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NORTHEAST MISSISSIPPI COMMUNITY COLLEGE
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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AUDITED FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

Mr. Ricky G. Ford, President
and Board of Trustees
Northeast Mississippi Community College
Booneville, Mississippi

We have audited the accompanying financial statements of the business-type activities of Northeast Mississippi Community College and its aggregate discretely presented component unit, the Northeast Mississippi Community College Development Foundation, Inc. as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Northeast Mississippi Community College's basic financial statements as listed in the table of contents.

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.

Auditors' 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 of material misstatement. The Northeast Mississippi Community College Foundation Development, Inc. was 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

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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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northeast Mississippi Community College at June 30, 2017, and information of Northeast Mississippi Community College Development Foundation, Inc. at June 30, 2017, 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, the Schedule of the College's Proportionate Share of Net Pension Liability and the Schedule of College Contributions on pages 5-13 and 45-46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of 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 the Northeast Mississippi Community College's and discretely presented component unit Northeast Mississippi Community College Development Foundation, Inc.'s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit

Requirements for 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 accompanying supplementary information mentioned above 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 February 28, 2018, on our consideration of Northeast 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Northeast Mississippi Community College's 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 Northeast Mississippi Community College's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "The Sparks CPA Firm, P.C." in a cursive, flowing script.

The Sparks CPA Firm, P.C.
February 28, 2018
Booneville, Mississippi

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**Northeast Mississippi Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

This section of the Northeast Mississippi Community College's (NEMCC) annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2017. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

One of the most important questions asked is whether the College as a whole is better or worse off because of the year's activities. The key to understanding this question is the Statement of Net 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. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources. The College's net position (the difference between assets and liabilities) are 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.

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 and gifts as non-operating revenues. The College's dependency on State Aid and gifts results in an operating deficit. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of assets over its expected useful lives.

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

The following represents a condensed Statement of Net Position as of June 30, 2017 and 2016:

**Northeast Mississippi Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

**Condensed Statement of Net Position
June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Assets			
Current Assets	\$ 14,222,494	\$ 13,105,890	\$ 1,116,604
Non-Current Assets			
Other	718,483	393,073	325,410
Capital Assets	<u>45,473,261</u>	<u>45,787,448</u>	<u>(314,187)</u>
Total Assets	<u>60,414,238</u>	<u>59,286,411</u>	<u>1,127,827</u>
Deferred Outflows			
Pension Related	<u>8,441,250</u>	<u>8,639,748</u>	<u>(198,498)</u>
Liabilities			
Current Liabilities	1,455,345	1,245,972	209,373
Non-Current Liabilities	2,552,273	2,835,289	(283,016)
Net Pension Liability	<u>41,083,743</u>	<u>35,565,058</u>	<u>5,518,685</u>
Total Liabilities	<u>45,091,361</u>	<u>39,646,319</u>	<u>5,445,042</u>
Deferred Inflows			
Pension Related	<u>141,592</u>	<u>2,998,232</u>	<u>(2,856,640)</u>
Net Position	<u>\$ 23,622,535</u>	<u>\$ 25,281,608</u>	<u>\$ (1,659,073)</u>

Assets

Current Assets

Cash and Cash Equivalents Current

Cash and cash equivalents consist of cash in the College's bank accounts. The total amount of cash and cash equivalents reported as current assets on the College financial statements were \$12,513,064 and \$11,142,866, respectively, at June 30, 2017 and 2016.

Accounts Receivable

Accounts receivable relates to several transactions including county appropriations, accrued interest, student tuition and fee billings, and auxiliary enterprise sales such as dorm rent, food service and bookstore charges. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College's receivables totaled \$1,221,861 and \$1,338,361 respectively, at June 30, 2017 and 2016.

Inventories

The College maintains inventories of resale merchandise in the Northeast Bookstore. Books, student supplies and institutional memorabilia make up the majority of the resale inventory. Inventories totaled \$321,663 and \$470,474, respectively, at June 30, 2017 and 2016.

Cash and Cash Equivalents - Restricted

Cash and cash equivalents are those funds that are held in the bank accounts. The cash and cash equivalents that are considered non-current are cash in restricted funds to be used for the purpose designated by the funding agency, such as a federal granting agency, or scholarships. The amount

**Northeast Mississippi Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

of cash and cash equivalents considered non-current at June 30, 2017 and 2016, totaled \$695,483 and \$371,073 respectively.

Capital Assets, Net

Capital assets, net, consist of land, infrastructure, buildings, equipment, and historical library holdings. The amount reported is net of accumulated depreciation. Capital assets, net of accumulated depreciation, totaled \$45,473,261 at June 30, 2017, in comparison to \$45,787,448 at June 30, 2016.

Deferred Outflow of Resources

Pension Related

Pension related deferred outflow of resources are a result of timing differences due to the measurement date of pension expense and other factors. As of June 30, 2017 and 2016, pension related deferred outflow of resources amounted to \$8,441,250 and \$8,639,748, respectively.

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at year-end for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$1,085,920 and \$764,598, respectively, at June 30, 2017 and 2016.

Unearned Revenue

Unearned revenue represents revenue that was received by the College during the fiscal year but not yet earned. Unearned revenue totaled \$79,425 and \$201,374, respectively, at June 30, 2017 and 2016.

Long-Term Liabilities-Current Portion

Long-term liabilities-current portion represents the portion of bond and note indebtedness that is payable within one year of the statement of net position date. The amount of the long-term liabilities-current portion at June 30, 2017 and 2016 was \$290,000 and \$280,000, respectively.

Noncurrent Liabilities

Deposits Refundable

Deposits refundable represent assets belonging to an individual for which the College acts as custodian. An example of deposits refundable is room deposits paid by dormitory students and held in reserve by the college for the students. The deposits are refunded once the student withdraws from the dormitory. The total amount held for others at June 30, 2017 and 2016, was \$95,900 and \$91,700, respectively.

Accrued Leave Liabilities

This liability consists of accrued compensated balances that represent the amount payable to employees for earned but unpaid leave time. The total amount of the accrued leave and associated fringe benefits liability was \$574,385 at June 30, 2017, as compared to \$564,882 at June 30, 2016.

Long-Term Liabilities

This liability consists of bond, and capital lease indebtedness for capital construction and improvement at the College that is not current and payable within the next fiscal year. The amount

**Northeast Mississippi Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

of the long-term liabilities balance was \$1,881,988 at June 30, 2017, as compared to \$2,178,707 at June 30, 2016.

Deferred Inflow of Resources

Pension Related

Pension related deferred inflow of resources are a result of timing differences due to the measurement date of pension expense and other factors. As of June 30, 2017 and 2016, pension related deferred inflow of resources amounted to \$141,592 and \$2,998,232, respectively.

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, 2017, was \$23,622,535 as compared to \$25,281,608 at June 30, 2016.

