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SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Audited Financial Statements
For the Year Ended June 30, 2016

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of Southwest Mississippi Community College, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We audited the statements of Southwest Mississippi Community College Foundation, Inc., as of and for the year ended June 30, 2016, which represents 100 percent of the assets and revenues of the discretely presented component unit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Southwest Mississippi Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented

component unit of Southwest Mississippi Community College, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of College's Proportionate Share of Net Pension Liability and the Schedule of College Contributions on pages 5–16 and 47–48 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 supplementary 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southwest Mississippi Community College's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, 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* in considering Southwest Mississippi Community College's internal control over financial reporting and compliance.

Lowery, Payn and Leggett

Lowery, Payn and Leggett, CPA's

Brookhaven, Mississippi

January 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

This section of the Southwest Mississippi Community College (the "college") annual financial report presents our discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2016. Management has prepared this section along with the financial statements and related footnote disclosures and it should be read in conjunction with and is qualified in its entirety by the financial statements and footnote disclosures. We have included in this discussion comparative data for fiscal year 2015. The financial statements, footnote disclosures, 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 (GASB) No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The college implemented GASB 68, Accounting and Financial Reporting for Pensions in fiscal year ending June 30, 2015. This new standard requires the college to record its proportionate share of the pension liability of the Mississippi Public Employees Retirement System (PERS). The new standard has a significant impact on the liabilities and net position of the college as discussed below. See the defined pension plan note and required supplementary information for further information regarding pension liability.

One of the most important questions asked is whether the college as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. These Statements present financial information in a form similar to that used by corporations. These statements 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.

Statement of Net Position

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources. The college's net position (the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources) is one indicator of the college's financial health. Over time, increases or decreases in net position 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.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The following is a summary of the college's statement of net position for fiscal year ended June 30, 2016 compared to the year ended June 30, 2015:

Condensed Statement of Net Position

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets		
Current assets	\$ 12,318,400	\$ 12,895,064
Non-current assets		
Capital, net	39,087,852	35,684,830
Other	4,400,185	4,440,479
Total Assets	<u>\$ 55,806,437</u>	<u>\$ 53,020,373</u>
Deferred outflows of resources		
Deferred pension amounts	<u>\$ 6,337,737</u>	<u>\$ 2,865,499</u>
Liabilities		
Current Liabilities	1,454,344	1,192,090
Non-current liabilities	26,923,703	23,170,927
Total liabilities	<u>\$ 28,378,047</u>	<u>\$ 24,363,017</u>
Deferred inflows of resources		
Deferred pension amounts	<u>\$ 3,165,560</u>	<u>\$ 2,991,179</u>
Net Position		
Net investment in capital assets	\$ 36,639,890	\$ 32,863,686
Restricted		
Non-expendable	939,445	931,289
Expendable	3,929,574	5,194,499
Unrestricted	(10,908,342)	(10,457,798)
Total Net Position	<u>\$ 30,600,567</u>	<u>\$ 28,531,676</u>

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the college's bank accounts, petty cash, certificates of deposits and other eligible investments as allowed by the State of Mississippi. The total amount of cash and cash equivalents, reported as current assets on the college's financial statements is \$8,936,255 at June 30, 2016, compared to \$6,038,629 at June 30, 2015.

Accounts Receivable

Accounts receivable relate to several transactions including local appropriations, student tuition and fee billings, and auxiliary services such as food service and bookstore. In addition, receivables arise from grant awards and financial aid revenues. The receivables are reported net of allowance for doubtful accounts. The college's receivables totaled \$1,695,239 at June 30, 2016 compared to fiscal year 2015, \$3,531,697.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Inventories

The college maintains inventories of resale merchandise in the college bookstore as well as items for internal consumption. Books, student supplies, sportswear, and institutional memorabilia make up the majority of the resale inventory. Inventories for the bookstore and cafeteria totaled \$1,264,915 and \$1,213,700 for FY 2016 and FY 2015, respectively.

Prepaid Expense

Prepaid expense totaled \$420,570 at June 30, 2016 as compared to a June 30, 2015 total of \$2,110,841. Prepaid expense consists of payments for the 2017 fiscal year for which payment to vendors occurred before fiscal year end June 30, 2016. Prepaid expense for FY 2015 included a substantial payment to the State of Mississippi Bureau of Buildings as the college's share of the cost for a new men's dormitory. That payment was fully used by the state for FY 2016 construction expenditures.

Non-Current Assets

Restricted Cash and Cash Equivalents and Loan Fund Investments

Restricted cash and cash equivalents represents cash held in a money market account for loan funds. The balance of restricted cash and cash equivalents for fiscal year ended June 30, 2016 and fiscal year ended June 30, 2015 were \$215,438 and \$247,643, respectively. Loan fund investments include investments, as allowed by the State of Mississippi, held for loan funds. Loan fund investments totaled \$2,879,562 for fiscal year ended June 30, 2016 and \$2,879,562 fiscal year ended June 30, 2015.

Endowment Investments and Other Long-Term Investments

The college holds endowment investments of \$941,007 at fiscal year end June 30, 2016. The endowment investment balance at June 30, 2015 was \$949,096. Other long-term investments (land in loan funds) totaled \$364,178 at June 30, 2016 and 2015.

Capital Assets, Net

Capital assets, net, consists of land, improvements other than buildings, buildings, equipment, software, leased property under capital lease, library books and films and construction in progress. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$39,087,852 at June 30, 2016 which is an increase from \$35,684,830 at June 30, 2015.

