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SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Audited Financial Statements
For the Year Ended June 30, 2012

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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INDEPENDENT AUDITOR'S REPORT

LOWERY, PAYN, AND LEGGETT

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INDEPENDENT AUDITOR'S REPORT

Dr. J Stephen Bishop, President and Board of Trustees
Southwest Mississippi Community College
Summit, MS 39666

We have audited the accompanying financial statements of the business activities of Southwest Mississippi Community College as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements as listed in the table of contents. We have also audited the statement of net assets of the Southwest Mississippi Community College Foundation, Inc., a discretely presented component unit of Southwest Mississippi Community College, as of June 30, 2012 and the related statement of activities for the year then ended. These financial statements are the responsibility of the Southwest Mississippi Community College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Southwest Mississippi Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business activities and discretely presented component unit of Southwest Mississippi Community College, as of June 30, 2012, 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 18, 2013 on our consideration of Southwest Mississippi Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Southwest Mississippi Community College's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 basic financial statements as a whole.



Lowery, Payn and Leggett
Certified Public Accountants

March 18, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Southwest Mississippi Community College annual financial report presents our discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 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. We have included in this discussion comparative data for fiscal year 2011. The financial statements, footnotes, and this discussion are the responsibility of management.

Using this Annual Report

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

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

Reporting the College's Financial Activities

Statement of Net Assets

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

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Condensed Statement of Net Assets

	June 30, 2012		June 30, 2011	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Assets				
Current assets	\$ 15,437,283	.30	\$ 14,928,230	.32
Non-current assets				
Capital, net	31,063,297	.61	28,050,516	.59
Other	4,405,943	.09	4,426,834	.09
Total assets	<u>\$ 50,906,523</u>	<u>1.00</u>	<u>\$ 47,405,580</u>	<u>1.00</u>
Liabilities				
Current liabilities	\$ 1,759,837	.60	\$ 1,374,647	.63
Non-current liabilities	1,159,390	.40	816,661	.37
Total liabilities	<u>\$ 2,919,227</u>	<u>1.00</u>	<u>\$ 2,191,308</u>	<u>1.00</u>
Net assets				
Invested in capital assets, net	\$ 29,628,685	.62	\$ 26,995,877	.60
Restricted				
Non-expendable	918,903	.02	905,419	.02
Expendable	5,369,951	.11	5,933,808	.13
Unrestricted	12,069,757	.25	11,379,168	.25
Total net assets	<u>\$ 47,987,296</u>	<u>1.00</u>	<u>\$ 45,214,272</u>	<u>1.00</u>

The current asset position at June 30, 2012 is \$ 15,437,283. This represents primarily cash, short-term investments, accounts receivable, and inventories. Cash and short-term investments totaled \$10,953,973, accounts receivable totaled \$2,846,666 and are reported net of allowance for doubtful accounts of \$1,566,437, inventories for the book store and cafeteria totaled \$1,238,449, and prepaid expense totaled \$398,195. For the fiscal year ended June 30, 2011, the current asset position was \$14,928,230. Cash and short-term investments were \$12,201,371, accounts receivable were \$1,449,847 reported net of allowance for doubtful accounts of \$1,453,237, inventories were \$951,906, and prepaid expense was \$301,308.

The noncurrent asset position at June 30, 2012 is \$34,469,240. This represents restricted cash and cash equivalents, endowment and loan fund investments, capital assets, net of accumulated depreciation. Restricted cash and investments totaled \$4,405,943 and capital assets, net totaled \$31,063,297. For the fiscal year ended June 30, 2011, restricted cash and investments were \$4,426,834, and capital assets, net were \$28,050,516.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Current liabilities at June 30, 2012 are \$1,759,837. This consists primarily of accounts payable, accrued payroll, deferred revenue associated with early student registration for the fall 2012 academic semester, and the current portion of long-term debt. Accounts payable totaled \$546,941, accrued salaries payable totaled \$534,411, deferred revenue totaled \$397,958, student funds on deposit totaled \$5,305, and the current portion of long-term debt amounted to \$275,222. For the fiscal year ended June 30, 2011, current liabilities were \$1,374,647. Accounts payable were \$328,688, accrued payroll was \$507,670, deferred revenue was \$295,268, student funds on deposit were \$5,043, and the current portion of long-term debt was \$237,978.

Noncurrent liabilities for the college consist exclusively of long-term debt due for capital lease purchase agreements. At June 30, 2012 noncurrent liabilities totaled \$1,159,390, as compared to \$816,661 at June 30, 2011. The college added \$622,375 in new long-term debt during the fiscal year 2012. The 20-year loan at 1.75% was obtained to pay for the renovation of the college's campus-wide sewer system.

The largest position of the college's net assets (62 percent) is in the category of "invested in capital assets" (land, buildings, and equipment), less the related debt. The restricted portion of the net assets represents resources subject to external restrictions. Restricted non-expendable net assets consist of endowment gifts with specific restrictions on spending the principle given. Restricted expendable net assets consist of gifts with specific restrictions, grants from third-party agencies with expenditure restrictions, plant funds restricted for capital projects and debt service, and loan funds.

The following is a breakdown of the restricted net assets:

	2012	2011	Increase (Decrease)
Non-expendable endowment funds	\$ 918,903	\$ 905,419	\$ 13,484
Scholarships	4,439	8,284	(3,845)
Capital projects	1,629,767	2,260,136	(630,369)
Debt service	275,222	237,978	37,244
Loan funds	3,439,237	3,409,100	30,137
Other	21,286	18,310	2,976
Total restricted net assets	<u>\$ 6,288,854</u>	<u>\$ 6,839,227</u>	<u>\$ (550,373)</u>

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

	2012	2011	Increase (Decrease)
Unrestricted General Funds	\$ 7,934,343	\$ 7,562,752	\$ 371,591
Unrestricted Auxiliary Funds	3,866,428	3,594,631	271,797
Unrestricted Designated Funds	268,986	221,785	47,201
Total unrestricted net assets	<u>\$ 12,069,757</u>	<u>\$ 11,379,168</u>	<u>\$ 690,589</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2012

