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HOLMES COMMUNITY COLLEGE

Goodman, Mississippi

Audited Financial Statements

Year Ended June 30, 2018

Fortenberry & Ballard, PC
Certified Public Accountants

HOLMES COMMUNITY COLLEGE

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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Trustees
Holmes Community College
Goodman, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Holmes Community College, as of and for the year ended June 30, 2018, and December 31, 2017, and the related notes to the financial statements, which collectively comprise the Holmes 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.

Auditor's Responsibility

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

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

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appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Holmes Community College and of its discretely presented component unit, as of June 30, 2018 and December 31, 2017, respectively, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the College adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, net position as of July 1, 2017, has been restated. Our opinion is not modified with respect to this matter.

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 the Net Pension Liability, the Schedule of the College's Contributions (PERS), the Schedule of the College's Proportionate Share of the Net OPEB Liability, and the Schedule of College Contributions (OPEB) on pages 8 to 18 and 57 to 63, 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Holmes Community College'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 relate 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 March 5, 2019, on our consideration of the Holmes 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 Holmes 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 Holmes Community College's internal control over financial reporting and compliance.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 5, 2019

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

This section of Holmes Community College's (the "College") annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2018. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. A comparative analysis will be presented with figures from fiscal year ended June 30, 2017. The financial statements, notes and this discussion are the responsibility of management.

USING THE ANNUAL REPORT

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

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

The statement of net position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The College's net position (the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources) is one indicator of the College's financial health. Over time, increases or decreases in net position are one indicator of the improvement or erosion of the College's financial health when considered with nonfinancial 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 nonoperating. The financial reporting model classifies State of Mississippi (the "State") appropriations and gifts as nonoperating revenues. The College's dependency on state aid and gifts results in an operating deficit. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Condensed Statement of Net Position
June 30, 2018 and 2017

	2018		2017	
	Amount	Percentage	Amount	Percentage
ASSETS				
Current assets	\$ 27,593,411	37%	21,562,732	31%
Noncurrent assets				
Other	62,335	0%	62,242	0%
Capital assets, net	47,845,700	63%	48,986,769	69%
Total assets	<u>75,501,446</u>	<u>100%</u>	<u>70,611,743</u>	<u>100%</u>
DEFERRED OUTFLOWS IN RESOURCES	<u>6,902,928</u>	<u>100%</u>	<u>11,827,599</u>	<u>100%</u>
LIABILITIES				
Current liabilities	5,780,365	8%	4,526,290	6%
Long-term debt outstanding	6,338,000	9%	7,190,000	10%
Net pension liability	55,043,715	79%	59,459,073	84%
Net OPEB liability	2,360,495	3%		
Total liabilities	<u>69,522,575</u>	<u>100%</u>	<u>71,175,363</u>	<u>100%</u>
DEFERRED INFLOWS OF RESOURCES	<u>3,721,849</u>	<u>100%</u>	<u>1,336,212</u>	<u>100%</u>
NET POSITION				
Net investment in capital assets	40,655,700	444%	40,885,769	412%
Restricted	7,066,251	77%	6,298,124	63%
Unrestricted	(38,562,001)	(421)%	(37,256,126)	(375)%
Total net position	<u>\$ 9,159,950</u>	<u>100%</u>	<u>9,927,767</u>	<u>100%</u>

Assets

Current Assets

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents consist of cash in the College's bank accounts and certificates of deposits. The total amount of cash and cash equivalents reported as current assets on the

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

College's financial statements was \$13,462,431 at June 30, 2018, which is an increase compared to the June 30, 2017 figure of \$13,137,169.

The total amount of short-term investments reported as current assets on the College's financial statements was \$7,126,850 at June 30, 2018 and \$2,867,582 at June 30, 2017. This represents an increase of \$4,259,268 in investments.