Deferred Outflows of Resources

The college recognized a deferred outflow of resources related to pensions in the amount of \$6,337,737 for fiscal year ending June 30, 2016 as compared to \$2,865,499 for fiscal year ending June 30, 2015. Deferred outflows of resources have a positive effect on net position similar to assets, but are not assets.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Liabilities

Current Liabilities

Accounts Payable, Accrued Liabilities and Accrued Payroll

Accounts payable and accrued liabilities represent amounts due at June 30, 2016 for goods and services received before the end of the fiscal year, but have yet to be paid at June 30, 2016. Accrued payroll would be wages, salaries, and the related payroll taxes and benefits that have been earned by the college's employees, but have yet to be paid at June 30, 2016. The accounts payable, accrued liabilities, and accrued payroll total at June 30, 2016, is \$768,989, an increase of \$217,849 over the balance of \$551,140 at June 30, 2015.

Unearned Revenues

Unearned revenues represent revenues that were received by the college during the fiscal year, but the college did not earn the revenue by the end of the June 30, 2016 fiscal year. The unearned revenue totaled \$420,570 at June 30, 2016 and \$347,130 at June 30, 2015. This change was an increase year over year of \$73,440.

Long-Term Liabilities, Due within One Year

Long-term liabilities, due within one year portion represents the balances that the college would expect to pay on notes, bonds, and accrued leave liabilities within the next fiscal year. The amount of the current portion of long-term liabilities at June 30, 2016 was \$257,103 and \$285,104 at June 30, 2015.

Non-Current Liabilities

Long-Term Liabilities, Due beyond One Year

Long-term liabilities, due beyond one year consist of long-term debt for outstanding capital leases and loans. The total amount of the non-current portion of long-term debt at June 30, 2016 and 2015 was \$2,190,859 and \$2,536,040, respectively.

Net Pension Liability

Net pension liability for June 30, 2016 is \$24,732,844 which represents the college's proportionate share of the collective net pension liability reported in the Public Employees' Retirement System of Mississippi for the year ended June 30, 2015. See the Defined Benefit Pension Plan Note for further information regarding the college's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions. The net pension liability for June 30, 2015 was \$20,634,887.

Deferred Inflows of Resources

The college recognized a deferred inflow of resources related to pensions in the amount of \$3,165,560 for fiscal year ending June 30, 2016 as compared to \$2,991,179 for fiscal year ending June 30, 2015. Deferred inflows of resources have a negative effect on net position that is similar to liabilities, but are not liabilities.

Net Position

Net position represents the difference between the college's assets, deferred outflows of resources, liabilities and deferred inflows of resources. Total net position at June 30, 2016 was \$30,600,567 which is an increase of \$2,068,891 from the total net position of \$28,531,676, at June 30, 2015.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Invested in Capital Assets, Net of Related Debt

For fiscal year ended June 30, 2016, the invested in capital assets, net of related debt, portion of the college's net position was \$36,639,890 an increase of \$3,776,204 from the prior year. The increase is primarily due to increases in construction in progress from a new dormitory construction project.

Restricted Net Position (Non-Expendable and Expendable)

Restricted non-expendable net position consists of endowment gifts with specific restrictions on spending the principal given. Restricted expendable net position consists 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 position (non-expendable and expendable):

	2016	2015	Increase (Decrease)
Non-expendable endowment funds	\$ 939,445	\$ 931,289	\$ 8,156
Expendable			
Scholarships	22,897	20,605	2,292
Capital projects	317,352	1,387,407	(1,070,055)
Debt service	100,481	285,104	-184,623
Loans to students	3,459,178	3,459,178	0
Other purposes	29,666	42,205	(12,539)
Total restricted net position	<u><u>\$ 4,869,019</u></u>	<u><u>\$ 6,125,788</u></u>	<u><u>\$ (1,256,769)</u></u>

Unrestricted Net Position

Unrestricted net position represents balances from operational activities that have not been restricted by parties external to the college. This includes funds that are normal working capital balances maintained for departmental and auxiliary enterprise activities. Unrestricted assets are available to the college for any lawful purpose.

The following is a breakdown of the unrestricted net position:

	2016	2015	Increase (Decrease)
Unrestricted General Funds	(\$14,288,020)	\$ (13,610,485)	(\$677,535)
Unrestricted Auxiliary Funds	3,003,284	2,812,148	191,136
Unrestricted Designated General Funds	376,394	340,539	35,855
	<u><u>\$ (10,908,342)</u></u>	<u><u>\$ (10,457,798)</u></u>	<u><u>\$ (450,544)</u></u>

In connection with the implementation of GASB 68, Accounting and Financial Reporting for Pensions, management represents the following information:

Total unrestricted net position (deficit)	\$ (10,908,342)
Unrestricted deficit in net position resulting from the implementation of GASB 68	21,560,667
Unrestricted net position (excluding net pension liability effect)	<u><u>\$ 10,652,325</u></u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses, and changes in net position 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, local appropriations, and gifts as non-operating revenues. Due to the reporting classifications for community colleges, their dependency on state appropriations, local appropriations and gifts results in an operating deficit.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2016	2015
Operating revenues		
Tuition and fees, net	\$ 2,068,072	\$ 1,917,973
Grants and contracts	7,574,862	8,382,071
Sales and services	8,505	14,455
Auxiliary enterprises (net)	1,447,776	1,657,633
Other operating revenues	553,561	470,057
Total operating revenues	<u>11,652,776</u>	<u>12,442,189</u>
Operating expenses	<u>24,044,758</u>	<u>24,124,139</u>
Operating loss	<u>(12,391,982)</u>	<u>(11,681,950)</u>
Non-operating revenues (expenses)		
State appropriations	8,848,783	8,734,633
Local appropriations	2,565,940	2,558,251
Gifts and contributions	381,868	338,722
Investment income (net)	64,223	14,553
Interest on indebtedness	(77,933)	(27,761)
Net non-operating revenues (expenses)	<u>11,782,881</u>	<u>11,618,398</u>
Income (loss) before other revenues	<u>(609,101)</u>	<u>(63,552)</u>
Other revenues (expenses)		
State appropriations capital use restricted	<u>2,677,992</u>	<u>91,752</u>
Change in net position	2,068,891	28,200
Net position:		
Net position, beginning of year	28,531,676	49,054,993
Implementation of GASB Statement No.68	-	(20,551,517)
Net position, restated	<u>28,531,676</u>	<u>28,503,476</u>
Net position, end of year	<u>\$30,600,567</u>	<u>\$28,531,676</u>

Total operating loss for fiscal year 2016 and 2015 was \$12,391,982 and 11,681,950, respectively. Since the State of Mississippi appropriations amount is not included within operating revenue per GASB No. 35, the college will always show a significant operating loss.