Statement of Revenues, Expenses and Changes in Net Assets

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

Condensed Statement of Revenues and Changes in Net Assets

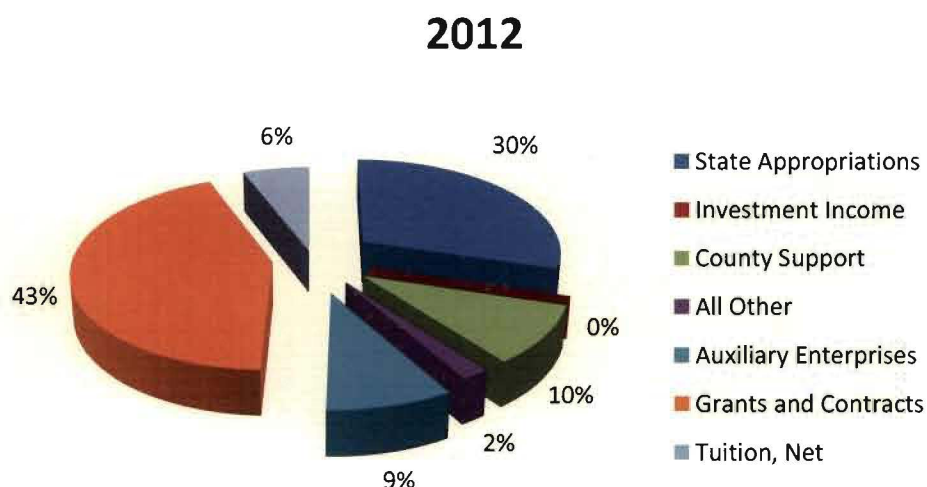
	2012	2011
Operating revenues		
Tuition and fees (net)	\$ 1,524,328	\$ 1,503,007
Grants and contracts	10,551,145	10,440,220
Sales and service	18,064	18,617
Auxiliary enterprises (net)	2,058,942	1,745,292
Private gifts and contributions	63,557	145,015
Other operating revenues	334,159	479,871
Total operating revenues	<u>14,550,195</u>	<u>14,332,022</u>
Operating expenses	<u>22,223,087</u>	<u>21,300,896</u>
Operating loss	<u>(7,672,892)</u>	<u>(6,968,874)</u>
Non-operating revenues (expenses)		
State appropriations	7,125,957	7,787,368
County appropriations	2,396,690	2,324,548
Investment income, net	48,425	174,611
Interest on indebtedness	(41,448)	(49,608)
Net non-operating revenues (expenses)	<u>9,529,624</u>	<u>10,236,919</u>
Income (loss) before other revenues	<u>1,856,732</u>	<u>3,268,045</u>
State capital use appropriations	<u>916,292</u>	<u>1,692,641</u>
Total increase in net assets	<u>2,773,024</u>	<u>4,960,686</u>
Net assets		
Net assets, beginning of year	<u>45,214,272</u>	<u>40,253,586</u>
Net assets, end of year	<u>\$ 47,987,296</u>	<u>\$ 45,214,272</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

Total Revenue by Source



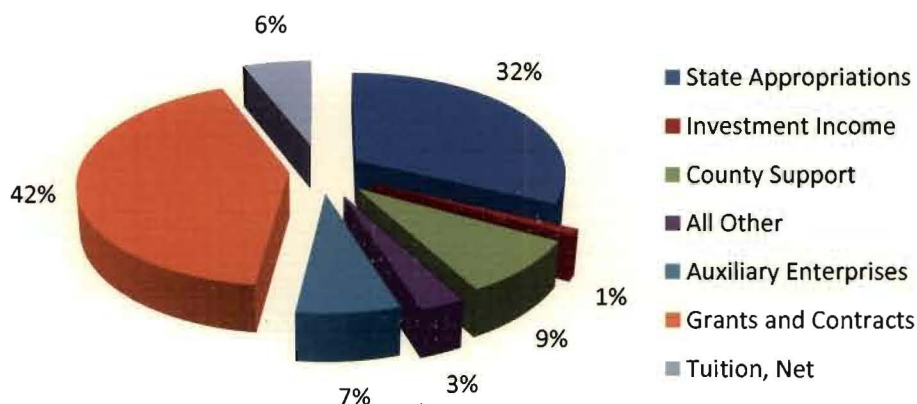
In fiscal year 2012 operating revenues totaled \$14,550,195 and non-operating revenues totaled \$9,571,072. The sources of operating revenue for the college are tuition and fees, grants and contracts, auxiliary services, and other operating revenues. The college's largest single sources of non-operating revenue are the State of Mississippi appropriation and the support from the four counties comprising the college's district.

Total operating loss for the fiscal year 2012 was \$7,672,892. Because the State of Mississippi appropriation is not included within operating revenue per GASB no. 35, the college will always show a significant operating loss.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis
For the Year Ended June 30, 2012

2011



In fiscal year 2011 operating revenues totaled \$14,332,022 and non-operating revenues totaled \$10,286,527. The total operating loss for the fiscal year 2011 was \$6,968,874.

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

Operating Revenues

- **Tuition and fees (net of tuition discount)** reflects an increase in Fiscal Year 2011 of \$21,321. Tuition and fees totaling \$1,524,328 are net of \$3,850,564 in scholarship allowances. Tuition discounting is calculated from student financial aid awards and related student refunds.
- **Grants and contracts revenue** increased in Fiscal Year 2012 by \$110,925. Grants and contracts revenue includes all federal and state restricted revenues made available by government agencies, as well as private agencies. Grant revenues are recorded only to the extent that the funds have been expended for exchange transactions. Non-exchange revenues are recorded when received or when eligibility criteria have been met.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2012

The following table details the college's grant and contract awards for the fiscal years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Federal sources	\$ 8,829,045	\$ 8,562,429	\$ 266,616
State sources	1,535,703	1,595,248	(59,545)
Other sources	186,397	282,543	(96,146)
Total all sources	<u>\$ 10,551,145</u>	<u>\$ 10,440,220</u>	<u>\$ 110,925</u>

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

Auxiliary enterprises primarily include the bookstore, student and campus housing, and food services. Auxiliary enterprises revenue, net of scholarship allowances, totaled \$2,058,942 for the fiscal year 2012 or an increase of \$313,650 from fiscal year 2011. The discount for scholarship allowance was \$796,388 for fiscal year 2012 and \$1,510,358 for fiscal year 2011.