Analysis of Net Position

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

The following is an analysis of net position as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Net Investment in Capital Assets	\$ 43,301,273	\$ 43,328,741
Restricted for:		
Scholarships	42,422	43,112
Capital Projects	2,730,827	2,387,818
Unemployment	50,000	50,000
Specified Programs	<u>604,857</u>	<u>190,725</u>
Total Restricted Net Position	<u>3,428,106</u>	<u>2,671,655</u>
Unrestricted	<u>(23,106,844)</u>	<u>(20,718,788)</u>
Total Net Position	<u>\$ 23,622,535</u>	<u>\$ 25,281,608</u>

In connection with the implementation of new accounting standards for reporting pension information, management presents the following additional information regarding net position:

	<u>2017</u>	<u>2016</u>
Total Unrestricted Net Position (Deficit)	\$ (23,106,844)	\$ (20,718,788)
Add Unrestricted Deficit in Net Position Resulting from Implementation of GASB Statements 68 and 71	<u>32,784,085</u>	<u>29,923,542</u>
Unrestricted Net Position, Exclusive of the Net Pension Liability Effect	<u>\$ 9,677,241</u>	<u>\$ 9,204,754</u>

**Northeast Mississippi Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Condensed Statement of Revenues, Expenses and Changes in Net Position

The following represents a condensed statement of revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Operating Revenue:		
Tuition and Fees	\$ 2,577,553	\$ 3,937,080
Grants and Contracts	15,204,406	14,144,284
Sales and Services of Educational Activities	656,375	626,524
Auxiliary Enterprises	<u>3,580,686</u>	<u>2,059,612</u>
Total Operating Revenues	22,019,020	20,767,500
Operating Expenses	<u>40,184,135</u>	<u>38,542,869</u>
Operating Loss	<u>(18,165,115)</u>	<u>(17,775,369)</u>
Non-operating Revenues (Expenses)		
State Appropriations	12,619,313	13,304,287
Local Appropriations	1,638,663	1,600,399
Investment Income	11,230	10,091
Interest Expense on Capital Related Debt	<u>(62,371)</u>	<u>(70,633)</u>
Total Non-operating Revenues	<u>14,206,835</u>	<u>14,844,144</u>
Income (Loss) Before Other Revenues	(3,958,280)	(2,931,225)
State Appropriations Restricted for Capital Purposes	-	413,061
Local Appropriations Restricted for Capital Purposes	<u>2,224,207</u>	<u>1,828,004</u>
Change in Net Position	<u>(1,734,073)</u>	<u>(690,160)</u>
Net Position, Beginning of Year	25,281,608	25,971,768
Prior Period Adjustments	<u>75,000</u>	<u>-</u>
Net Position, Beginning of Year, Restated	<u>25,356,608</u>	<u>25,971,768</u>
Net Position, End of Year	<u>\$ 23,622,535</u>	<u>\$ 25,281,608</u>

Total operating loss for the fiscal year 2017 was \$(18,165,115) as compared to \$(17,775,369) for fiscal year 2016. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, the College shows a significant operating loss.

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

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

Total operating revenues for fiscal year 2017 were \$22,019,020, as compared to \$20,767,500 for fiscal year 2016. Tuition and fees were \$2,577,553 in fiscal year 2017 compared to \$3,937,080 for fiscal year 2016. The tuition discount for fiscal year 2017 was \$6,211,463 compared to \$4,930,412 for fiscal year 2016. Operating expenses for fiscal year 2017, including depreciation expense of

**Northeast Mississippi Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

\$1,931,845, totaled \$40,184,135. Operating expenses for fiscal year 2016 totaled \$38,542,869, including depreciation of \$1,921,538.

Instructional expenditures comprised 40.82% of the fiscal year 2017 operating expenses and 37.63% of the fiscal year 2016 operating expenses.

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$2,577,553 for fiscal year 2017 in comparison to \$3,937,080 for fiscal year 2016. The tuition discount for the fiscal year 2017 was \$6,211,463 compared to fiscal year 2016 tuition discount of \$4,930,412.

Grants and Contracts

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

The following table details the College's grant and contract awards for the fiscal year ended June 30, 2017 and 2016:

	2017	2016	Increase (Decrease)
Federal Sources	\$ 10,828,566	\$ 10,371,006	\$ 457,560
State Sources	3,701,713	3,402,142	299,571
Other Sources	674,127	371,136	302,991
Total All Sources	<u>\$ 15,204,406</u>	<u>\$ 14,144,284</u>	<u>\$ 1,060,122</u>

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$656,375 for fiscal year 2017 as compared to \$626,524 for the fiscal year 2016.

Sales and Services from Auxiliary Enterprises, Net

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

Auxiliary enterprises primarily include the College bookstore, student housing, and food services. Auxiliary enterprises revenue, net of scholarship allowances, totaled \$3,580,686 for fiscal year 2017, as compared to \$2,059,612 for the fiscal year 2016. The discount for scholarship allowance was \$1,808,876 for fiscal year 2017 and \$1,547,596 for fiscal year 2016.

Operating Expenses

The following is a breakdown of operating expenses by category for the years ended June 30, 2017 and 2016:

**Northeast Mississippi Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

	2017	2016	Increase (Decrease)
Salaries and Benefits	\$ 23,428,129	\$ 21,266,824	\$ 2,161,305
Scholarships	3,700,556	5,451,257	(1,750,701)
Commodities	3,879,879	3,328,013	551,866
Contractual Services	5,034,781	4,325,832	708,949
Utilities	1,782,460	1,733,254	49,206
Travel	426,485	516,151	(89,666)
Depreciation	1,931,845	1,921,538	10,307
Total Operating Expenses by Category	<u>\$ 40,184,135</u>	<u>\$ 38,542,869</u>	<u>\$ 1,641,266</u>

The following is a breakdown of operating expenses by functional classification for the years ended June 30, 2017 and 2016:

	2017	2016	Increase (Decrease)
Expenses by Function:			
Instruction	\$ 16,402,747	\$ 14,554,312	\$ 1,848,435
Academic Support	682,806	642,444	40,362
Student Services	3,699,183	3,628,105	71,078
Institutional Support	5,178,762	4,702,363	476,399
Operation and Maintenance of Plant	4,073,423	3,734,776	338,647
Student Financial Aid	3,446,737	5,451,257	(2,004,520)
Auxiliary Enterprises	4,768,632	3,908,074	860,558
Depreciation	1,931,845	1,921,538	10,307
Total Operating Expenses by Function	<u>\$ 40,184,135</u>	<u>\$ 38,542,869</u>	<u>\$ 1,641,266</u>

Non-operating Revenues (Expenses)

State Aid

The College's largest source of non-operating revenue is appropriations from the State of Mississippi. The College received \$12,619,313 for fiscal year 2017. For comparison, the College received state appropriations of \$13,304,287 for the fiscal year 2016. In addition, the College received \$0 in restricted state appropriations for fiscal year 2017 as compared to \$413,061 for fiscal year 2016.

Other Non-Operating Revenues

Other non-operating revenues are composed of county appropriations that the College receives from the five county district in which the school resides. The College uses the education and general portion of the appropriations for salaries and benefits, and for other operational purposes. The College uses the enlargements and improvements portion of the appropriations to repair, maintain, and improve campus facilities. The College receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1st.

**Northeast Mississippi Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

The College received \$3,862,870 in county appropriations for fiscal year 2017 (including the donation of land valued at \$360,000), compared to \$3,428,403 for fiscal year 2016. The appropriation was received from the five counties that support the College. This appropriation was fully recorded by the College during the fiscal year.

Investment Income, Net

This includes the interest income from the cash in the bank accounts and the interest earned on the College's short-term investments. The investment income for fiscal year 2017 was \$11,230 as compared to \$10,091 for fiscal year 2016.

Non-operating Expenses

This consists of the interest expense on capital asset-related debt the College incurred during the fiscal year 2017. The total expense amounted to \$62,371 compared to \$70,633 for fiscal year 2016.

Statement of Cash Flows

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

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

The following is a condensed statement of cash flows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents Provided (Used) by:		
Operating Activities	\$ (13,146,374)	\$ (13,973,057)
Noncapital Financial Activities	14,428,848	15,017,816
Capital and Related Financing Activities	401,837	130,136
Investing Activities	<u>10,297</u>	<u>9,028</u>
Net Increase in Cash and Cash Equivalents	1,694,608	1,183,923
Cash and Cash Equivalents - Beginning of the Year	<u>11,513,939</u>	<u>10,330,016</u>
Cash and Cash Equivalents - End of the Year	<u>\$ 13,208,547</u>	<u>\$ 11,513,939</u>

The major sources of funds included in operating activities include student tuition and fees of \$2,289,621, auxiliary enterprises of \$3,731,275, and grants and contracts of \$15,150,384. The major uses of funds were payments made to/on behalf of employees, \$20,555,309, to suppliers \$10,663,640 and to scholarships \$3,700,556.