Accounts Receivable

Accounts receivable relate to several transactions including local appropriations, student tuition and fees and auxiliary services vendor credits. In addition, receivables arise from grant awards and financial aid revenues. The receivables are shown net of allowance for doubtful accounts. The College's receivables totaled \$7,004,130 at June 30, 2018, which is an increase compared to the June 30, 2017 figure of \$5,557,981.

Noncurrent Assets

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those funds that are held in the bank accounts and certificates of deposits. The restricted cash and cash equivalents that are considered noncurrent are cash held in a money market account to meet the requirements for an unemployment compensation fund. Unemployment claims are paid out of unrestricted funds of the College. This account is simply maintained for legal compliance purposes. The amount of restricted cash and cash equivalents considered noncurrent at June 30, 2018 totaled \$62,335, which is an increase compared to \$62,242 at June 30, 2017.

Capital Assets, Net

Capital assets, net, consists of land, improvements other than buildings, buildings, equipment, library books and films and construction in progress at June 30, 2018. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$47,845,700 at June 30, 2018 which is a decrease from \$48,986,769 at June 30, 2017.

Deferred Outflows of Resources

The College recognized a deferred outflow of resources related to pension in the amount of \$6,797,970 at June 30, 2018, which is a decrease from \$11,827,599 at June 30, 2017. Also, the College recognized a deferred outflow of resources related to OPEB in the amount of \$104,958.

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at June 30, 2018 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$3,951,827 at June 30, 2018, an increase of \$1,187,588 over the balance of \$2,764,239 at June 30, 2017.

Long-Term Liabilities – Current Portion

Long-term liabilities – current portion represents the portion of long-term debt and OPEB net liability that would be payable by the end of the June 30, 2018 fiscal year. The amount of the current portion of long-term debt and net OPEB liability at June 30, 2018 was \$953,490, an increase of \$42,490 over the balance on June 30, 2017.

Noncurrent Liabilities

Long-Term Liabilities

This liability consists of long-term debt for outstanding bonds. The total amount of the noncurrent portion of long-term debt was \$6,338,000 at June 30, 2018. This is a decrease from the balance of \$7,190,000 reported June 30, 2017.

Net Pension Liability

The net pension liability for June 30, 2018 is \$55,043,715, which is a decrease from the balance of \$59,459,073 reported at June 30, 2017. The net pension liability represents the College's proportionate share of the collective net pension liability reported in the Public Employees' Retirement System of Mississippi for the year ended June 30, 2018. See Note 6 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

Net OPEB Liability

Due to the implementation of GASB No. 75, the College recognizes net OPEB liability related to the OPEB. Net OPEB liability at June 30, 2018 totaled \$2,461,985, of which \$2,360,495 is due beyond one year.

Deferred Inflows of Resources

The College recognized a deferred inflow of resources related to pension in the amount of \$3,566,798 at June 30, 2018, which is an increase from \$1,336,212 at June 30, 2017. Also, the College recognized a deferred inflow of resources related to OPEB in the amount of \$155,051.

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Net Position

Net position represent the difference between the College's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Total net position at June 30, 2018 was \$9,159,950 which is a decrease of \$767,817 from the balance of \$9,927,767, at June 30, 2017.

Analysis of Net Position

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

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

	2018	2017
Scholarships and fellowships	\$ 536,897	819,963
Capital projects	3,947,554	3,118,961
Debt service	2,519,465	2,296,958
Unemployment funds	62,335	62,242
Total restricted net position	\$ <u>7,066,251</u>	<u>6,298,124</u>

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

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

	2018	2017
Unrestricted general fund	\$ (40,934,884)	(39,112,550)
Unrestricted auxiliary fund	2,372,883	1,856,424
Total unrestricted net position	\$ <u>(38,562,001)</u>	<u>(37,256,126)</u>

Prior to fiscal year 2015, the College's unrestricted net position has been a positive figure; however, the implementation of GASB 68 has caused the College to present this as a negative figure.