	<u>2012</u>	<u>2011</u>
Bookstore	\$ 1,366,042	\$ 1,975,244
Student and campus housing	465,765	501,255
Food services	654,303	766,706
Other	369,220	12,445
Subtotal	\$ 2,855,330	\$ 3,255,650
Less: Scholarship allowances	(796,388)	(1,510,358)
Net auxiliary enterprises revenue	<u>\$ 2,058,942</u>	<u>\$ 1,745,292</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2012

Operating Expenses

Operating expenses for fiscal year 2012 totaled \$22,223,087, including depreciation expense of \$1,112,056. Operating expenses for fiscal year 2011 totaled \$21,300,896.

Expenses by Object:

	2012	2011	Increase (Decrease)
Salaries and wages	\$ 8,982,027	\$ 8,504,501	\$ 477,526
Fringe benefits	2,527,526	2,330,285	197,241
Travel	163,365	138,853	24,512
Contractual services	2,330,057	2,085,387	244,670
Utilities	608,113	632,697	(24,584)
Scholarships	3,540,904	3,769,979	(229,075)
Commodities	2,707,752	2,164,208	543,544
Depreciation expense	1,112,056	1,152,114	(40,058)
Other operating expense	251,287	522,872	(271,585)
Total Operating Expenses	\$ 22,223,087	\$ 21,300,896	\$ 992,191

Expenses by Function:

	2012	2011	Increase (Decrease)
Instruction	8,219,030	8,092,900	\$ 126,130
Academic support	440,361	421,152	19,209
Student services	1,981,063	1,724,632	256,431
Institutional support	1,959,663	1,931,718	27,945
Operation of physical plant	2,377,924	2,134,271	243,653
Student financial aid	3,540,904	3,769,979	(229,075)
Auxiliary enterprises	2,592,086	2,074,130	517,956
Depreciation	1,112,056	1,152,114	(40,058)
Total Operating Expenses	\$ 22,223,087	\$ 21,300,896	\$ 992,191

Non-Operating Revenues (Expenses)

- **State appropriation** funding is the college's largest source of non-operating revenue. This appropriation is for the educational and general operations of the college. The college received \$7,125,957 in 2012 as compared to \$7,787,368 in 2011, or a decrease of \$661,411.
- **Local county appropriation** increased only slightly for fiscal year 2012. This revenue is received from the four counties (Amite, Pike, Walthall, and Wilkinson) of the State Community College District in which the college resides. The college received \$2,396,690 for fiscal year 2012, compared to \$2,324,548 for fiscal year 2011.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

- **Investment income, net** includes earned interest income and investment gains or losses on cash in the bank accounts, mutual funds, and the school's investment pooling account net of any fees charged. Investment income for fiscal year 2012 was \$48,425, compared to \$174,611 in fiscal year 2011.
- **Capital appropriations** consist of construction and renovation expenditures made by the State Bureau of Buildings, Grounds, and Real Property Management on behalf of the college. Funds totaling \$916,292 for fiscal year 2012 were expended for the Old Student Union – Cafeteria Renovation Project, repairs on the Horace C. Holmes Student Union Building, and campus roofing projects.
- **Interest expense of capital asset related debt** consists of the amount the college incurred during fiscal year for debt expense. The total expense was \$41,448 for fiscal year 2012, compared to \$49,608 for fiscal year 2011.

Statement of Cash Flows

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

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

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

Condensed Statement of Cash Flows (Direct Method)

	2012	2011
Cash and cash equivalents provided (used) by:		
Operating activities	\$ (7,878,987)	\$ (5,547,793)
Noncapital financing activities	9,432,293	10,106,573
Capital/related financing activities	(2,870,020)	(506,557)
Investing activities	(57,571)	90,654
Net increase in cash and cash equivalents	(1,374,285)	4,142,877
Cash and cash equivalents – Beginning of Year	9,338,889	5,196,012
Cash and cash equivalents – End of Year	\$ 7,964,604	\$ 9,338,889

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

The major sources of funds comprising operating activities for fiscal year 2012 include student tuition and fees, \$1,440,365; auxiliary enterprises, \$2,058,942; and grants and contracts, \$9,318,386. The major uses of funds were payments made to employees, \$11,482,812; to suppliers, \$5,407,804; and for scholarships, \$3,540,904.

In comparison, the major sources of funds comprising operating activities for fiscal year 2011 include student tuition and fees, \$1,358,688; auxiliary enterprises, \$1,745,292; and grants and contracts, \$10,596,436. The major uses of funds were payments made to employees, \$10,714,111; to suppliers, \$4,815,286; and for scholarships, \$3,769,979.

The largest inflow of cash in the non-capital financing activities group is the state appropriation of \$7,035,350 and county appropriation of \$2,396,690 for fiscal year 2012, compared to state appropriation of \$7,785,755 and county appropriation of \$2,324,548 for fiscal year 2011.

Capital Asset Transactions

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

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

As shown in the following table, the college value of net capital assets increased by \$3,012,781 during the fiscal year 2012:

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Land	\$ 122,124	\$ 122,124	\$ -
Construction in progress	3,693,796	2,891,426	802,370
Buildings	33,552,941	31,070,062	2,482,879
Improvements	7,580,837	6,716,016	864,821
Machinery and equipment	2,377,755	2,300,424	77,331
Library books and media	861,698	964,262	(102,564)
Software	400,000	400,000	-
Capital lease	2,111,173	2,111,173	-
Total capital assets	50,700,324	46,575,487	4,124,837
Accumulated depreciation	(19,637,027)	(18,524,971)	(1,112,056)
Net capital assets	<u>\$ 31,063,297</u>	<u>\$ 28,050,516</u>	<u>\$ 3,012,781</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis For the Year Ended June 30, 2012

In addition to costs incurred, the college had \$4,731,442 in outstanding commitments for construction projects as of June 30, 2012. Those projects included the construction of a regional workforce training center, upgrades to the Hurst Football Stadium, the renovation of the president's home, and two campus roofing projects.