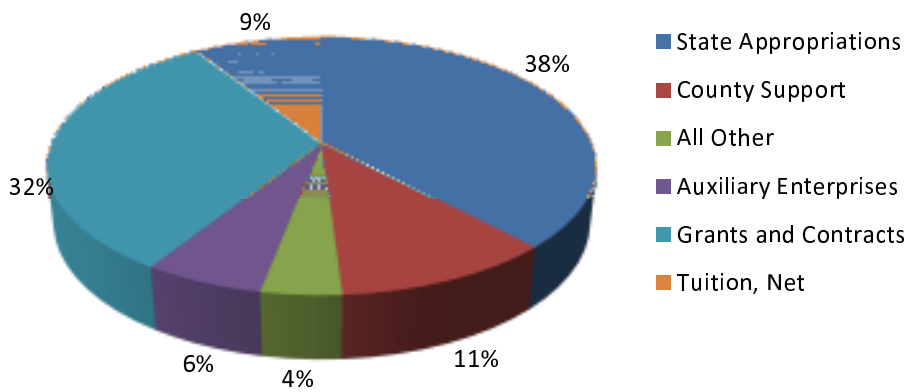
The sources of operating revenue for the college are tuition and fees, grants and contracts, auxiliary services, and other operating revenues.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

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 from the State of Mississippi.

In the fiscal year ended June 30, 2016, the college's revenues exceeded expenditures, creating an increase in total net position of \$2,068,891 (compared to a \$28,200 increase in total net position in fiscal year 2015).

Total Revenue by Source for Fiscal Year 2016



Total operating revenues for fiscal year 2016 are \$11,652,776, compared to \$12,442,189 for fiscal year 2015. Tuition and fees for fiscal year 2016 are \$2,068,072, compared to \$1,917,973 for fiscal year 2015. Grants and contracts are \$7,574,862 for fiscal year 2016 and were \$8,382,071 for fiscal year 2015. Auxiliary services and other operating revenues are also included in operating revenues. The college's largest single sources of non-operating revenue are the State of Mississippi appropriation and local support from the four counties comprising the college's district.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$2,068,072 in fiscal year 2016 and \$1,917,973 for fiscal year 2015. Tuition allowances for the 2016 and 2015 fiscal year was \$3,657,359 and \$3,813,559, respectively.

Grants and Contracts Revenue

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, 2016

The following table details the college's grant and contract awards for the fiscal year ended June 30, 2016 and 2015:

	2016	2015	Increase (Decrease)
Federal sources	\$ 5,700,180	\$ 5,944,313	\$ (244,133)
State sources	1,844,682	2,392,789	(548,107)
Other sources	30,000	44,969	(14,969)
Total all sources	<u>\$ 7,574,862</u>	<u>\$ 8,382,071</u>	<u>\$ (807,209)</u>

Auxiliary Enterprises Revenue, Net

Auxiliary enterprises, net 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.

The following table details the college's auxiliary enterprises, net of scholarship allowances for the fiscal years ended June 30, 2016 and 2015:

	2016	2015
Bookstore	\$ 1,187,992	\$ 1,222,754
Student and campus housing	569,708	561,912
Food services	671,333	666,562
Other	12,488	14,932
Subtotal	\$ 2,441,521	\$ 2,466,160
Less: Scholarship allowances	(993,745)	(808,527)
Net auxiliary enterprises revenue	<u>\$ 1,447,776</u>	<u>\$ 1,657,633</u>

Operating Expenses

Operating expenses for fiscal year 2016 are \$24,044,758 as compared to fiscal year 2015 of \$24,124,139. Pension expense of, \$2,335,188, was included in fringe benefits during fiscal year 2016 due to GASB 68.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The following table details the college's operating expenses by object and by functional classification for the fiscal years ended June 30, 2016 and 2015:

Expenses by Object:

	2016	2015	Increase (Decrease)
Salaries and wages	9,978,521	10,067,152	(88,631)
Fringe benefits	3,869,035	3,306,710	562,325
Travel	396,340	309,506	86,834
Contractual services	2,425,401	2,350,650	74,751
Utilities	761,417	857,049	(95,632)
Scholarships	2,273,756	2,447,135	(173,379)
Commodities	2,043,914	2,481,514	(437,600)
Depreciation expense	1,719,869	1,742,086	(22,217)
Other operating expense	576,505	562,337	14,168
Total operating expenses	<u>24,044,758</u>	<u>24,124,139</u>	<u>(79,381)</u>

Expenses by Functional Classification:

	2016	2015	Increase (Decrease)
Instruction	9,368,171	9,366,312	1,859
Instructional Support	537,408	464,820	72,588
Student Services	2,820,564	2,677,919	142,645
Institutional Support	2,487,614	2,324,281	163,333
Operation of Plant	2,633,486	2,705,018	(71,532)
Student Financial Aid	2,273,756	2,447,135	(173,379)
Auxiliary Enterprises	2,203,890	2,396,568	(192,678)
Depreciation	1,719,869	1,742,086	(22,217)
Total operating expenses	<u>24,044,758</u>	<u>24,124,139</u>	<u>(79,381)</u>

Non-Operating Revenues (Expenses)

State Appropriation

The college's largest source of non-operating revenue is the appropriation from the State of Mississippi. The college received State appropriations of \$11,526,775 for fiscal year 2016, of which \$8,848,783 was for general operations and \$2,677,992 was for State appropriation restricted for capital purposes. The college received state appropriations of \$8,734,633 and state appropriations restricted for capital purposes of \$91,752 during fiscal year in 2015.