Significant Capital Asset Transactions

Capital improvements consisted primarily of construction-in-progress of additions/renovations to campus sidewalks and lighting to improve safety and security around campus, as well as equipment upgrades.

**Northeast Mississippi Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2017**

Factors Impacting Future Periods

There are a number of issues of Community College-wide importance that directly impacted the fiscal year 2017 financial situation. The threat of continuing reductions in the level of State appropriations, increased costs for employee compensation and fringe benefits, student tuition and fee increases, insurance cost increases and energy cost increases all impact the College's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

State appropriations contribute approximately 32.76% of the College's fiscal year 2017 revenue, including appropriations for capital purposes, down from 36.17% from fiscal year 2016. State appropriations continue to be the single largest source of operating revenue for the College. The level of State support is therefore one of the key factors influencing the College's financial condition. As of the date of this report, state support for fiscal year 2018 had not been cut, however revenue collections are not meeting state estimates, which could cause additional cuts during fiscal year 2018.

The College expects level enrollment for the next year.

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

The College continues to assess its performance toward identified goals and ways to achieve greater efficiencies and reduce expenditures in an effort to assist in meeting the future challenges.

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Northeast Mississippi Community College
Statement of Net Position
June 30, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 12,513,064
Accounts receivable, net (Note 4)	1,221,861
Inventories	321,663
Prepaid expenses	165,906
Total Current Assets	<u>14,222,494</u>

Noncurrent assets:

Restricted cash and cash equivalents	695,483
Restricted short-term investments	23,000
Capital assets, net of depreciation (Note 6)	45,473,261
Total Noncurrent Assets	<u>46,191,744</u>

Total Assets	<u>60,414,238</u>
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Deferred Outflows of Resources

Pension related	8,441,250
Total Deferred Outflows of Resources	<u>8,441,250</u>

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	1,085,920
Unearned revenues	79,425
Long-term liabilities - current portion (Note 7)	290,000
Total Current Liabilities	<u>1,455,345</u>

Noncurrent liabilities:

Deposits refundable	95,900
Accrued leave liabilities	574,385
Long-term liabilities (Note 7)	1,881,988
Net pension liability	41,083,743
Total Noncurrent Liabilities	<u>43,636,016</u>

Total Liabilities	<u>45,091,361</u>
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Deferred Inflows of Resources

Pension related	141,592
Total Deferred inflows of Resources	<u>141,592</u>

Net Position

Net investment in capital assets	43,301,273
Restricted for:	
Expendable:	
Scholarships	42,422
Capital projects and repairs	2,730,827
Unemployment	50,000
Specified Programs	604,857
Unrestricted	<u>(23,106,844)</u>
Total Net Position	<u>\$ 23,622,535</u>

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

**Northeast Mississippi Community College
Development Foundation, Inc.
Statement of Financial Position
June 30, 2017**

Assets

Current Assets:

Cash and cash equivalents	\$ 75,183
Investments (Note 4)	865,214
Unconditional promises to give (net) (Note 3)	<u>218,763</u>

Total current assets	<u>1,159,160</u>
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Endowment Investments

Investments (Note 4)	<u>2,189,416</u>
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Total endowment investments	<u>2,189,416</u>
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Property and Equipment (Net) (Note 5)	<u>80,777</u>
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Long-term unconditional promises to give (Note 3)	<u>255,905</u>
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Total assets	<u><u>3,685,258</u></u>
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Liabilities

Current Liabilities:

Accounts payable	<u>16,302</u>
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Total current liabilities	<u>16,302</u>
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Total Liabilities	<u>16,302</u>
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Net Assets

Unrestricted net assets	473,526
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Temporarily restricted net assets	906,014
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Permanently restricted assets	<u>2,289,416</u>
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Total net assets	<u><u>\$ 3,668,956</u></u>
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The notes to the financial statements are an integral part of this statement.

Northeast Mississippi Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

Operating Revenues

Tuition and fees (Net of Scholarship Allowance of \$6,211,463)	\$ 2,577,553
Federal grants and contracts	10,828,566
State grants and contracts	3,701,713
Nongovernmental grants and contracts	674,127
Sales and services of educational departments	656,375
Auxiliary enterprises:	
Student Housing (Net of Scholarship Allowances of \$647,227)	439,652
Food Services (Net of Scholarship Allowances of \$902,438)	652,722
Bookstore (Net of Scholarship Allowance of \$259,211)	2,191,969
Other auxiliary revenues	296,343
Total Operating Revenues	<u>22,019,020</u>

Operating Expenses

Salaries and wages	15,837,863
Fringe benefits	2,380,768
Pension expense	5,209,498
Travel	426,485
Contractual services	5,034,781
Utilities	1,782,460
Scholarships and fellowships	3,700,556
Commodities	3,879,879
Depreciation	1,931,845
Total Operating Expenses	<u>40,184,135</u>

Operating Income (Loss)

(18,165,115)

Nonoperating Revenues (Expenses)

State appropriations	12,619,313
Local appropriations	1,638,663
Investment income	11,230
Interest expense on capital asset-related debt	(62,371)
Total Net Nonoperating Revenues (Expenses)	<u>14,206,835</u>

Income (Loss) before Other Revenues (Expenses)

(3,958,280)

State appropriations restricted for capital purposes

-

Local appropriations for capital purposes

2,224,207

Change in Net Position

(1,734,073)

Net Position

Net Position - Beginning of Year	25,281,608
Prior Period Adjustments (Note 3)	75,000
Net Position - Beginning of Year, as Restated	<u>25,356,608</u>
Net Position- End of Year	<u>\$ 23,622,535</u>

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

**Northeast Mississippi Community College
Development Foundation, Inc.
Statement of Activities
For the year ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues				
Contributions	\$ 42,592	\$ 1,066,098	\$ 100,000	\$ 1,208,690
Dividends	22,865	34,952	-	57,817
Interest	103	-	-	103
Administrative fee income	155,683	-	-	155,683
Grants revenue	1,305	-	-	1,305
Memberships	8,425	-	-	8,425
Gain (loss) sale of assets	13,725	66,013	-	79,738
Unrealized gain(loss) on assets	195,940	-	-	195,940
Total public support and revenues	<u>440,638</u>	<u>1,167,063</u>	<u>100,000</u>	<u>1,707,701</u>
Expenses and losses				
Program expense	72,420	904,843	-	977,263
Management & general expense	96,844	-	-	96,844
Fund raising expense	116,508	-	-	116,508
Total expenses and losses	<u>285,772</u>	<u>904,843</u>	<u>-</u>	<u>1,190,615</u>
Other revenues and (expense)				
Transfers	<u>(55,896)</u>	<u>20,896</u>	<u>35,000</u>	<u>-</u>
Total other revenues (expenses)	<u>(55,896)</u>	<u>20,896</u>	<u>35,000</u>	<u>-</u>
Change in net assets	<u>98,970</u>	<u>283,116</u>	<u>135,000</u>	<u>517,086</u>
Net assets, beginning of year	395,800	601,654	2,154,416	3,151,870
Prior period adjustment	<u>(21,244)</u>	<u>21,244</u>	<u>-</u>	<u>-</u>
Net assets, beginning of year, as restated	<u>374,556</u>	<u>622,898</u>	<u>2,154,416</u>	<u>3,151,870</u>
Net assets end of year	<u>\$ 473,526</u>	<u>\$ 906,014</u>	<u>\$ 2,289,416</u>	<u>\$ 3,668,956</u>

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

Northeast Mississippi Community College
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities

Tuition and fees	\$ 2,289,621
Grants and contracts	15,150,384
Sales and services of educational departments	601,851
Payments to suppliers	(10,663,640)
Payments to employees for salaries and benefits	(20,555,309)
Payments for scholarships and fellowships	(3,700,556)
Auxiliary enterprise charges:	
Student housing	581,152
Food service	646,612
Bookstore	2,207,128
Other auxiliary enterprises	<u>296,383</u>