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

In connection with the application of standards on accounting and financial reporting for pensions and OPEB, management presents the following additional information:

Total unrestricted net position (deficit)	\$ (38,562,001)
Less unrestricted deficit in net position resulting from recognition of the net pension liability and net OPEB liability, including the related deferred outflows and deferred inflows	<u>54,324,621</u>
Unrestricted net position, exclusive of the net pension liability and net OPEB liability effect	<u><u>\$ 15,762,620</u></u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Operating revenues		
Tuition and fees (net of scholarship allowances)	\$ 7,403,610	7,114,305
Grants and contracts	19,496,205	19,003,107
Sales and services	56,930	52,625
Auxiliary enterprises		
(Net of scholarship allowances)	2,634,776	2,914,975
Other operating revenue	<u>532,514</u>	<u>532,738</u>
Total operating revenues	<u>30,124,035</u>	<u>29,617,750</u>
Operating expenses	<u>52,560,624</u>	<u>54,334,088</u>
Net operating loss	<u>(22,436,589)</u>	<u>(24,716,338)</u>
Nonoperating revenues (expenses)		
State appropriations	17,726,735	18,381,820
Local appropriations	3,227,194	3,139,903
Investment income	32,579	14,703
Other nonoperating income (expense)	<u>(195,948)</u>	<u>(208,080)</u>
Nonoperating revenues, net	<u>20,790,560</u>	<u>21,328,346</u>

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Income (loss) before other revenues	\$	(1,646,029)	(3,387,992)
State appropriations restricted for capital purposes		106,384	178,330
Local appropriations restricted for capital purposes		3,271,872	3,244,055
Total Other Revenues		3,378,256	3,422,385
Changes in Net Position		1,732,227	34,393
Net Position, Beginning of Year, as previously reported		9,927,767	9,851,092
Prior Period Adjustment		(2,500,044)	42,282
Net Position, Beginning of Year, as restated		7,427,723	9,893,374
Net Position at End of Year	\$	9,159,950	9,927,767

Net operating loss for the fiscal year 2018 was \$22,436,589, a decrease of \$2,279,749 over the loss for fiscal year 2017. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, beginning in fiscal year 2003 and going forward, the College will show a significant operating loss.

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

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

Total operating revenues for fiscal year 2018 were \$30,124,035. Tuition and fees were \$7,403,610. The tuition allowance was \$9,607,877. Operating expenses, including depreciation of \$1,942,594, totaled \$52,560,624.

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$17,011,487. The tuition allowance for the 2018 fiscal year was \$9,607,877.

Grants and Contracts

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

The following table details the College's grant and contract awards for the fiscal year ended June 30, 2018 with prior year figures:

		2018	2017
Federal	\$	14,506,263	13,971,603
State		4,605,863	4,648,195
Nongovernmental		384,079	383,309
Total all sources	\$	<u>19,496,205</u>	<u>19,003,107</u>

Other Operating Revenues

Other operating revenues consist of income from educational activities that totaled \$532,514 for the 2018 fiscal year, a decrease of \$224 compared to fiscal year 2017.

Sales and Services, Net

Auxiliary enterprises consist of housing and meal plans.

Operating Expenses

Operating expenses totaling \$52,560,624 include salaries and benefits of \$30,468,967, travel of \$331,203, net scholarships and fellowships of \$6,918,247, utilities of \$1,409,116, commodities of \$2,016,233, contractual services of \$6,849,034 and depreciation of \$1,942,594.