Local County Appropriation

The college receives revenue from the four counties Amite, Pike, Walthall, and Wilkinson that make up its local district. The college uses these funds for general operational purposes. During fiscal year 2016 the colleges received \$2,565,940 from these counties, representing an increase of \$7,689

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

from fiscal year 2015. The college receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1st.

Investment Income, Net

Investment income, net includes the interest income and investment gains or losses on cash in the bank accounts, money market accounts, mutual funds, and the school's investment pooling account net of any fees charged. Investment income for fiscal year 2016 was \$64,223, including a net unrealized gain of \$505, compared to investment income of \$14,553 in fiscal year 2015.

Interest Expense on Capital Asset Related Debt

The college previously issued notes, loans and capital leases to finance capital projects. The interest payments associated with these long-term obligations was \$77,933 for fiscal year 2016, compared to \$27,761 for fiscal year 2015.

State Appropriation 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 \$2,677,992 and \$91,752 in fiscal years 2016 and 2015, respectively.

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 a 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)

	2016	2015
Cash and cash equivalents provided (used) by:		
Operating activities	\$ (6,239,133)	\$ (12,744,431)
Noncapital financing activities	11,929,985	11,491,903
Capital/related financing activities	(2,896,014)	(1,087,131)
Investing activities	70,583	3,210,763
Net increase in cash and cash equivalents	2,865,421	871,104
Cash and cash equivalents – Beginning of Year	6,286,272	5,415,168
Cash and cash equivalents – End of Year	\$ 9,151,693	\$ 6,286,272

The major sources of funds comprising operating activities for fiscal year 2016 include student tuition and fees \$1,945,980, auxiliary enterprises \$1,447,776, and grants and contracts \$9,380,275. The major uses of funds for fiscal year 2016 were payments made to employees \$13,048,703, to suppliers \$5,180,591, and for scholarships \$2,273,756. In comparison, the major sources of funds comprising operating activities for fiscal year 2015 include student tuition and fees \$1,735,049,

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

auxiliary enterprises \$1,657,633, and grants and contracts \$7,335,234. The major uses of funds for fiscal year 2015 were payments made to employees \$13,191,308, to suppliers \$5,682,485, and for scholarships \$2,447,135.

The largest inflow of cash in the non-capital financing activities group is the state appropriation of \$8,986,124 and the county appropriation of \$2,565,940 for fiscal year 2016. Compare to a state appropriation of \$8,584,831 and county appropriation of \$2,558,251 for fiscal year 2015.

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 \$3,403,022 during the fiscal year 2016:

	2016	2015	(Decrease)
Land	\$ 122,124	\$ 122,124	\$ -
Construction in progress	6,419,513	3,057,544	3,361,969
Buildings	42,805,702	41,512,426	1,293,276
Improvements	8,858,564	8,441,587	416,977
Machinery and equipment	3,538,548	3,484,508	54,040
Library books and media	843,745	847,116	(3,371)
Software	400,000	400,000	-
Capital Lease	2,380,870	2,380,870	-
Total capital assets	\$ 65,369,066	\$ 60,246,175	\$ 5,122,891
Accumulated depreciation	(26,281,214)	(24,561,345)	(1,719,869)
Net capital assets	<u>\$ 39,087,852</u>	<u>\$ 35,684,830</u>	<u>\$ 3,403,022</u>

In addition to costs incurred, the college had \$1,754,192 in outstanding commitments for construction projects as of June 30, 2016. Those projects included the construction of a new men's dormitory and renovation of a campus water tower.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Long-Term Debt Activities

At the beginning of the current fiscal period, the total long-term debt obligations of the college consisted of two capital lease agreements, a revolving loan, and a dormitory construction note. The two lease agreements financed controls and equipment for energy savings and the other provided for lighting upgrades for the football stadium. The revolving loan provided for a campus-wide sewer system renovation and the dormitory construction note is funding the construction of a new men's dormitory.

As shown in the following table, the college's long-term liabilities decreased during fiscal year 2016:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Loans and leases payable	<u>\$ 2,447,962</u>	<u>\$ 2,821,144</u>	<u>\$ (373,182)</u>
Total long-term liabilities	<u>\$ 2,447,962</u>	<u>\$ 2,821,144</u>	<u>\$ (373,182)</u>

Factors Impacting Future Periods

There are a number of issues of Community College-wide importance that directly impacted the fiscal year 2016 financial situation. The level of State support and student tuition and fee increases impact the college's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

State appropriations contribute a major percentage of revenue for the college. The level of State support is therefore one of the key factors influencing the college's financial condition.

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

Contact Information

If you have questions about this report, contact the Southwest Mississippi Community College, Vice President for Financial Affairs, 1156 College Drive, Summit, MS 39666-9029.

AUDITED FINANCIAL STATEMENTS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Statement of Net Position

June 30, 2016

Assets

Current Assets:

Cash and cash equivalents	\$ 8,936,255
Short term investments	1,421
Accounts receivable, net	667,103
Due from State General Fund	121,651
Grants and contracts receivable, net	906,485
Inventories	1,264,915
Prepaid expenses	420,570
Total Current Assets	<u>12,318,400</u>

Non-current Assets:

Restricted cash and cash equivalents	215,438
Loan fund investments	2,879,562
Endowment investments	941,007
Other long-term investments (land in loan funds)	364,178
Capital assets, net of accumulated depreciation	39,087,852
Total Non-current Assets	<u>43,488,037</u>
Total Assets	<u>55,806,437</u>

Deferred Outflows of Resources:

Deferred outflow related to pensions	6,337,737
Total Deferred Outflows of Resources	<u>6,337,737</u>

Liabilities

Current Liabilities

Accounts payable and accrued liabilities	369,805
Accrued payroll	399,184
Unearned revenues	420,570
Deposits refundable	7,682
Long-term liabilities, due within one year:	257,103