The college received a Federal grant totaling \$4,800,000 from the U. S. Department of Commerce, Economic Development Administration, for the construction of a regional workforce development center. The \$6,500,000 center is primarily designed to provide safety and hazardous duty training for industry and government, and its reach is expected to impact a much broader area than the college's four-county district. In addition to the Federal funding, matching funds include \$1,000,000 in special capital improvement bonds from the Mississippi Legislature, \$250,000 for the Mississippi Bureau of Building, Grounds, and Real Property Management Discretionary Funds, \$200,000 from local industry and the Pike County Economic Development District, and \$250,000 from available college funds. The ground-breaking ceremony was held on February 11, 2011. Construction is now complete and the building was occupied in January 2013.

The college has also reactivated a project to add a new dormitory that had been put on hold in Fiscal Year 2010. The dormitory will service approximately 200 students and has been estimated by an architectural firm to cost \$12,000,000. The college is currently considering funding source options for the building

Long-Term Debt Activities

Prior to the current fiscal period, the total long-term debt obligations of the college consisted of two loans which financed controls and equipment for energy savings. The savings in energy costs are projected to be sufficient to pay the indebtedness and the associated interest expense. In February 2012, the college added a 20-year loan for \$622,375 at 1.75% interest to fund its campus-wide sewer renovation project. At June 30, 2012, long-term debt made up 49.1% of total liabilities, and total liabilities were only 6.1% of total net assets.

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Loans and leases payable	<u>\$ 1,434,612</u>	<u>\$ 1,054,639</u>	<u>\$ 379,973</u>
Total long-term liabilities	<u>\$ 1,434,612</u>	<u>\$ 1,054,639</u>	<u>\$ 379,973</u>

Factors Impacting Future Periods

The national economy and its resulting effect on Mississippi continue as the most important factors facing the college's administration. Currently, the Mississippi Legislature is in session, in part, to consider educational appropriations for the upcoming fiscal year 2012-2013. Based on recent revenue numbers from sales tax proceeds, there is some optimism for the beginnings of a long-awaited recovery. For the first time since 2008, administrators at state agencies and state-supported educational institutions are hoping that additional cuts beyond those already experienced may not be a part of the budget equation for fiscal year 2013.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Management's Discussion and Analysis

For the Year Ended June 30, 2012

In tough economic times, the college has always risen to the challenge and opportunity for leadership, innovation, and achievement. Prior to fiscal year 2000, state appropriations comprised approximately 65% of revenue sources for the college. Over the last ten year period, the college has absorbed reductions in appropriations sufficient to reduce that number to its current 30%. Yet during this same period, the college continued its growth with balanced budgets and has realized an increase in net assets each year. This flexibility and commitment of its administration, faculty, and staff to cost containment as well as ongoing efforts toward revenue diversification has provided the resources sufficient to weather the historical and current economic problems.

The standard set by the college's management has always been to operate well within budgeted amounts and with the minimum of administrative and management positions - employees "wear a number of hats". As a result, for the last eighteen years, the college has maintained unrestricted net assets totaling at least 35% of its operating budgets. For the fiscal year ended June 30, 2012, unrestricted net assets were \$12,069,757 or 46.9% of the fiscal year 2012 total operating budgets of \$25,713,923. We have certainly learned that it is not always possible to predict the behavior of the economy. However, management believes that the college's financial condition and its conservative approach to budgeting its resources leave it well-positioned to ultimately see it through whatever is asked of it, and at the same time provide the assurance core mission services and objectives are achieved.

CONTACTING THE COMMUNITY COLLEGE'S FINANCIAL MANAGEMENT

If you have questions about this report, contact Grady Smith, Vice President for Financial Affairs, Southwest Mississippi Community College, 1156 College Drive, Summit, MS 39666-9029, by telephone 601-276-3704, or by e-mail at gsmith@smcc.edu.

AUDITED FINANCIAL STATEMENTS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Statement of Net Assets

June 30, 2012

Assets

Current Assets:

Cash and cash equivalents	\$ 7,957,885
Short term investments	2,996,088
Accounts receivable, net	505,554
Due from State General Fund	175,645
Grants and contracts receivable, net	2,165,467
Inventories	1,238,449
Prepaid expenses	398,195
Total Current Assets	15,437,283

Non-current Assets:

Restricted cash and cash equivalents	6,719
Restricted fund investments (unemployment compensation)	32,152
Loan fund investments	3,068,340
Endowment investments	934,554
Other long-term investments (land in loan funds)	364,178
Capital assets, net of accumulated depreciation	31,063,297
Total Non-current Assets	35,469,240
Total Assets	50,906,523

Liabilities

Current Liabilities

Accounts payable and accrued liabilities	546,941
Accrued payroll	534,411
Deferred revenues	397,958
Deposits refundable	5,305
Long-term liabilities, due within one year:	275,222

Non-current Liabilities

Long-term liabilities, due beyond one year:	1,159,390
Total Liabilities	2,919,227

Net Assets

Invested in capital assets, net of related debt	29,628,685
Restricted for:	
Expendable:	
Scholarships and fellowships	4,439
Debt service	275,222
Capital improvements	1,629,767
Loans to students	3,439,237
Other purposes	21,286
Non-expendable:	
Scholarships and fellowships	918,903
Other	
Unrestricted	12,069,757
Total Net Assets	\$ 47,987,296

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

Southwest Mississippi Community College Foundation, Inc.
Statement of Financial Position
June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Assets				
Cash and Investments	\$ 101,629	\$ 59,051	\$ 9,253	\$ 169,933
Investments	29,249	36,970	86,650	152,869
Accounts Receivable	-	-	-	-
Pledges Receivable	-	70,600	-	70,600
Allowance for Uncollectible	-	(3,000)	-	(3,000)
Total Assets	<u>\$ 130,878</u>	<u>\$ 163,621</u>	<u>\$ 95,903</u>	<u>\$ 390,402</u>
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ 250	\$ -	\$ 250
Net Assets				
Unrestricted	130,878	-	-	130,878
Temporarily Restricted	-	163,371	-	163,371
Permanently Restricted	-	-	95,903	95,903
Total Net Assets	<u>\$ 130,878</u>	<u>\$ 163,371</u>	<u>\$ 95,903</u>	<u>\$ 390,152</u>