Net cash provided (used) by operating activities (13,146,374)

Cash flows from noncapital financing activities

State appropriations	12,798,823
Local appropriations	<u>1,630,025</u>

Net cash provided (used) by noncapital financing activities 14,428,848

Cash flows from capital and related financing activities

Capital appropriations	1,851,545
Cash paid for capital assets	(1,100,274)
Principal paid on capital debt and leases	(280,000)
Interest paid on capital debt and leases	<u>(69,434)</u>

Net cash provided (used) by capital and related financing activities 401,837

Cash flows from investing activities

Investment in certificate of deposits	(1,000)
Interest received on investments	<u>11,297</u>

Net cash provided (used) by investing activities 10,297

Net Increase (Decrease) in Cash and Cash Equivalents	1,694,608
Cash and Cash Equivalents - Beginning of the Year	<u>11,513,939</u>
Cash and Cash Equivalents - End of the Year	<u><u>\$ 13,208,547</u></u>

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

Northeast Mississippi Community College
Statement of Cash Flows (continued)
For the Year Ended June 30, 2017

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

Operating income (loss)	\$ (18,165,115)
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**Adjustments to reconcile net income (loss) to net cash provided (used)
by operating activities**

Difference in pension expense and cash outlays	2,860,543
Depreciation Expense	1,931,845
Bad Debt Expense	158,423
Book value of disposed assets	28,877
Changes in assets and liabilities	
(Increase) decrease in assets:	
Student Receivables	(8,665)
Other Receivables	(33,112)
Inventories	148,811
Prepaid expenses	(11,717)
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	51,982
Unearned revenues	(121,949)
Deposits refundable	4,200
Accrued leave liability	9,503

Total adjustments	5,018,741
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Net Cash Provided (Used) by Operating Activities	\$ (13,146,374)
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Noncash Investing, Capital, and Financing Activities

Donation of Land by Tippah County Board of Supervisors	\$ 360,000
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Total noncash investing, capital and financing activities	\$ 360,000
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The notes to the financial statements are an integral part of this statement.

**Northeast Mississippi Community College
Development Foundation, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2017**

Operating activities

Change in net assets \$ 517,086

Adjustments to reconcile change in net assets to net cash provided by operating activities

Depreciation 1,247

Net unconditional promise to give (355,220)

Accounts payable 15,469

Unrealized gain on investments (195,940)

Net cash used by operating activities (17,358)

Investing activities

Sale of investments 295,546

Purchase of investments (343,615)

Net cash provided by investing activities (48,069)

Net increase(decrease) in cash and cash equivalents (65,427)

Cash and cash equivalents beginning of year 140,610

Cash and cash equivalents end of year \$ 75,183

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

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Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

1. Summary of Significant Accounting Policies

- A. Reporting Entity - The Community College was founded in 1948 and is one of Mississippi's 15 public community colleges. The legal authority for the establishment of The Community College is found in Section 37-29-31, Miss. Code Ann. (1972).

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

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

Northeast Mississippi Community College Development Foundation, Inc. (Foundation) - The Foundation is a legally separate, tax-exempt nonprofit organization under section 501 (c)(3) of the Internal Revenue Code founded in 1970. The Foundation acts primarily as a fund raising organization to supplement the resources available to Northeast 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 thereon that the Foundation holds and invests are restricted to the activities of the College by the donors.

During the year ended June 30, 2017, the Foundation distributed \$463,625 to the College for scholarships, athletics and building programs and reimbursed the College for \$181,917 in Foundation expenses.

The Foundation reports its financial results under Financial Accounting Standards Board (FASB) statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the College's financial reporting entity for these differences. Significant note disclosures applicable to the Foundation's financial statements have been incorporated into the College's statements.

- B. Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*, issued June and November, 1999, respectively.

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

1. Summary of Significant Accounting Policies (continued)

- C. Basis of Accounting - The Financial statements of the College have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.
- D. Cash Equivalents - For purposes of the Statement of Cash Flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- E. Short-term Investments - Investments that are not cash equivalents but mature within the next fiscal year are classified as short-term investments.
- F. Accounts Receivable, Net - Accounts receivable consist of tuition and fees charged to students, state appropriations, amounts due from state and federal grants and contracts, local governments, and credits due to the College from vendors. Accounts receivables are recorded net of an allowance for doubtful accounts.
- G. Inventories - Inventories consist of supplies. Inventories are stated at the lower of cost or market, on either the first-in, first-out ("FIFO") basis or the average cost basis.
- H. Prepaid Expenses - Prepaid expenses include insurance premiums paid during the current fiscal year which are applicable to the succeeding fiscal year.
- I. Restricted Cash and Cash Equivalents - Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as restricted cash and cash equivalents on the Statement of Net Position.
- J. Capital Assets, Net of Accumulated Depreciation - Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance costs are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. See Note 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.
- K. Deferred Outflow 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. The college has a deferred outflow, which is presented as a deferred outflow for pension.

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

1. Summary of Significant Accounting Policies (continued)

- L. Unearned Revenues - Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but are related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- M. Compensated Absences - The Northeast Mississippi Community College Board of Trustees has adopted an employee medical leave policy. The policy provides for the payment of up to ten accumulated leave days at the time of an employee's termination. To be eligible for this payment, the employee must have been employed for five years and must have accumulated leave time. At termination, a qualified employee may receive pay for their accumulated leave time up to a maximum of ten days. Additionally, any leave certified toward retirement with the Public Employee's Retirement System of Mississippi will not be subject to payment. The total accrued leave for all employees as of June 30, 2017, was \$574,385. The vacation leave time of applicable employees cannot be accumulated beyond one fiscal year.
- N. Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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.
- O. Deferred Inflow of Resources - 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. The College has a deferred inflow, which is presented as a deferred inflow for pension.
- P. Net Position - Net position of the College is classified in three components. Net position, net investment in capital assets and reduced by the outstanding balances of long-term debt used to finance the purchase or construction of those assets. Restricted expendable net position are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the College, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.
- Q. 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,

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

1. Summary of Significant Accounting Policies (continued)

net of scholarship discounts and allowances, (3) most federal, state, and local grants and contracts, and (4) interest on institutional student loans. Gifts (pledges) that are received on an installment basis are recorded at net present value.

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

- R. **State Appropriations** - The Community College receives funds from the State of Mississippi through the Mississippi Community College Board. The appropriations are distributed to community and junior colleges based on a funding formula which has been approved by all of the presidents of the colleges. Currently, the first 15% of the appropriations are split equally among the colleges, and then the remaining 85% of the appropriations are allocated based on the college's total credit hours generated by all students with special consideration given to those programs that are considered high cost programs.
- S. **Scholarship Discounts and Allowances** - Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties and Federal Direct Lending, is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a college basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

2. Cash and Cash Equivalents, Short-term Investments and Investments

Policies:

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

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the College's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities that would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

2. Cash and Cash Equivalents, Short-term Investments and Investments (Continued)

The carrying amount of the College's deposits with financial institutions reported in the statement of net position as cash and cash equivalents was \$13,208,547. Additionally, the College had certificates of deposit with a carrying value of \$23,000 reported as investments in the statement of net position. At June 30, 2017, none of the College's deposits were exposed to custodial credit risk.

- B. Investments - Investment policies as set forth by 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 following table summarizes the carrying value of the college's investments reported on the statement of net position:

	<u>June 30, 2017</u>
Investments	\$ <u>23,000</u>

The following table summarizes the categorization of investments at June 30, 2017:

<u>Investment Type</u>	<u>Maturities (in Years)</u>	<u>Fair Value</u>	<u>Rating</u>
Certificates of Deposit	1	\$ <u>23,000</u>	FDIC Insured

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. The Board of Trustees has adopted a policy that limits investments to the five-county area the College serves.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of a financial institution failure, the College will not be able to recover the value of its investment. The College does not have a formal investment policy that addresses custodial credit risk. However, the College's Board of Trustees has a policy that all investments will be made in the five-county area the College serves.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investment 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, 2017, the College did not have any investments to which this would apply.

