President discretionary	5,402	-
Professional fees	5,750	5,550
Meetings	3,631	1,116
Salaries	17,332	21,700
Investment fees	10,169	8,542
	<u>\$ 44,848</u>	<u>40,220</u>

**(9) Revenues from Special Events and Direct Costs**

Revenues and contributions received in regards to events held during the year consisted of the following.

<u>Nature of Event</u>	<u>2011</u>		
	<u>Event Revenue</u>	<u>Contributions</u>	<u>Totals</u>
Golf tournament	\$ 11,356	2,829	14,185
Speakers night	8,144	11,397	19,541
Legacy Club	9,408	9,092	18,500
Grenada Arts	34,876	8,114	42,990
	<u>63,784</u>	<u>31,432</u>	<u>95,216</u>
<u>2010</u>			
Golf tournament	8,634	8,334	16,968
Grenada Arts	25,282	7,224	32,506
	<u>\$ 33,916</u>	<u>15,558</u>	<u>49,474</u>

Direct costs and benefits to donors in association with events held during the year consisted of the following:

	<u>2011</u>	<u>2010</u>
Annual Giving:		
Golf tournament	\$ 11,356	8,634
Speakers Night	8,144	-
Legacy Trip	9,408	-
	<u>28,908</u>	<u>8,634</u>
Grenada Arts Partnership:		
Musical concerts	34,876	25,282
Totals	<u>\$ 63,784</u>	<u>33,916</u>

**(10) Fund Raising Expenses**

Expenses in regards to fundraising consisted of the following:

	<u>2011</u>	<u>2010</u>
Salaries	\$ 21,530	10,000
Fees	19,125	-
Printing	2,098	-
	<u>\$ 42,753</u>	<u>10,000</u>

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## SUPPLEMENTAL INFORMATION

**Holmes Community College**

## Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
Student Financial Aid - Cluster:		
U.S. Department of Education		
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	\$ 192,017
Federal Direct Student Loans	84.268	6,044,058
Federal Work-study Program (FWS)	84.033	213,154
Federal Pell Grant Program	84.063	<u>17,885,478</u>
Total Student Financial Aid Cluster		<u>24,334,707</u>
U.S. Department of Labor		
Pass-through programs from:		
Mississippi Employment Security Commission -		
WIA Adult Program	17.258	59,480
WIA Youth Program	17.259	11,107
WIA Dislocated Workers	17.260	20,883
Central Mississippi Planning & Development District		
WIA Adult Program	17.258	13,189
WIA Youth Program	17.259	11,990
WIA Dislocated Workers	17.260	34,770
South Delta Planning & Development District		
WIA Youth Program	17.259	<u>130,064</u>
Total WIA Programs		<u>281,483</u>
Mississippi Employment Security Commission -		
Trade Adjustment Assistance (TAA)	17.245	24,919
Total U.S. Department of Labor		<u>306,402</u>
U.S. Department of Agriculture		
Pass-through programs from:		
Mississippi State Board for Community & Junior Colleges		
State Administrative Matching Grant		
for the Supplemental Nutrition Assistance Program	10.561	3,462
Southeast Missouri State University		
Rural Business Operation Grant	10.773	<u>3,256</u>
Total U.S. Department of Agriculture		<u>6,718</u>
U.S. Department of Homeland Security		
Pass-through programs from:		
Mississippi Emergency Management Agency -		
Hazard Mitigation Grant	97.039	<u>47,500</u>
Total U.S. Department of Homeland Security		<u>47,500</u>
U.S. Department of Education		
TRIO - Student Support Services	84.042A	306,398



**Holmes Community College**  
Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Pass-through programs from:		
Mississippi State Board for Community & Junior Colleges		
Adult Education - Basic Grants to States	84.002	240,606
Mississippi Department of Education - Vocational		
Career and Technical Education - Basic Grants to States	84.048	371,223
Mississippi Department of Education - Tech Prep	84.243	15,000
		<hr/>
Subtotal pass-through programs		626,829
		<hr/>
Total U.S. Department of Education		933,227
		<hr/>
Total Expenditures of Federal Awards		\$ 25,628,554
		<hr/>

Notes to Schedule of Expenditures of Federal Awards

- 1 This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
- 2 For Purposes of this schedule, loans made to students under Federal Direct Student Loans (CFDA # 84.268) are presented as federal expenditures. Neither the funds advanced to students nor the outstanding loan balances is included in the financial statements, since the loans are made and subsequently collected by the federal government.
- 3 The Total Student Financial Aid Cluster in the amount of \$24,334,707 and the TRIO - Student Support Services in the amount of \$306,398 represent direct federally funded programs.

## REPORTS ON COMPLIANCE AND INTERNAL CONTROL

**FORTENBERRY & BALLARD, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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

To the Board of Trustees  
Holmes Community College  
Goodman, Mississippi

We have audited the financial statements of Holmes Community College, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 20, 2013. We did not audit the financial statements of the Holmes Community College Development Foundation for the years ended December 31, 2011 and 2010, a discretely presented component unit which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Holmes Community College Foundation were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

Management of Holmes Community College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Holmes Community College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holmes Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Holmes Community College's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holmes Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, and 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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC  
March 20, 2013

Certified Public Accountants

**FORTENBERRY & BALLARD, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees  
Holmes Community College  
Goodman, Mississippi

**Compliance**

We have audited Holmes Community College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Holmes Community College's major federal programs for the year ended June 30, 2012. Holmes Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Holmes Community College's management. Our responsibility is to express an opinion on Holmes Community College's compliance based on our audit.

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

In our opinion, Holmes Community College, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

**Internal Control over Compliance**

Management of Holmes Community College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Holmes Community College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC  
March 20, 2013

Certified Public Accountants

**FORTENBERRY & BALLARD, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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

To the Board of Trustees  
Holmes Community College  
Goodman, Mississippi

We have audited the financial statements of Holmes Community College as of and for the year ended June 30, 2012, and have issued our report thereon dated March 20, 2013. We did not audit the financial statements of the Holmes Community College Development Foundation for the years ended December 31, 2011 and 2010, a discretely presented component unit which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Holmes Community College Foundation were not audited in accordance with *Government Auditing Standards*.

We have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with all 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 performed to test compliance with state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with state laws and regulations.

This report is intended solely for the information and use of the college, members of the Legislature, entities with accreditation overview, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*FORTENBERRY & BALLARD, PC*

Fortenberry & Ballard, PC  
March 20, 2013

Certified Public Accountants

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS



**Holmes Community College**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Unqualified.
2. Internal control over financial reporting:
  - a. Material weakness(es) identified? No.
  - b. Significant deficiency(ies) identified? None reported.
3. Noncompliance material to financial statements noted? No.

Federal Awards:

4. Internal control over major programs:
  - a. Material weakness(es) identified? No.
  - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major programs: Unqualified.
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? No.
7. Identification of major programs:
  - a. Student Financial Aid Cluster:  
Federal Supplemental Education Opportunity Grants (FSEOG)  
CFDA # 84.007  
Federal Work-Study Programs (FWS)  
CFDA # 84.033  
Federal Pell Grant Program  
CFDA # 84.063  
Federal Direct Student Loans  
CFDA # 84.268
8. Dollar threshold used to distinguish between type A and type B programs: \$587,535
9. Auditee qualified as low-risk auditee? Yes.

Section II: Financial Statements Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

### Section III: Federal Awards Findings and Questioned Costs

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