Non-current Liabilities

Long-term liabilities, due beyond one year:	2,190,859
Net pension liability	24,732,844
Total Liabilities	<u>28,378,047</u>

Deferred inflows of Resources

Deferred inflow related to pensions	3,165,560
Total Deferred Inflows of Resources	<u>3,165,560</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Statement of Net Position

June 30, 2016

Net Position

Net investment in capital assets	36,639,890
Restricted for:	
Expendable:	
Scholarships and fellowships	22,897
Debt service	100,481
Capital improvements	317,352
Loans to students	3,459,178
Other purposes	29,666
Non-expendable:	
Scholarships and fellowships	939,445
Unrestricted	(10,908,342)
 Total Net Position	 \$ <u>30,600,567</u>

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Assets				
Cash and Investments	\$ 14,334	\$ 249,775	\$ 6,739	\$ 270,848
Investments	-	9,715	197,309	207,024
Accounts Receivable	-	1,055	-	1,055
Pledges Receivable	-	-	-	-
Allowance for Uncollectible	-	-	-	-
Total Assets	<u>\$ 14,334</u>	<u>\$ 260,545</u>	<u>\$ 204,048</u>	<u>\$ 478,927</u>
Liabilities				
Accounts payable and accrued liabilities	\$ -	\$ 52,825	\$ -	\$ 52,825
Net Position				
Unrestricted	14,334	-	-	14,334
Temporarily Restricted	-	207,720	-	207,720
Permanently Restricted	-	-	204,048	204,048
Total Net Position	<u>\$ 14,334</u>	<u>\$ 207,720</u>	<u>\$ 204,048</u>	<u>\$ 426,102</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 Position
For the Year Ended June 30, 2016

Operating Revenues

Tuition and fees (net of scholarship allowances of \$3,657,359)	\$ 2,068,072
Federal grants and contracts	5,700,180
State grants and contracts	1,844,682
Nongovernmental grants and contracts	30,000
Sales and services of educational departments	8,505
Auxiliary enterprises:	
Student housing (net scholarship allowances of \$457,735)	111,973
Food services (net of scholarship allowances of \$536,010)	135,323
Bookstore	1,187,992
Other auxiliary revenues	12,488
Other operating revenues	553,561
Total operating revenues	<u>11,652,776</u>

Operating Expenses

Salaries and wages	9,978,521
Fringe benefits	3,869,035
Travel	396,340
Contractual services	2,425,401
Utilities	761,417
Scholarships and fellowships	2,273,756
Commodities	2,043,914
Depreciation	1,719,869
Other operating expenses	576,505
Total Operating Expenses	<u>24,044,758</u>
Operating Income (Loss)	<u>(12,391,982)</u>

Non-operating Revenues (Expenses)

State appropriations	8,848,783
Local appropriation	2,565,940
Gifts and contributions	381,868
Net unrealized and realized gains on long-term investments	505
Investment income	63,718
Interest expense on capital asset-related debt	(77,933)
Total Net Nonoperating Revenues (Expenses)	<u>11,782,881</u>
Income (Loss) before Other Revenues, Expenses, Gains and Losses	<u>(609,101)</u>

Other Revenues

State appropriation restricted for capital purposes	2,677,992
Total Other Revenues	<u>2,677,992</u>

Change in Net Position

2,068,891

Net Position

Net position, beginning of year 28,531,676

Net position, end of year \$ 30,600,567

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains and Support				
Contributions	\$ 7,133	\$ 141,639	\$ 11,000	\$ 159,772
Pledge Income	-	-	-	-
Transfers	-	-	-	-
Investment Income	1,903	557	9,472	11,932
Unrealized Gains on Investment	-	-	-	-
Other	27	1,665	-	1,692
Total Revenues, Gains and Support	9,063	143,861	20,472	173,396
Expenses and Deductions				
Program Services				
Scholarships	-	99,655	11,115	110,770
Other Expenses			-	-
Management and General	13,122	59,539		72,661
Support for the College	3,225	16,106		19,331
Transfers	8,200	620	-	8,820
Other - Increase in Allowance for DA	-	32	525	557
Total Expenses	24,547	175,952	11,640	212,139
Increase in Net Position	(15,484)	(32,091)	8,832	(38,743)
Net Position at Beginning of Year	29,818	239,811	195,216	464,845
Net Position at End of Year	\$ 14,334	\$ 207,720	\$ 204,048	\$ 426,102

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, 2016

Cash flows from operating activities:

Tuition and fees	\$ 1,945,980
Grants and contracts	9,380,275
Sales and services of educational departments	8,505
Payments to suppliers and students	(5,180,591)
Payments to employees for salaries and benefits	(13,048,703)
Cash received (paid) on deposits	(1,034)
Payments for utilities	(761,417)
Payments for scholarships and fellowships	(2,273,756)
Auxiliary enterprise charges	1,447,776
Other receipts (payments)	2,243,832
Net cash provided (used) by operating activities	<u>(6,239,133)</u>

Cash flows from noncapital financing activities:

State appropriations	8,986,124
Local appropriations	2,565,940
Other sources (uses)	377,921
Net cash provided (used) by noncapital financing activities	<u>11,929,985</u>

Cash flows from capital and related financing activities:

Capital appropriations	2,677,992
Proceeds from issuance of debt	-
Purchases of capital assets	(5,122,891)
Principal paid on capital debt and leases	(373,182)
Interest paid on capital debt and leases	(77,933)
Net cash provided (used) by capital and related financing activities	<u>(2,896,014)</u>

Cash flows from investing activities:

Proceeds from sales and maturities of investments	7,370
Interest and dividends received on investments	63,213
Purchases of investments	-
Net cash provided (used) by investing activities	<u>70,583</u>

Net increase (decrease) in cash and cash equivalents	<u>2,865,421</u>
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Cash and cash equivalents - beginning of year	<u>6,286,272</u>
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Cash and cash equivalents - end of year	<u><u>\$ 9,151,693</u></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, 2016

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

by operating activities:

Operating Income (Loss)	\$ (12,391,982)
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Adjustments to reconcile net income (loss) to net cash provided (used)

by operating activities

Depreciation expense	1,719,869
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Changes in assets and liabilities

(Increase) decrease in assets

Receivables, Net	(106,296)
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Inventories	1,805,413
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Intergovernmental receivables	(51,215)
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Other assets	1,690,271
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Increase (decrease) in liabilities

Accounts payable and accrued liabilities	223,548
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Accrued payroll	(1,247)
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Deferred revenue	73,440
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Deposits refundable	(1,034)
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Change in net pension liability and deferred amounts	800,100
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Total Adjustments	<u>6,152,849</u>
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Net cash provided (used) by operating activities	\$ <u>(6,239,133)</u>
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Reconciliation of cash and cash equivalents to the Statement of Net Position

Cash and cash equivalents classified as current assets	\$ 8,936,255
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Cash and cash equivalents classified as non-current assets	<u>215,438</u>
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	\$ <u>9,151,693</u>
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The notes to the financial statements are an integral part of this statement.

Southwest Mississippi Community College Foundation, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash Flows From Operating Activities:	
Increase (Decrease) in net position	\$ (38,743)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Contributions received for permanent investment	(11,000)
Receivables	19,200
Increase (decrease) in:	
Accounts payable and accrued liabilities	(14,675)
Net cash provided by operating activities	<u>(45,218)</u>
Cash Flows From Investing Activities:	
Net unrealized gain on investments	(11,604)
Net cash (used) by investing activities	<u>(11,604)</u>
Cash Flows From Financing Activities:	
Contributions restricted for permanent investment	11,000
Net cash provided by financing activities	<u>11,000</u>
Net Increase in Cash	(45,822)
Cash Balance	
Beginning of Year	<u>316,670</u>
End of Year	<u>\$ 270,848</u>

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, 2016

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, 2016, the Foundation provided \$110,770 to the College in the form of scholarships to students. Significant note disclosures applicable to the Foundation's financial statements are presented at the end of the College's Notes to the Financial Statements. Complete financial statements for the Foundation can be obtained from: 1156 College Drive – Summit, MS 39666.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

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 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.

The College prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB. The college has the option to apply any other accounting literature unless the literature conflicts with or contradicts a GASB pronouncement.

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.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

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 Position. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

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 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 6 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. Unearned Revenues

Unearned 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. Unearned 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.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

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 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 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.

S. Net Position

GASB statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, reports equity as "Net Position" rather than "Net Assets". Net position is classified in three categories. Net investment in capital assets is the portion of net position that consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or others. Unrestricted net position is the remaining net position less remaining noncapital liabilities which are not restricted-expendable.

The net position balance of \$30,600,567 at June 30, 2016, includes \$939,445 reserved for endowment, \$22,897 reserved for scholarships, \$317,352 reserved for capital projects, \$100,481 reserved for debt service, \$3,459,178 reserved for loans to students, \$29,666 reserved for other purposes and an unrestricted amount of \$(10,908,342).

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

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.

V. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. A deferred outflow associated with pensions is reported.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. A deferred inflow associated with pensions is reported.

See Note 10 for further details.

W. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources related to pension, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System ("PERS") and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

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, 2016, none of the college's bank balance of \$9,483,867 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 position at June 30, 2016:

Endowment investments	\$ 941,007
Other short term investments	1,421
Long term investments	<u>3,243,740</u>
Total Investments	<u>\$4,186,168</u>

As of June 30, 2016, the college had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Money Market Mutual Funds	Not Rated	Less than 1	\$ 3,769,751
Real Estate	Not Rated	N/A	364,178
Equity Securities	BBB+ to AAA	Less than 1	52,239
Certificates of Deposit	BA2 to BA3	1 to 14	-
Municipal Bonds	AA to AAA	1 to 10	-
Total			<u>\$ 4,186,168</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

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, 2016, none of the college's investment balance of \$4,186,168 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, 2016, the college had the following investments:

Issuer	Fair Value	% of Total Investments
Sterne Agee/Money market funds	\$ 3,769,751	90%

Note 3 – Fair Value Measurements

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets.

Quoted prices for identical or similar assets or liabilities in inactive markets.

Inputs other than quoted prices that are observable for the asset or liability.

Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Mutual Funds and Equity Securities. Valued at the closing price reported in the active markets in which the individual funds or securities are traded.

Real Estate. Valued at historical cost.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflected of future fair values. Furthermore, although the organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the organization's assets at fair value as of June 30, 2016.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 3,769,751	-	-	\$ 3,769,751
Real Estate	-	-	364,178	\$364,178
Equity Securities	52,239	-	-	\$52,239
Total	<u>\$3,821,990</u>	<u>-</u>	<u>\$364,178</u>	<u>\$4,186,168</u>

Note 4 – Accounts Receivable

Accounts receivable consisted of the following at June 30, 2016:

Student receivables	\$ 2,616,499
Federal, state and private grants and contracts	906,485
State appropriations	121,651
Local appropriations	68,641
Other receivables	-
Total Accounts Receivable	<u>3,713,276</u>
Less allowance for doubtful accounts	<u>(2,018,037)</u>
Net Accounts Receivable	<u>\$ 1,695,239</u>

Note 5 – Inventory

Inventory as of June 30, 2016 consists of the following:

Bookstore	\$1,246,682
Food Services	<u>18,233</u>
Total	<u>\$1,264,915</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