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

Operating Revenues

Tuition and fees (net of scholarship allowances of \$3,850,564)	\$ 1,524,328
Federal grants and contracts	8,829,045
State grants and contracts	1,535,703
Nongovernmental grants and contracts	186,397
Sales and services of educational departments	18,064
Auxiliary enterprises:	
Student housing (net scholarship allowances of \$366,074)	99,691
Food services (net of scholarship allowances of \$430,314)	223,989
Bookstore	1,366,042
Other auxiliary revenues	369,220
Other operating revenues	397,716
Total operating revenues	<u>14,550,195</u>

Operating Expenses

Salaries and wages	8,982,027
Fringe benefits	2,527,526
Travel	163,365
Contractual services	2,330,057
Utilities	608,113
Scholarships and fellowships	3,540,904
Commodities	2,707,752
Depreciation	1,112,056
Other operating expenses	251,287
Total Operating Expenses	<u>22,223,087</u>

Operating Income	<u>(7,672,892)</u>
------------------	--------------------

Non-operating Revenues (Expenses)

State appropriations	7,125,957
Local appropriation	2,396,690
Net unrealized and realized gains on investments	6,387
Investment income	42,038
Interest expense on capital asset-related debt	(41,448)
Total Net Nonoperating Revenues (Expenses)	<u>9,529,624</u>

Income before Other Revenues, Expenses, Gains and Losses	<u>1,856,732</u>
--	------------------

Other Revenues

State appropriation restricted for capital purposes	916,292
Total Other Revenues	<u>916,292</u>

Change in Net Assets

	<u>2,773,024</u>
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Net Assets

Net assets, beginning of year	<u>45,214,272</u>
Net assets, end of year	<u>\$ 47,987,296</u>

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

Southwest Mississippi Community College Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains and Support				
Contributions	\$ 18,371	\$ 63,884	\$ 18,774	\$ 101,029
Pledge Income	-	-	-	-
Fund Raising	16,523	-	-	16,523
Investment Income	936	-	-	936
Other	-	-	-	-
Total Revenues, Gains and Support	<u>35,830</u>	<u>63,884</u>	<u>18,774</u>	<u>118,488</u>
Expenses and Deductions				
Program Services				
Scholarships	-	26,346	-	26,346
Other Expenses	12,006	-	-	12,006
Management and General	500	25,946	17,616	44,062
Total Expenses	<u>12,506</u>	<u>52,292</u>	<u>17,616</u>	<u>82,414</u>
Increase in Net Assets	23,324	11,592	1,158	36,074
Net Assets at Beginning of Year	<u>107,554</u>	<u>151,779</u>	<u>94,745</u>	<u>354,078</u>
Net Assets at End of Year	<u>\$ 130,878</u>	<u>\$ 163,371</u>	<u>\$ 95,903</u>	<u>\$ 390,152</u>

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Statement of Cash Flows
For the Year Ended June 30, 2012

Cash flows from operating activities:

Tuition and fees	\$ 1,440,365
Grants and contracts	9,318,386
Sales and services of educational departments	18,064
Payments to suppliers and students	(5,407,804)
Payments to employees for salaries and benefits	(11,482,812)
Cash received (paid) on deposits	262
Payments for utilities	(608,113)
Payments for scholarships and fellowships	(3,540,904)
Auxiliary enterprise charges	2,058,942
Other receipts (payments)	324,627
Net cash provided (used) by operating activities	<u>(7,878,987)</u>

Cash flows from noncapital financing activities:

State appropriations	7,035,350
Local appropriations	2,396,690
Other sources (uses)	253
Net cash provided (used) by noncapital financing activities	<u>9,432,293</u>

Cash flows from capital and related financing activities:

Capital appropriations	916,292
Proceeds from issuance of debt	622,375
Purchases of capital assets	(4,124,837)
Principal paid on capital debt and leases	(242,402)
Interest paid on capital debt and leases	(41,448)
Net cash provided (used) by capital and related financing activities	<u>(2,870,020)</u>

Cash flows from investing activities:

Proceeds from sales and maturities of investments	6,410,040
Interest and dividends received on investments	48,425
Purchases of investments	(6,516,036)
Net cash provided (used) by investing activities	<u>(57,571)</u>

Net increase (decrease) in cash and cash equivalents	<u>(1,374,285)</u>
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Cash and cash equivalents - beginning of year	<u>9,338,889</u>
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Cash and cash equivalents - end of year	<u>\$ 7,964,604</u>
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The notes to the financial statements are an integral part of this statement.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Statement of Cash Flows
For the Year Ended June 30, 2012

Reconciliation of operating income (loss) to net cash provided (used)

by operating activities:

Operating Income (Loss) \$ (7,672,892)

Adjustments to reconcile net income (loss) to net cash provided (used)

by operating activities

Depreciation expense 1,112,056

Changes in assets and liabilities

(Increase) decrease in assets

Receivables, Net (73,453)

Inventories (286,543)

Intergovernmental receivables (1,232,759)

Other assets (73,089)

Increase (decrease) in liabilities

Accounts payable and accrued liabilities 218,000

Accrued payroll 26,741

Deferred revenue 102,690

Deposits refundable 262

Total Adjustments (206,095)

Net cash provided (used) by operating activities **\$ (7,878,987)**

Reconciliation of cash and cash equivalents to the Statement of Net Assets

Cash and cash equivalents classified as current assets \$ 7,957,885

Cash and cash equivalents classified as non-current assets 6,719

\$ 7,964,604

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

Southwest Mississippi Community College Foundation, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2012

Cash Flows From Operating Activities:

Increase in net assets	\$ 36,074
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Contributions received for permanent investment	(18,775)
Receivables, net	26,885
Non cash transfers to SMCC	-
Increase (decrease) in:	
Accounts payable and accrued liabilities	250
Net cash provided by operating activities	<u>44,434</u>

Cash Flows From Investing Activities:

Net unrealized gain on investments	(33,673)
Net cash (used) by investing activities	<u>(33,673)</u>

Cash Flows From Financing Activities:

Contributions restricted for permanent investment	18,775
Net cash provided by financing activities	<u>18,775</u>

Net Increase in Cash	29,536
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Cash Balance	
Beginning of Year	<u>140,397</u>

End of Year	<u>\$ 169,933</u>
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The notes to the financial statements are an integral part of this statement.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

Note 1 – Summary of Significant Accounting Policies

The accompanying financial statements of the community college have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the community college's accounting policies are described below.