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

3. Prior Period Adjustments

There was one Prior Period Adjustment recorded during the year ended June 30, 2017, to correct the effects of an error recording a grant received for scholarships. In a prior year, the money received was incorrectly recorded as unearned revenue, however, the grant should have been recorded as earned revenue. The effect was a decrease in unearned revenue and an increase in net position in the amount of \$75,000.

4. Accounts Receivable

Accounts receivable consists of the following at June 30, 2017:

	Total Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
Accounts Receivable - Student			
Student tuition and fees	\$ 2,001,196	\$ 1,939,222	\$ 61,974
Auxiliary enterprises	<u>1,599,803</u>	<u>1,550,259</u>	<u>49,544</u>
Accounts Receivable - Student	<u>3,600,999</u>	<u>3,489,481</u>	<u>111,518</u>
Accounts Receivable - Other			
Auxiliary enterprises	46,127	40,927	5,200
Grants and contracts	763,044	-	763,044
State appropriations	149,300	-	149,300
Local appropriations	105,198	-	105,198
Other	<u>87,601</u>	<u>-</u>	<u>87,601</u>
Accounts Receivable - Other	<u>1,151,270</u>	<u>40,927</u>	<u>1,110,343</u>
Accounts Receivable	<u>\$ 4,752,269</u>	<u>\$ 3,530,408</u>	<u>\$ 1,221,861</u>

5. Effect of Deferred Amounts of Net Position

The unrestricted net position amount of (\$23,106,844) includes the effect of deferring the recognition of revenues and expenses resulting from deferred inflows and deferred outflows from pensions. The \$8,441,250 balance of deferred outflow of resources, at June 30, 2017, will be recognized as expense and will decrease the unrestricted net position over the next 4 years. The \$141,592 balance of deferred inflow of resources, at June 30, 2017, will be recognized as revenue and will increase the unrestricted net position over the next 3 years.

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

6. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2017, is presented as follows:

	Beginning Balance 7/1/2016	Additions	Dispositions	Completed Construction/ Adjustments	Ending Balance 6/30/2017
Nondepreciable Capital Assets:					
Land	\$ 2,611,068	\$ 372,000	\$ -	\$ -	\$ 2,983,068
Construction in progress	141,726	926,431	-	-	1,068,157
Total Nondepreciable Capital Assets	<u>2,752,794</u>	<u>1,298,431</u>	<u>-</u>	<u>-</u>	<u>4,051,225</u>
Depreciable Capital Assets:					
Improvements other than Buildings	5,370,769	-	-	-	5,370,769
Buildings	66,471,439	78,000	-	-	66,549,439
Equipment	7,724,688	260,751	362,067	-	7,623,372
Library Books	1,242,780	9,353	-	-	1,252,133
Total Depreciable Capital Assets	<u>80,809,676</u>	<u>348,104</u>	<u>362,067</u>	<u>-</u>	<u>80,795,713</u>
Less Accumulated Depreciation for:					
Improvements other than Buildings	2,917,051	185,645	-	-	3,102,696
Buildings	28,310,213	1,134,546	-	-	29,444,759
Equipment	5,375,537	599,133	333,190	-	5,641,480
Library Books	1,172,221	12,521	-	-	1,184,742
Total Accumulated Depreciation	<u>37,775,022</u>	<u>1,931,845</u>	<u>333,190</u>	<u>-</u>	<u>39,373,677</u>
Total Depreciable Capital Assets, Net	<u>43,034,654</u>	<u>(1,583,741)</u>	<u>28,877</u>	<u>-</u>	<u>41,422,036</u>
Capital Assets, Net	<u>\$ 45,787,448</u>	<u>\$ (285,310)</u>	<u>\$ 28,877</u>	<u>\$ -</u>	<u>\$ 45,473,261</u>

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

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

Construction in progress is composed of the following amounts, which consist only of pre-planning activities:

	Spent to June 30, 2017	Remaining Commitment
Sidewalk and Lighting Project	\$ 895,145	\$ 996,849
Baseball/Softball Complex	31,286	-
Seth Pounds Auditorium	3,088	-
Northeast at Corinth Phase III	3,486	-
Fine Arts Complex	<u>135,152</u>	<u>-</u>
Total Construction in Progress	<u>\$ 1,068,157</u>	<u>\$ 996,849</u>

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

7. Long-Term Liabilities

Long-term liabilities of the College consist of notes and bonds payable, original issue premiums, and certain other liabilities that are expected to be liquidated beyond one year from June 30, 2017.

Description	Original Issue	Interest Rate	Maturity	Balance July 1, 2016	Additions	Payments	Balance June 30, 2017	Due Within One Year
Notes Payable								
G.O. Refunding								
Notes, Series 2014	\$ 2,935,000	3.125%	12/2028	\$ 2,375,000	\$ -	\$ 280,000	\$ 2,095,000	\$ 290,000
Total Long-Term Debt				2,375,000	-	280,000	2,095,000	290,000
Original Issue Premium				83,707	-	6,719	76,988	-
Other Long-Term Liabilities								
Accrued Leave Liability				564,882	9,503	-	574,385	-
Deposits Refundable				91,700	4,200	-	95,900	-
Net Pension Liability				35,565,058	5,518,685	-	41,083,743	-
Total Other Liabilities				36,221,640	5,532,388	-	41,754,028	-
Total Long-Term Liabilities				\$ 38,680,347	\$ 5,532,388	\$ 286,719	\$ 43,926,016	\$ 290,000

The following is a schedule by years of the total payments due on notes payable:

	Notes Payable	Interest	Total
2018	\$ 290,000	\$ 58,944	\$ 348,944
2019	305,000	50,019	355,019
2020	310,000	40,794	350,794
2021	325,000	31,269	356,269
2022	100,000	24,894	124,894
2023-2027	530,000	77,969	607,969
2028-2029	235,000	7,646	242,646
Totals	\$ 2,095,000	\$ 291,535	\$ 2,386,535

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

8. Natural Classifications with Functional Classifications

The College's operating expenses by functional classification were as follows for the year ended June 30, 2017:

Functional Classifications	Salaries & Wages	Pension Expense	Fringe Benefits	Travel	Contractual Services	Utilities & Communication	Scholarships & Fellowships	Commodities	Depreciation Expense	Total
Instruction	\$ 9,732,408	\$ 3,200,071	\$ 1,365,110	\$ 172,051	\$ 948,876	\$ 90,126	\$ 252,116	\$ 641,989	\$ -	\$ 16,402,747
Academic support	406,313	139,182	63,248	5,019	42,931	137	48	25,928	-	682,806
Student services	1,967,418	677,918	311,907	129,818	233,860	25,624	655	351,983	-	3,699,183
Institutional support	2,385,642	735,434	357,619	116,905	1,225,541	118,939	1,000	237,682	-	5,178,762
Operation of plant	1,040,612	359,070	216,339	2,650	1,020,005	1,136,581	-	298,166	-	4,073,423
Student aid	-	-	-	-	-	-	3,446,737	-	-	3,446,737
Auxiliary enterprises	305,470	97,823	66,545	42	1,563,568	411,053	-	2,324,131	-	4,768,632
Depreciation	-	-	-	-	-	-	-	-	1,931,845	1,931,845
Total Operating Expenses	\$ 15,837,863	\$ 5,209,498	\$ 2,380,768	\$ 426,485	\$ 5,034,781	\$ 1,782,460	\$ 3,700,556	\$ 3,879,879	\$ 1,931,845	\$ 40,184,135