Note 6 – Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	Balance 7/1/2015	Increases	Decreases	Adjustments	Balance 6/30/2016
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 122,124				\$ 122,124
Construction in progress	3,057,544	5,072,222	(1,710,253)		6,419,513
Total non-depreciable capital assets	3,179,668	5,072,222	(1,710,253)		6,541,637
<u>Depreciable capital assets:</u>					
Buildings	28,975,667				28,975,667
Building improvements	12,536,759	1,293,276			13,830,035
Improvements other than buildings	8,441,587	416,977			8,858,564
Equipment	3,484,508	135,833	(81,793)		3,538,548
Software	400,000				400,000
Library books	847,116	6,746	(10,117)		843,745
Leased property under capital leases	2,380,870				2,380,870
Total depreciable capital assets	57,066,507	1,852,832	(91,910)		58,827,429
<u>Less accumulated depreciation for:</u>					
Buildings	12,297,211	492,345			12,789,556
Building improvements	4,025,105	544,728			4,569,833
Improvements other than buildings	3,872,745	297,989			4,170,734
Equipment	2,522,982	263,368	71,393		2,714,957
Software	256,000	32,000			288,000
Library books	746,498	8,895		56,702	812,095
Leased property under capital leases	840,804	95,235			936,039
Total accumulated depreciation	24,561,345	1,734,560	71,393	56,702	26,281,214
Total depreciable capital assets, net	32,505,162	118,272	(20,517)	(56,702)	32,546,215
Capital Assets, Net	\$ 35,684,830	\$ 5,190,494	\$ (1,730,770)	\$ (56,702)	\$ 39,087,852

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, 2016

Note 7 – Construction Commitments and Financing

The college has contracted for various construction projects as of June 30, 2016. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

	Total costs to complete	Funded by		
		Other Sources	State Sources	Institutional Funds
New dormitory	\$ 1,473,768	\$	\$ 1,473,768	\$
BCBS Wellness Program	23,576	23,576		
Renovation of Water Tower	256,848		256,848	
Total governmental activities	<u>\$ 1,754,192</u>	<u>\$ 23,576</u>	<u>\$ 1,730,616</u>	<u>\$ -</u>

Note 8 – 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 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amounts due within one year
WPC Revolving Loan	622,375	1.75%	2032	\$ 536,040	\$	\$ 28,272	\$ 507,768	\$ 28,272
Dormitory Construction	2,000,000	1-3%	2025	2,000,000		175,000	1,825,000	175,000
Energy efficiency lease	1,660,807	3.91%	2016	116,079		116,079	-	-
Stadium lighting lease	269,697	4.50%	2018	169,025		53,831	115,194	53,831
Total				<u>\$ 2,821,144</u>	<u>\$ -</u>	<u>\$ 373,182</u>	<u>\$ 2,447,962</u>	<u>\$ 257,103</u>

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 265,074	\$ 52,278	\$ 317,352
2018	273,168	46,672	319,840
2019	219,795	40,400	260,195
2020	225,320	36,261	261,581
2021	235,855	31,624	267,479
2022-2026	1,032,636	73,673	1,106,309
2027-2031	177,496	9,637	187,133
2032	18,618	95	18,713
Total	<u>\$ 2,447,962</u>	<u>\$ 290,640</u>	<u>\$ 2,738,602</u>

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements
For Year Ended June 30, 2016

Note 9 – 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	5,937,917	2,169,917	182,418	429,421			353,755		294,743	9,368,171
Academic Support	350,744	140,082	677	8,808			4,067		33,030	537,408
Student Services	1,453,789	568,284	191,361	316,318			262,546		28,266	2,820,564
Institutional Support	1,079,104	442,935	21,675	723,855			84,585		135,460	2,487,614
Operation of Plant	713,048	308,035	142	583,184	544,630		399,785		84,662	2,633,486
Student Financial Aid						2,273,756				2,273,756
Auxiliary Enterprises	443,919	239,782	67	363,815	216,787		939,176		344	2,203,890
Depreciation								1,719,869		1,719,869
Total Operating Expenses	9,978,521	3,869,035	396,340	2,425,401	761,417	2,273,756	2,043,914	1,719,869	576,505	24,044,758

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

Note 10 – Defined Benefit Pension Plan

General Information about the 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. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the 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.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. 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, 2016 was 15.75% 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, 2016, 2015 and 2014 were \$1,535,088, \$1,546,971 and \$1,617,982, respectively, which equaled the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the college reported a liability of \$24,732,844 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The college's proportion of the net pension liability was based on a projection of the college's long-term

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The college's proportionate share used to calculate the June 30, 2016 net pension liability was 0.16 percent, which was based on a measurement date of June 30, 2015. This was a decrease of 0.01 from its proportionate share used to calculate the June 30, 2015 net pension liability, which was based on a measurement date of June 30, 2014.

For the year ended June 30, 2016, the college recognized pension expense of \$2,335,188. At June 30, 2016 the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 586,733	\$
Net difference between projected and actual earnings on pension plan investments	1,447,136	2,243,384
Changes of assumptions	2,130,650	
Changes in proportion and differences between college contributions and proportionate share of contributions	638,130	922,176
College contributions subsequent to the measurement date	1,535,088	
Total	<u>\$ 6,337,737</u>	<u>\$ 3,165,560</u>

\$1,535,088 reported as deferred outflows of resources related to pensions resulting from college contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 672,508
2018	568,164
2019	34,634
2020	361,783

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.25 – 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Broad	34 %	5.20 %
International Equity	19	5.00
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4.00
Private Equity	8	6.15
Cash	1	(0.50)
Total	<u>100 %</u>	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent, a decrease of 0.25 percentage points since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the college's proportionate share of the net pension liability to changes in the discount rate. The following presents the college's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the college's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
College's proportionate share of the net pension liability	\$ 32,600,155	\$ 24,732,844	\$ 18,204,448

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Note 11– Contingencies

Federal Grants – The College has received federal grants for specific purposes that are subject to audit

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Financial Statements For Year Ended June 30, 2016

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 12 – 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 13 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$10,908,342) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pensions in the amount of \$1,535,088 resulting from the college contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The \$4,802,649 remaining balance of the deferred outflow of resources related to pensions at June 30, 2016 will be recognized in pension expense over the next 4 years. The \$3,165,560 balance of the deferred inflow of resources related to pensions at June 30, 2016 will be recognized in pension expense over the next 3 years.