A. Nature of Operations

Southwest Mississippi Community College (the "College") is a comprehensive two-year community and technical college. The College provides the students of its four county district and beyond with the opportunity to obtain an affordable quality education through academic and career technical curriculum leading to certificates, diplomas, or associates degrees.

B. Reporting Entity

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

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

Southwest Mississippi Community College reports the following discretely presented component unit:

Southwest Mississippi Community College Foundation Inc. (Foundation). The foundation is a legally separate, tax-exempt nonprofit organization. The Foundation acts primarily as a fund raising organization to supplement the resources available to Southwest Mississippi Community College (College) in support of its programs. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income that the Foundation holds and invests are restricted to the activities of the College by the donors.

During the year ended June 30, 2012, the Foundation distributed \$0 to the college.

C. Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and*

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

Analysis of Public College and Universities, issued in June and November, 1999, respectively. The college now follows the "business-type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the college's financial activities.

D. Basis of Accounting

The financial statements of the college have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

E. Cash Equivalents

For purposes of the Statement of Cash Flows, the college considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

F. Short-term Investments

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

G. Accounts Receivable, Net

Accounts receivables consist of tuition and fees charges to students, state appropriations, amounts due from state and federal grants and contracts, local governments and credits due to the college from vendors. Accounts receivables are recorded net of an allowance for doubtful accounts.

H. Inventories

Inventories consist of bookstore inventory and food service supplies. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out (FIFO) basis or the average cost basis.

I. Prepaid Expenses

Prepaid expenses represent approved financial aid disbursements for the fall semester.

J. Restricted Cash and Cash Equivalents

Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserved 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.

K. Endowment Investments

Endowment investments are generally subject to the restrictions of donor gift instruments. They include true endowment funds, which are funds received from a donor with the restrictions that only the income is to be utilized; term endowment funds, which are funds for which the donor has stipulated that the principal may be expended after a stated period or on the occurrence of a certain event, and quasi endowment funds, which are funds established by the governing board

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

to function like an endowment fund but may be totally expended at any time at the discretion of the governing board.

L. Capital Assets, net of Accumulated Depreciation

Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value on the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See note 5 for additional details concerning useful lives, salvage values and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose.

M. 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.

N. 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.

O. Classification of Revenues

The college has classified its revenues as either operating or non-operating revenues according to the following criteria:

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

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

P. State Appropriations

Southwest Mississippi Community College receives funds from the State of Mississippi based on the number of full-time students actually enrolled and in attendance on the last day of the sixth week of the fall semester of the previous year, counting only those students who reside within the State of Mississippi. In the 2004 fiscal year, a new funding formula was to be phased in over a 5

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

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

Q. Local Appropriations

Southwest Mississippi Community College receives funds from taxes levied by the counties in the college for general support, maintenance, and capital improvements.

R. Scholarship Discounts and Allowances

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties and Federal Direct Lending, is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid 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.

S. Net Assets

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

The net asset balance of \$47,987,296 at June 30, 2012, includes \$918,903 reserved for endowment, \$4,439 reserved for scholarships, \$1,629,767 reserved for capital projects, \$275,222 reserved for debt service, \$3,439,237 reserved for loans to students, \$21,286 reserved for other purposes and an unrestricted amount of \$12,069,757.

T. Income Taxes

The college is recognized as a local governing authority and is excluded by the Internal Revenue Service from federal income taxation.

U. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

V. Changes in Accounting Standards

Southwest Mississippi Community College was not required to implement any GASB Statements during the current fiscal year that would significantly impact the amounts reported in the financial statements.

Note 2 – Cash and Cash Equivalents and Investments

A. Cash, Cash Equivalents and Short Term Investments

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

The collateral pledged for the college's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those 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 Deposit Insurance Corporation.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the college will not be able to recover deposits or collateral securities that are in the possession of an outside party. The college does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the college. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the college. As of June 30, 2012, none of the college's bank balance of \$8,173,155 was exposed to custodial credit risk.

B. Investments

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

The following table summarizes the carrying value of the college's investments reported on the statement of net assets at June 30, 2012:

Endowment investments	\$ 934,554
Other short term investments	2,996,088
Long term investments	<u>3,464,670</u>
Total Investments	<u>\$7,395,312</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

As of June 30, 2012, the college had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Money Market Mutual Funds	Not Rated	Less than 1	\$ 5,854,444
Real Estate	Not Rated	N/A	364,178
Equity Securities	BBB+ to AAA	Less than 1	81,466
Certificates of Deposit	BA2 to BA3	1 to 14	302,822
Municipal Bonds	AA to AAA	1 to 10	792,402
Total			<u>\$ 7,395,312</u>

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the college will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The college does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2012, none of the college's investment balance of \$7,395,312 was exposed to custodial credit risk.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2012, the college had the following investments:

Issuer	Fair Value	% of Total Investments
Sterne Agee/Money market funds	\$ 5,840,203	79%

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

Note 3 – Accounts Receivable

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

Student receivables	\$ 1,970,511
Federal, state and private grants and contracts	2,160,833
State appropriations	175,645
Local appropriations	66,354
Other receivables	<u>39,760</u>
Total Accounts Receivable	4,413,103
Less allowance for doubtful accounts	<u>(1,566,437)</u>
Net Accounts Receivable	<u>\$ 2,846,666</u>