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

9. 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, 2017, was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and maybe amended only by the State of Mississippi Legislature. The College's contributions to PERS for the fiscal years ending June 30, 2017, 2016 and 2015, were \$2,348,955, \$2,315,002, and \$2,263,873, 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, 2017, the College reported a liability of \$41,083,743 for its proportionate share of the net pension liability. The net pension liability was

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

9. Defined Benefit Pension Plan (continued)

measured as of June 30, 2016, 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 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, 2017 net pension liability was 0.2300 percent, which was based on a measurement date of June 30, 2016. This was a decrease of 0.0001 percent from its proportionate share used to calculate the June 30, 2016 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended June 30, 2017, the College recognized pension expense of \$5,209,498. At June 30, 2017, 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	\$ 1,144,567	\$ -
Net difference between projected and actual earnings on pension plan investments	2,808,350	-
Changes of assumptions	1,937,408	109,172
Changes in proportion and differences between College contributions and proportionate share of contributions	201,970	32,420
College contributions subsequent to the measurement date	<u>2,348,955</u>	<u>-</u>
Total	<u>\$ 8,441,250</u>	<u>\$ 141,592</u>

\$2,348,955 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 2,136,984
2019	1,566,475
2020	1,435,625
2021	<u>811,619</u>
Total	<u>\$ 5,950,703</u>

Actuarial assumptions - The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

9. Defined Benefit Pension Plan (continued)

Inflation: 3.00%
Salary increases: 3.75-19.00%, including inflation
Investment rate of return: 7.75%, net of pension plan investment expenses, including inflation

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

The actuarial assumptions used in the June 30, 2016, 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 as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Real Expected</u>
U.S. Broad	34.00%	5.20%
International Equity	19.00%	5.00%
Emerging Markets Equity	8.00%	5.45%
Fixed Income	20.00%	0.25%
Real Assets	10.00%	4.00%
Private Equity	8.00%	6.15%
Cash	1.00%	-0.50%
Total	100.00%	

Discount rate - The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that Employer contributions will be made at the current employer contribution rate (15.75%). 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 members. 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 7.75%, 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 one percentage-point lower (6.75%) or one percentage-point higher (8.75%) than the current rate:

Northeast Mississippi Community College
Notes to the Financial Statements
For the Year Ended June 30, 2017

9. Defined Benefit Pension Plan (continued)

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
College's proportionate share of the Net Pension Liability	<u>\$52,678,570</u>	<u>\$ 41,083,743</u>	<u>\$ 31,463,795</u>

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

10. Risk Management.

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

11. Contingencies:

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

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

12. Subsequent Events

Events that occur after the balance sheet date but before the financial statements were 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 evaluated the activity of the entity through February 28, 2018, and determined there were no events for disclosure. No adjustments were considered necessary to these financials.

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Northeast Mississippi Community College Development Foundation, Inc.
Notes to Financial Statements
Year Ended June 30, 2017

Note 1: Summary of Significant Accounting Policies

A. Description of Business Activities

Northeast Mississippi Community College Development Foundation, Inc., (the Foundation), is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The organization is not classified as a private foundation. Its purpose is to provide scholarships and other support for Northeast Mississippi Community College.

B. Reporting Entity

For financial reporting purposes, the Foundation is considered to be a component unit of Northeast Mississippi Community College.

C. Basis of Accounting

The accompanying financial statements were prepared in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed by Northeast Mississippi Community College Development Foundation, Inc., (the Foundation), are described below to enhance the usefulness of the combined financial statements.

D. Use of Estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

Cash and cash equivalents includes bank demand deposit accounts, money market accounts and all highly liquid debt instruments purchased with a maturity of three months or less. The Foundation's cash balances may at times exceed federally insured limits. The Foundation has not experienced any losses in these accounts and believes it is not exposed to any significant risk with respect to cash and cash equivalents.

F. Investments

All investments in publicly traded debt securities, equity securities, and mutual funds are stated at fair value. Fair value is determined using quoted market prices. All realized and unrealized gains and losses are reported directly in the accompanying combined statement of activities.

Marketable securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain marketable securities, it is at least reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying combined financial statements.

Northeast Mississippi Community College Development Foundation, Inc.
Notes to Financial Statements
Year Ended June 30, 2017

Note 1: Summary of Significant Accounting Policies (continued)

G. Pledges Receivable

The Foundation provides an allowance for uncollectible pledges based upon collection history and a review of open accounts by management. Open accounts are written off after all collection efforts have been exhausted and the pledge is determined to be uncollectable.

H. Contributions Receivable

The Foundation has recorded contributions receivable of \$474,668 and \$119,448 as of June 30, 2017 and 2016, respectively. The Foundation expects to receive payment on these contributions during 2018.

I. Property and Equipment

Property and equipment are stated at cost, except for donated assets, which are recorded at their fair market value at the date of the gift. The Foundation does not imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are restricted as to their use by the donor. Accordingly, those donations are recorded as support, increasing unrestricted net assets.

Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repair costs are expensed as incurred. When property and equipment are disposed of, the appropriate accounts are relieved of costs, and accumulated depreciation and any restraint gain or loss is reported as a change in net assets.

Depreciation is computed on a straight-line basis using the estimated useful lives (5 to 10 years) of the various assets.

J. Long-Lived Assets

The Foundation assesses its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable. This is accomplished by comparing the expected undiscounted future cash flows of the long-lived assets with the respective carrying amount as of the date of assessment. If the expected undiscounted future cash flows exceed the respective carrying amounts as of the date of assessment, the long-lived assets are considered not to be impaired. If the expected undiscounted future cash flows are less than the carrying value, an impairment loss is recognized and measured as the difference between the carrying value and the fair value of the long-lived assets. No impairment of long-lived assets was recognized in 2017 or 2016.

K. Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Northeast Mississippi Community College Development Foundation, Inc.
Notes to Financial Statements
Year Ended June 30, 2017

Note 1: Summary of Significant Accounting Policies (continued)

L. Financial Reporting

The Foundation reports its activities and the related net assets using three net asset categories: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are not restricted by donors or other outside agencies. The Board of Directors can authorize use of these assets, as it desires, to carry on the purposes of the Foundation according to its bylaws. The Board of Directors has also designated that a portion of these monies be used to supplement program expenses.

Temporarily restricted net assets represent donor-imposed restrictions that permit the donee organization to use up and expend the donated assets as specified. This temporary restriction is satisfied by the passage of time or actions by the Foundation.

Permanently restricted net assets represent donor-imposed restrictions that stipulate that resources be maintained permanently, but permit the Foundation to use up or expend part or all of the income derived from the donated assets.

M. Statement of Functional Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the combined statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

N. Financial Instruments Measured at Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and GAAP provided 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 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. The valuation methodology used for the Foundation's assets measured at fair value is to value the investments at quoted market prices on the last business day of the fiscal year.

O. Income Taxes

NEMCC Foundation is exempt from federal income tax as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and have been classified as an entity that is not a private foundation.

Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of FASB ASC 740-10 would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision

Northeast Mississippi Community College Development Foundation, Inc.
Notes to Financial Statements
Year Ended June 30, 2017

Note 1: Summary of Significant Accounting Policies (continued)

O. Income Taxes (continued)

for uncertain tax positions, and no related interest or penalties have been recorded in the statement of earnings and accumulated earnings or accrued in the balance sheet. Federal tax returns of the Association are generally open to examination by the relevant taxing authorities for a period of three years from the date the returns are filed.

Note 2: Economic Dependence and Concentration

The organization receives its contributions mainly from the five county area in Northeast Mississippi that are served by Northeast Mississippi Community College.

Note 3: Promises to Give

<u>Unconditional promises to give</u>		<u>Reported As</u>	
Unrestricted	\$ 35,000		
Temporarily restricted	339,668	Current	\$ 218,763
Permanently restricted	<u>100,000</u>	Long-term	<u>255,905</u>
Total	<u>\$ 474,668</u>		<u>\$ 474,668</u>

These pledges are due as follows:

Unconditional promises due within one year are recorded net of allowance for bad debts. Unconditional promises after one year are recorded at net present value using a 4% discount.