Note 14 - Concentrations

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

Note 15 – Consistency Between Reporting Periods

Due to the classification of assets, liabilities, revenues, and expenses, immaterial inconsistencies may exist between reporting periods.

Note 16 - Subsequent Events

Events that occur after the Statement of Net Position 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 Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Southwest Mississippi Community College evaluated the activity of the college through January 31, 2017 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, 2016

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 position, based on the absence or existence and type of donor-imposed restrictions.

Unrestricted Net Position

The unrestricted net position is not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net position unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net position. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net position unless their use is restricted by explicit donor stipulations. Expirations of temporary restrictions on net position, 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 position.

Temporarily Restricted Net Position

Temporarily restricted net position includes 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 position is 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, 2016

Permanently Restricted Net Position

Permanently restricted net position includes gifts required by donors to be permanently retained. The Foundation's permanently restricted net position consists 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). Tax years 2013, 2014, and 2015 are still open for possible examination by the Internal Revenue Service.

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.

Southwest Mississippi Community College Foundation, Inc.
Summit, Mississippi
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2016

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

Fixed Assets

There are no fixed assets for the Foundation as of June 30, 2016.

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 \$250,000 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, 2016 consist of the following:

	<u>Market Value</u>
Cash & Cash Equivalents	\$ 2,576
Mutual Funds	<u>204,448</u>
Total Investments	<u>\$207,024</u>

Southwest Mississippi Community College Foundation, Inc.
Summit, Mississippi
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2016

Investment Income for the year ended June 30, 2016 was calculated as follows:

Interest and Dividends	\$11,932
Unrealized Gains and Losses	<u>(557)</u>
Net Investment Income	<u>\$ 11,375</u>

Note 4 Fair Value Measurements

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets.
 - Quoted prices for identical or similar assets or liabilities in inactive markets.
 - Inputs other than quoted prices that are observable for the asset or liability.
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Mutual Funds. Valued at the closing price reported in the active markets in which the individual securities are traded.

Southwest Mississippi Community College Foundation, Inc.
Summit, Mississippi
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2016

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflected of future fair values. Furthermore, although the organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the organization's assets at fair value as of June 30, 2016.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	<u>\$ 204,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 204,448</u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Required Supplementary Information

SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PERS

Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>
College's proportion of the net pension liability (asset)	0.160000%	0.170000%
College's proportionate share of the net pension liability (asset)	\$ 24,732,844	\$ 20,634,887
College's covered-employee payroll	9,818,730	10,272,902
College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	251.89453%	200.86716%
Plan fiduciary net position as a percentage of the total pension liability	61.70398%	67.20769%

The notes to the required supplementary information are an integral part of this schedule.

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Required Supplementary Information

SCHEDULE OF COLLEGE CONTRIBUTIONS

PERS

Last 10 Fiscal Years*

		<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$	1,535,088	\$ 1,546,450								
Contributions in relation to the contractually required contribution	\$	1,535,088	\$ 1,546,450								
Contribution deficiency (excess)	\$	<u>0</u>	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
College's covered-employee payroll		9,746,590	9,818,730								
Contributions as a percentage of covered-employee payroll		15.75%	15.75%								

The notes to the required supplementary information are an integral part of this schedule.

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Notes to the Required Supplementary Information For the Year Ended June 30, 2016

Pension Schedules

1. Change of benefit terms
None

2. Change of assumptions

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

SUPPLEMENTARY INFORMATION

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Supplementary Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

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	56,901
Federal Work-Study Program	84.033	47,754
Federal Pell Grant Program	84.063	5,211,690
Total Student Financial Aid Cluster		<u>5,316,345</u>
Passed-through Mississippi Department of Education:		
Adult Education-basic grants to states	84.002	80,227
Vocational Education Basic Grants	84.048	161,726
Total passed-through Mississippi Department of Education		<u>241,953</u>
Total U.S. Department of Education		<u>5,558,298</u>
<u>U.S. Department of Labor</u>		
Passed-through the Mississippi Department of Employment Security:		
WIA Trade Adjustment Assistance	17.245	51,717
Total passed-through Mississippi Department of Employment Security:		<u>51,717</u>
Total U.S. Department of Labor		<u>51,717</u>
Total for All Federal Awards		<u>\$ 5,610,015</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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business activities of Southwest Mississippi Community College, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Southwest Mississippi Community College's basic financial statements, and have issued our report thereon dated January 31, 2017. We have also audited the statement of financial position of the Southwest Mississippi Community College Foundation, Inc., a discretely presented component unit of Southwest Mississippi Community College, as of June 30, 2016 and the related statement of activities for the year then ended. The financial statements of Southwest Mississippi Community College Foundation, Inc. were not audited in accordance with Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Mississippi Community College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Southwest Mississippi Community College's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Mississippi Community College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lowery, Payn and Leggett

Lowery, Payn and Leggett

Brookhaven, Mississippi

January 31, 2017

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Southwest Mississippi Community College's compliance with the types of compliance requirements described in the *OMB 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, 2016. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Southwest Mississippi Community College's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Southwest Mississippi Community College's compliance.

Opinion on Each Major Federal Program

In our opinion, Southwest Mississippi Community College, complied, in all material respects, with the types of 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, 2016.

Report on Internal Control over Compliance

Management of Southwest Mississippi Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southwest Mississippi Community College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform

Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lowery, Payn and Leggett

Lowery, Payn and Leggett

Brookhaven, Mississippi

January 31, 2017

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, 2016, which collectively comprise Southwest Mississippi Community College's basic financial statements and have issued our report thereon dated January 31, 2017. 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

Lowery, Payn and Leggett, CPA's
Brookhaven, Mississippi 39601

January 31, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness identified? No
 - b. Significant deficiency identified? None Reported
5. Type of auditor's report issued on compliance for major programs: Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? 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
8. Dollar threshold used to distinguish between type A and type B programs: \$ 750,000
9. Auditee qualified as low-risk auditee? Yes

SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

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.