Note 4 – Inventory

Inventory as of June 30, 2012 consists of the following:

Bookstore	\$1,218,756
Food Services	<u>19,693</u>
Total	<u>\$1,238,449</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

Note 5 – Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2012:

	Balance 7/1/2011	Increases	Decreases	Completed Construction	Balance 6/30/2012
Governmental Activities:					
Non-depreciable capital assets:					
Land	\$ 122,124	\$	\$	\$	\$ 122,124
Construction in progress	2,891,426	4,150,070		(3,347,700)	3,693,796
Total non-depreciable capital assets	3,013,550	4,150,070	-	(3,347,700)	3,815,920
Depreciable capital assets:					
Buildings	22,686,593				22,686,593
Building improvements	8,383,469			2,482,879	10,866,348
Improvements other than buildings	6,716,016			864,821	7,580,837
Equipment	2,300,424	255,677	178,346		2,377,755
Software	400,000				400,000
Library books	964,262	7,384	109,948		861,698
Leased property under capital leases	2,111,173				2,111,173
Total depreciable capital assets	43,561,937	263,061	288,294	3,347,700	46,884,404
Less accumulated depreciation for:					
Buildings	10,310,907	417,327	7,671		10,720,563
Building improvements	2,123,489	426,359			2,549,848
Improvements other than buildings	2,750,100	267,982			3,018,082
Equipment	1,824,620	153,590	165,777		1,812,433
Software	128,000	32,000			160,000
Library books	917,203	21,246	117,447		821,002
Leased property under capital leases	470,652	84,447			555,099
Total accumulated depreciation	18,524,971	1,402,951	290,895	-	19,637,027
Total depreciable capital assets, net	25,036,966	(1,139,890)	(2,601)	3,347,700	27,247,377
Capital Assets, Net	\$ 28,050,516	\$ 3,010,180	\$ (2,601)	\$ -	\$ 31,063,297

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

	Capitalization Policy	Estimated Useful Life
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Equipment	5,000	3-15 years
Library books	0	10 years

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

Note 6 – Construction Commitments and Financing

The college has contracted for various construction projects as of June 30, 2012. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

	Total costs to complete	Funded by		
		Federal Sources	State Sources	Institutional Funds
New dormitory	\$ 18,832	\$	\$ 18,832	\$
Workforce training center	3,538,748	3,409,432	52,617	76,699
ARRA ECM RCX Study Program	73,800		73,800	
Campus roofing projects	223,390		223,390	
President's residence addition	249,666			249,666
Varsity gymnasium upgrades	41,524			41,524
Hurst football stadium upgrades	585,482			585,482
Total governmental activities	<u>\$ 4,731,442</u>	<u>\$ 3,409,432</u>	<u>\$ 368,639</u>	<u>\$ 953,371</u>

Note 7 – Long-term Liabilities

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Original Issue	Annual Interest Rate	Maturity	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012	Amounts due within one year
WPC Revolving Loan	622,375	1.75%	2031	\$	622,375	4,426	\$ 617,949	\$ 26,827
Capital leases								
Energy efficiency lease	1,660,807	3.91%	2016	844,554		171,605	672,949	178,431
Bryan science chiller lease	450,366	5.34%	2014	210,085		66,371	143,714	69,964
Total				<u>\$ 1,054,639</u>	<u>\$ 622,375</u>	<u>\$ 242,402</u>	<u>\$ 1,434,612</u>	<u>\$ 275,222</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

The following is a schedule by years of the maturity of long term debt:

Year Ending June 30	Principal	Interest	Total
2013	\$ 275,222	\$ 39,818	\$ 315,040
2014	286,579	28,461	315,040
2015	220,691	17,632	238,323
2016	144,351	10,265	154,616
2017	28,771	8,656	37,427
2018 – 2022	151,648	35,484	187,132
2023 – 2027	165,505	21,628	187,133
2028 – 2032	161,845	6,574	168,419
Total	<u>\$ 1,434,612</u>	<u>\$ 168,518</u>	<u>\$ 1,603,130</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

Note 8 – Functional Classification of Operating Expenses

Functional Classification	Natural Classification									Total
	Salaries & Wages	Fringe Benefits	Travel	Contractual Services	Utilities	Scholarships Fellowships	Commodities	Depreciation Expense	Other	
Instruction	5,732,002	1,496,646	79,155	514,193			309,138		87,896	8,219,030
Academic Support	308,782	86,925	671				6,555		37,428	440,361
Student Services	1,112,423	331,316	62,709	276,108			177,925		20,582	1,981,063
Institutional Support	911,223	277,806	20,187	632,037			67,353		51,057	1,959,663
Operation of Plant	462,925	150,519	483	885,730	394,894		429,664		53,709	2,377,924
Student Financial Aid						3,540,904				3,540,904
Auxiliary Enterprises	454,672	184,314	160	21,989	213,219		1,717,117		615	2,592,086
Depreciation								1,112,056		1,112,056
Total Operating Expenses	8,982,027	2,527,526	163,365	2,330,057	608,113	3,540,904	2,707,752	1,112,056	251,287	22,223,087

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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

Note 9 – Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the college is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2012 was 12.93% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The college's contributions to PERS for the fiscal years ending June 30, 2012, 2011 and 2010 were \$1,051,764, \$962,246 and \$994,389, respectively, which equaled the required contributions for each year.

Note 10– Contingencies

Federal Grants – The college has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the college

Note 11 – Risk Management

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

Note 12 - Subsequent Events

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the Southwest Mississippi Community College evaluated the activity of the college through March 18, 2013 and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

Southwest Mississippi Community College Foundation, Inc.

Summit, Mississippi

Notes to the Financial Statements

For the Year Ended June 30, 2012

Note 1 Summary of Significant Accounting Policies

Statement of Organizational Activities

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

Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding accounting standards codification and the hierarchy of U.S. generally accepted accounting principles (U.S. GAAP). This guidance has become the source of the authoritative U.S. GAAP recognized by the FASB and applied by nongovernmental entities.