Due in less than one year	\$ 218,926
Due in one to five years	252,854
Due in six to ten years	<u>56,000</u>
Total	527,780
Less discounts to present value	(35,853)
Less allowances for bad debts	<u>(17,259)</u>
Net unconditional promises to give at June 30, 2017	<u>\$ 474,668</u>

Northeast Mississippi Community College Development Foundation, Inc.
Notes to Financial Statements
Year Ended June 30, 2017

Note 4: Investments

Investments as of June 30, 2017, are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Dodge & Cox Income	\$ 435,462	\$ 440,083
FDIC Insured Sweep	44,126	44,126
Fidelity Advisor New Insight	224,649	302,812
Fidelity Total Bond	378,647	372,003
Franklin Mutual Discovery Z Fund	191,322	212,664
John Hancock Disciplined Value	136,724	165,333
John Hancock Disciplined Value Mid Cap	44,772	75,179
John Hancock International Growth I	207,674	235,022
John Hancock Strategic Income Opportunities I	167,020	166,227
Meridian Small Cap Growth	37,145	47,507
Pioneer Multi-Asset Ultra Short	233,123	232,039
Pioneer Strategic Income	167,902	165,460
T Rowe Price Equity Income	217,729	271,677
T Rowe Price Growth Stock	102,363	197,999
T Rowe Price Mid Cap Growth Fund	47,428	80,635
Undiscovered Mgrs Behavioral Value	<u>33,945</u>	<u>43,850</u>
	<u>\$ 2,670,031</u>	<u>\$ 3,052,616</u>
Accrued investment income		<u>2,014</u>
Total		<u>\$ 3,054,630</u>
Unrestricted & Temporarily Restricted		\$ 865,214
Permanently Restricted		<u>2,189,416</u>
Total		<u>\$ 3,054,630</u>

Level 1: Stock funds, bond funds, and short-term investments are valued at the closing price reported in the active market on which the individual funds are traded.

Unrealized losses are reflected in the unrestricted funds. As the market improves and losses are regained, the gains will be recovered in the unrestricted funds.

The following schedule summarizes the investment return in the statement of activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Dividend and Interest Income	\$ 22,968	\$ 34,952	\$ 57,920
Realized Gain (Loss) on Assets	<u>13,725</u>	<u>66,013</u>	<u>79,738</u>
Total	<u>\$ 36,693</u>	<u>\$ 100,965</u>	<u>\$ 137,658</u>

Northeast Mississippi Community College Development Foundation, Inc.
Notes to Financial Statements
Year Ended June 30, 2017

Note 5: Property and equipment

The following is a summary of property and equipment:

Land	\$ 80,000
Office Equipment	38,568
Less: Accumulated Depreciation	<u>(37,791)</u>
	<u>\$ 80,777</u>

Depreciation expense totaled \$1,247 for the year.

Note 6: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Athletics	\$ 305,415
Building Endowments	38,193
Endowments	42,774
College Programs	234,204
Fine Arts	30,644
Other	342
Scholarships	<u>254,442</u>
	<u>\$ 906,014</u>

Note 7: Permanently Restricted Net Assets

Net Assets were permanently restricted for the following purposes at June 30, 2017:

Scholarships - Haney Endowment	\$ 1,037,833
Scholarships - Miller, Taylor	278,547
Scholarships - Rotary Endowment	22,966
Scholarships - Stockton	25,015
Scholarships - Street	25,000
Scholarships - Various	<u>900,055</u>
	<u>\$ 2,289,416</u>

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income from which is expendable for scholarships.

Note 8: Fair Value of Financial Instruments

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Northeast Mississippi Community College Development Foundation, Inc.
Notes to Financial Statements
Year Ended June 30, 2017

Note 8: Fair Value of Financial Instruments (continued)

Cash, cash equivalents and short-term unconditional promises to give: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Short-term and endowment investments: The fair values of investments are based on quoted market prices for those or similar investments.

Long-term unconditional promises to give: The fair value of promises to give that are due in more than one year are recorded at net present value of their net realizable value applicable to the years in which the promises are received to discount the amounts.

The estimated fair values of the Foundation's financial instruments, none of which are held for trading purposes, are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets:		
Cash and cash equivalents	\$ 75,183	\$ 75,183
Investments	\$ 865,214	\$ 865,214
Unconditional promises to give	\$ 464,668	\$ 464,668
Endowment Investments:		
Investments	\$ 2,189,416	\$ 2,189,416

Note 9: Related Party Transactions

Certain Foundation expenditures are paid by the College and reimbursed by the Foundation. They totaled approximately:

Salary & fringe benefits	\$ 167,391
Postage	3,644
Printing	6,320
Other	<u>3,490</u>
	<u>\$ 180,845</u>

The members of the Foundation Board of Directors contributed \$17,750 to the Foundation during this fiscal year.

The Foundation does not have a retirement plan. The employees also work for the College and are covered under their retirement plan.

Note 10: Compensated Absences

The Foundation does not have a policy for compensated absences.

Northeast Mississippi Community College Development Foundation, Inc.
Notes to Financial Statements
Year Ended June 30, 2017

Note 11: Donated Services

The Foundation receives donated office space, certain expenses and personnel services from the College. The Foundation also receives certain donated services from others. The value of these "non-cash" donations has not been measured and thereby not recorded in these financial statements.

Note 12: Subsequent Events

Events that occur after the statement of financial position date, but before the financial statements were 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 financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Foundation through October 31, 2017 (the date the financial statements were available to be issued), and concluded that no subsequent events have occurred that would require disclosure in the notes to the financial statements. No adjustments are considered necessary to these financial statements.

Northeast Mississippi Community College
Schedule of the College's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS)
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
College's proportion of the net pension liability (asset)	\$ 41,083,743	\$ 35,565,058	\$ 27,578,041
College's proportionate share of the net pension liability (asset)	0.2300%	0.2301%	0.2272%
College's covered payroll	\$ 14,698,425	\$ 14,373,797	\$ 13,883,181
College's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	279.51%	247.43%	198.64%
Plan Fiduciary net position as a percentage of the total pension liability (asset)	57.47%	61.70%	67.21%

* - the amounts presented for each fiscal year were determined as of the measurement date of June 30 the prior year to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented beginning in fiscal year ended June 30, 2015, and until a full 10-year trend is compiled, the College will only present information for the years which information is available.

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

**Northeast Mississippi Community College
Schedule of College Contributions
Public Employees' Retirement System (PERS)
Last 10 Fiscal Years***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,348,955	\$ 2,315,002	\$ 2,263,873
Contributions in relation to the contractually required contribution	<u>\$ 2,348,955</u>	<u>\$ 2,315,002</u>	<u>\$ 2,263,873</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 14,914,000	\$ 14,698,425	\$ 14,373,797
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented beginning in fiscal year ended June 30, 2015, and until a full 10-year trend is compiled, the College will only present information for the years which information is available.

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

Northeast Mississippi Community College
Notes to the Required Supplementary Information
For the Year Ended June 30, 2017

Pension Schedules

1. Changes of Assumptions

2015:

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.