Basis of Presentation

The Foundation prepares its financial statements on the accrual basis of accounting. The accounts of the Foundation are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. In accordance with FASB ASC 205.45 (formerly SFAS No. 117), fund balances are classified on the statement of financial position as unrestricted, temporarily restricted, or permanently restricted net assets, based on the absence or existence and type of donor-imposed restrictions.

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

Southwest Mississippi Community College Foundation, Inc.
Summit, Mississippi

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2012

Permanently Restricted Net Assets

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

Income Taxes

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

Donated Assets

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

Donated Services and Facilities

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

Cash and Cash Equivalents

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

Investments

The Foundation has adopted FASB ASC 300.50 Investments-Debt and Equity Securities (formerly SFAS No. 124), under FASB ASC 300.50, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increase in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Southwest Mississippi Community College Foundation, Inc.
Summit, Mississippi

Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2012

Fixed Assets

There are no fixed assets for the Foundation as of June 30, 2012.

Estimates

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

Functional Allocation of Expenses

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

Note 2 Concentrations of Credit Risk

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

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

Note 3 Investments

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

Pooled investments at June 30, 2012 consist of the following:

	<u>Market Value</u>
Cash & Cash Equivalents	\$ 23,465
Stock Mutual Funds	75,622
Bond Mutual Funds	40,728
Specialty Mutual Funds	<u>13,054</u>
Total Investments	<u>\$152,869</u>

Investment Income for the year ended June 30, 2012 was calculated as follows:

Interest and Dividends	\$ 936
Unrealized Gains and Losses	<u>(33,673)</u>
Net Investment Income	<u><u>\$ (32,737)</u></u>

SUPPLEMENTAL INFORMATION

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Supplemental Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Education</u>		
Student Financial Aid Cluster		
Direct programs:		
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	61,429
Federal Work-Study Program	84.033	58,297
Federal Pell Grant Program	84.063	6,746,555
Total Student Financial Aid Cluster		<u>6,866,281</u>
Passed-through Mississippi Department of Education:		
Adult Education-basic grants to states	84.002	101,270
Vocational Education Basic Grants	84.048	168,190
Total passed-through Mississippi Department of Education		<u>269,460</u>
Total U.S. Department of Education		<u>7,135,741</u>
<u>U.S. Department of Labor</u>		
Passed-through Central Mississippi Planning and Development District		
Workforce Investment Act-Adult Program	17.258	12,683
Workforce Investment Act-Youth Activities	17.259	11,723
Workforce Investment Act-Dislocated Workers	17.260	33,329
Total WIA Cluster		<u>57,735</u>
Total passed-through Central Mississippi Planning and Development District		<u>57,735</u>
Passed-through the Mississippi Department of Employment Security:		
WIA Trade Adjustment Assistance	17.245	155,690
Total passed-through Mississippi Department of Employment Security:		<u>155,690</u>
Total U.S. Department of Labor		<u>213,425</u>
<u>U.S. Department of Commerce</u>		
Economic Adjustment Assistance	11.307	1,384,983
Total Department of Commerce		<u>1,384,983</u>
<u>U.S. Environmental Protection Agency</u>		
Passed-through Mississippi Department of Environmental Quality:		
Capitalization Grant for Clean Water State Revolving Funds	66.458	622,375
Total passed-through Mississippi Department of Environmental Quality		<u>622,375</u>
Total Environmental Protection Agency		<u>622,375</u>
<u>U. S. Department of Justice</u>		
Passed-through the Mississippi Department of Public Safety:		
Edward Byrne Memorial Justice Assistance Grant	16.738	6,423
Total passed-through Mississippi Department of Public Safety		<u>6,423</u>
Total U. S. Department of Justice		<u>6,423</u>
Total for All Federal Awards		<u>\$ 9,362,947</u>

NOTES TO SCHEDULE

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. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the college.

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

LOWERY, PAYN, AND LEGGETT

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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

Dr. J. Stephen Bishop, President and Board of Trustees of
Southwest Mississippi Community College
Summit, MS 39666

We have audited the financial statements of the business activities of Southwest Mississippi Community College, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 18, 2013. 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 Southwest Mississippi Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of Southwest Mississippi Community College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Southwest Mississippi 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 Southwest Mississippi Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Southwest Mississippi 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 a 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 previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Mississippi 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 the College, Members of the Legislature, entities with accreditation overview, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Lowery, Payn and Leggett

Certified Public Accountants

March 18, 2013

LOWERY, PAYN, AND LEGGETT

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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

Dr. J. Stephen Bishop, President and Board of Trustees of
Southwest Mississippi Community College
Summit, MS 39666

Compliance

We have audited Southwest Mississippi 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 Southwest Mississippi Community College's major federal programs for the year ended June 30, 2012. Southwest Mississippi 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 Southwest Mississippi Community College's management. Our responsibility is to express an opinion on Southwest Mississippi 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 Southwest Mississippi 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 Southwest Mississippi Community College's compliance with those requirements.

In our opinion, Southwest Mississippi 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

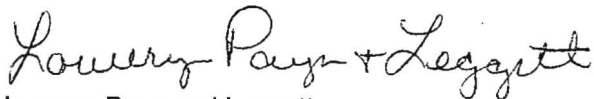
Management of Southwest Mississippi Community College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Southwest Mississippi 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 effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southwest Mississippi 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 the College, Members of the Legislature, entities with accreditation overview, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Lowery, Payn and Leggett

Certified Public Accountants

March 18, 2013

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

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

Dr. J. Stephen Bishop, President and Board of Trustees of
Southwest Mississippi Community College
Summit, MS 39666

We have audited the financial statements of the business activities of Southwest Mississippi Community College as of and for the year ended June 30, 2012, which collectively comprise Southwest Mississippi Community College's basic financial statements and have issued our report thereon dated March 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have also performed procedures to test compliance with certain other 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 procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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



Lowery, Payn and Leggett
Certified Public Accountants

March 18, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

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 OMB Circular A-133? | No |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063	Student Financial Aid Cluster
11.307	Economic Adjustment Assistance
66.458	Capitalization Grant for Clean Water State Revolving Funds

- | | |
|---|------------|
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9. Auditee qualified as low-risk auditee? | No |

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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