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 experience.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016:

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

2. Changes in Benefit Provisions

2016:

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

Northeast Mississippi Community College Development Foundation, Inc.
Schedule of Functional Expenses
For the Year Ending June 30, 2017

	Program Expenses				Support Services			Total
	Unrestricted Program	Temporarily Restricted	Permanently Restricted	Total	Management	Fund Raising	Total	Expenses
Awards	\$ 19,792	\$ -	\$ -	\$ 19,792	\$ 32	\$ 2,644	\$ 2,676	\$ 22,468
College Support - Grants	1,305	-	-	1,305	-	-	-	1,305
Scholarships	-	443,288	-	443,288	-	-	-	443,288
Program Expense:								
College Employee Enhancement	-	8,428	-	8,428	-	-	-	8,428
College Sports	-	159,803	-	159,803	-	-	-	159,803
Fine Arts	-	72,359	-	72,359	-	-	-	72,359
College Programs	-	51,966	-	51,966	-	-	-	51,966
Endowed Scholarships	-	20,337	-	20,337	-	-	-	20,337
Discretionary Fund	7,908	-	-	7,908	-	-	-	7,908
Other	-	1,708	-	1,708	-	-	-	1,708
Administrative:								
Administrative Fee	-	135,983	-	135,983	-	-	-	135,983
Bank Charges	3,748	10,820	-	14,568	207	-	207	14,775
Epay Fees	-	-	-	-	731	-	731	731
Car Allowance	2,100	-	-	2,100	1,260	5,040	6,300	8,400
Depreciation	-	-	-	-	1,247	-	1,247	1,247
Dues & Subscriptions	5,059	-	-	5,059	625	690	1,315	6,374
Insurance	-	-	-	-	711	-	711	711
Legal & Accounting	-	151	-	151	13,100	-	13,100	13,251
Meals & Entertainment	4,770	-	-	4,770	3,270	4,245	7,515	12,285
Office Supplies	968	-	-	968	3,507	586	4,093	5,061
Payroll Taxes	1,483	-	-	1,483	3,585	5,357	8,942	10,425
Postage	-	-	-	-	1,368	2,596	3,964	3,964
Printing & Advertising	32	-	-	32	1,712	12,371	14,083	14,115
Professional Development	500	-	-	500	822	1,176	1,998	2,498
Retirement	3,054	-	-	3,054	6,919	10,719	17,638	20,692
Salaries	19,387	-	-	19,387	46,867	70,020	116,887	136,274
Telephone	1,064	-	-	1,064	2,128	1,064	3,192	4,256
Travel	1,250	-	-	1,250	8,753	-	8,753	10,003
	<u>\$ 72,420</u>	<u>\$ 904,843</u>	<u>\$ -</u>	<u>\$ 977,263</u>	<u>\$ 96,844</u>	<u>\$ 116,508</u>	<u>\$ 213,352</u>	<u>\$ 1,190,615</u>

The allocation of functional expenses is made by the organization based upon time spent by employees, with travel, meals and other expenses as applicable to each function.

NORTHEAST MISSISSIPPI COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
U. S. Department of Education		
Direct:		
Student Financial Assistance Cluster		
Federal Supplemental Education Opportunity Grant	84.007	\$ 85,569
Federal Family Education Loans	84.032	4,296,331
Federal Work Study Programs	84.033	156,264
Federal Pell Grant Program	84.063	<u>8,515,377</u>
Total Student Financial Assistance Cluster		<u>13,053,541</u>
 Total Direct Funding		<u>13,053,541</u>
 Passed Through MS Department of Education		
Adult Basic Education Grants to States	84.002	288,482
Career and Technical Basic Grants to States	84.048	<u>214,222</u>
Total MS Department of Education		<u>502,704</u>
 Total U. S. Department of Education		<u>13,556,245</u>
 U. S. Department of Labor		
Passed Through Three Rivers Planning & Development District		
Workforce Investment Act Cluster		
WIA Adult Program	17.258	710,470
WIA Youth Activities	17.259	<u>335,620</u>
Total Three Rivers Planning and Development District		<u>1,046,090</u>
 Total U.S. Department of Labor		<u>1,046,090</u>
 U.S. Department of Transportation		
Passed Through MS Department of Transportation		
Highway Planning and Construction	20.205	<u>337,629</u>
Total MS Department of Transportation		<u>337,629</u>
 Total U.S. Department of Transportation		<u>337,629</u>
 Appalachian Regional Commission		
Direct		
Appalachian Area Development	23.002	<u>190,945</u>
 Total Appalachian Regional Commission		<u>190,945</u>

NORTHEAST MISSISSIPPI COMMUNITY COLLEGE
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services		
Passed Through MS Department of Human Services		
Child Care and Development Block Grant	93.575	<u>28,099</u>
Total MS Department of Human Services		<u>28,099</u>
Total U.S. Department of Health and Human Services		<u>28,099</u>
National Aeronautics and Space Administration		
Passed Through University of Mississippi		
Aerospace Educations Services Program	43.001	<u>15,000</u>
Total University of Mississippi		<u>15,000</u>
Total National Aeronautics and Space Administration		<u>15,000</u>
Total Expenditures of Federal Awards		<u>\$ 15,174,008</u>

Notes to the Supplementary Information

The accompanying schedule includes all federal awards administrated by Northeast Mississippi Community College. The information in this schedule is presented in accordance with the 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).

This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements, with the following exceptions:

Pass-through entity numbers are not assigned.

For purposes of this schedule, loans made to students under the Federal Family Education Loans (CFDA #84.032) are presented as federal expenditures. The loans are a direct benefit to students and therefore are eliminated out of the Statement of Revenues, Expenses and Changes in Net Position.

Expenditures presented on the schedule of expenditures of Federal awards are recognized following the cost principles as found in the Uniform Guidance. The College has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



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

Mr. Ricky G. Ford, President
And Board of Trustees
Northeast Mississippi Community College
Booneville, Mississippi

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-type activities of Northeast Mississippi Community College, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Northeast Mississippi Community College's basic financial statements, and have issued our report thereon dated February 28, 2018. We have audited the financial statements of Northeast Mississippi Community College Foundation in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeast 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 the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

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Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the 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 Northeast Mississippi Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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.

A handwritten signature in black ink that reads "The Sparks CPA Firm, P.C." in a cursive, flowing script.

The Sparks CPA Firm, P.C.
Certified Public Accountants
Booneville, Mississippi
February 28, 2018



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

Mr. Ricky G. Ford, President
And Board of Trustees
Northeast Mississippi Community College
Booneville, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Northeast Mississippi Community College's compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of Northeast Mississippi Community College's major federal programs for the year ended June 30, 2017. The College's major federal programs are identified in the summary of auditors' 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 Northeast 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 Northeast Mississippi Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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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 Northeast Mississippi Community College's compliance.

Opinion on Each Major Federal Program

In our opinion, Northeast 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, 2017.

Report on Internal Control Over Compliance

Management of the Northeast 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 Northeast 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 Northeast 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.

The Sparks CPA Firm, P.C.

The Sparks CPA Firm, P.C.
Certified Public Accountants
Booneville, Mississippi
February 28, 2018



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

Mr. Ricky G. Ford, President
And Board of Trustees
Northeast Mississippi Community College
Booneville, Mississippi

We have audited the financial statements of the business-type activities of Northeast Mississippi Community College as of and for the year ended June 30, 2017, which collectively comprise Northeast Mississippi Community College's basic financial statements and have issued our report thereon dated February 28, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Northeast Mississippi Community College Development Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

The results of these procedures and our audit of the financial statements did not disclose any instances of noncompliance with state laws and regulations.

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

The Sparks CPA Firm, P.C.

The Sparks CPA Firm, P.C.
Certified Public Accountants
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February 28, 2018

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**Northeast Mississippi Community College
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Section 1: Summary of Auditors' Results

Financial Statements:

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
 - a. Material weakness identified? No
 - b. Significant deficiencies identified: None reported
3. Noncompliance relating to the financial statements noted? No

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness identified? No
 - b. Significant deficiencies identified: None Reported
5. Type of auditors' report issued on compliance for major federal 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 Program on Cluster</u>
84.007, 84.032, 84.033, 84.063	Student Financial Assistance Cluster
20.205	Highway Planning and Construction

8. The dollar threshold used to distinguish between Type A and type B programs: \$750,000
9. Auditee qualified as a low-risk auditee? No
10. Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2 CFR 200.511(b)? No

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 by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings related to the Federal Awards.