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Operating Expenses by Function with prior year figures and changes

	June 30, 2018	June 30, 2017	Increase (Decrease)
Instruction	\$ 22,882,501	24,024,490	(1,141,989)
Academic support	843,271	897,953	(54,682)
Student services	4,202,981	4,474,851	(271,870)
Institutional support	7,683,286	8,158,897	(475,611)
Operations and maintenance of plant	5,314,881	4,916,853	398,028
Student financial aid (net of scholarship allowance)	6,663,905	6,667,430	(3,525)
Auxiliary enterprises	3,027,205	3,267,294	(240,089)
Depreciation	1,942,594	1,926,320	16,274
Total all sources	\$ 52,560,624	54,334,088	(1,773,464)

Nonoperating Revenues (Expenses)

State Appropriations

The College's largest source of nonoperating revenue is the State of Mississippi appropriation. The College received \$17,726,735 for fiscal year ended June 30, 2018. This represents a decrease of \$655,085 from \$18,381,820 for the year ended June 30, 2017.

Local Appropriations

The College also receives revenue from the nine counties that make up its local district. They include Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Yazoo and Webster Counties. The College received \$3,227,194 for the 2018 fiscal year, which is an increase of \$87,291 over the \$3,139,903 received during the 2017 fiscal year.

Investment Income, Net

This includes the interest income from the cash in the bank accounts. \$32,579 was earned during the 2018 fiscal year versus the \$14,703 earned in the prior year.

Other Nonoperating Income (Expense)

Other nonoperating income (expense) consisted of interest expense on capital related debt and loss on disposal of assets for fiscal years 2018 and 2017 totaled (\$195,948) and (\$208,080), respectively.

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

Other Revenues

Local Appropriations for Capital Purposes

This includes revenue received from the nine county support districts for capital projects or retirement of debt during the fiscal year. The amount of this revenue totaled \$3,271,872 for the 2018 fiscal year, which is an increase of \$27,817 over the \$3,224,055 for the 2017 fiscal year.

State Appropriations for Capital Purposes

This is the amount of revenue received from the State of Mississippi to purchase, construct, renovate or repair capital assets during the fiscal year. The College received \$106,384 and \$178,330 in fiscal years 2018 and 2017, respectively, which is a decrease of \$71,946.

Statement of Cash Flows

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

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

Condensed Statement of Cash Flows (Direct Method)
For the Fiscal Years Ended June 30, 2018 and 2017

	June 30, 2018	June 30, 2017	Increase (Decrease)
Cash and cash equivalents provided (used) by			
Operating activities	\$ (17,778,587)	(19,538,855)	1,760,268
Nonoperating financing activities	20,860,845	21,582,661	(721,816)
Capital and related financing activities	1,469,786	1,240,404	229,382
Investing activities	(4,226,689)	263,411	(4,490,100)
Net increase (decrease) in cash and cash equivalents	325,355	3,547,621	(3,222,266)
Cash and cash equivalents - beginning of year	13,199,411	9,651,790	3,547,621
Cash and cash equivalents - end of year	\$ 13,524,766	13,199,411	325,355

HOLMES COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Year Ended June 30, 2018

The major sources of funds included in operating activities include student tuition and fees, \$5,662,471, auxiliary enterprises, \$2,634,776, and grants and contracts, \$18,572,882. The major uses of funds were: payments made to employees, (\$21,289,170); to benefits (\$6,447,363); to financial aid (\$6,918,247); to commodities (\$1,998,418) for materials; to utilities (\$1,409,113); to suppliers, (\$6,849,031) for services.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$17,711,208. In addition, the College received \$3,134,707 from the nine counties that make up its district.

The major uses of funds for investing activities are from the purchase of certificates of deposits.

Factors Impacting Future Periods

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

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

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

Contact Information

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

FINANCIAL STATEMENTS

HOLMES COMMUNITY COLLEGE
Statement of Net Position
June 30, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 13,462,431
Short-term investments	7,126,850
Accounts receivables, net (Note 3)	7,004,130
Total Current Assets	<u>27,593,411</u>

Noncurrent assets:

Restricted cash and cash equivalents	62,335
Capital assets, net of accumulated depreciation (Note 4)	47,845,700
Total Noncurrent Assets	<u>47,908,035</u>

Total Assets	<u>75,501,446</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	6,797,970
Deferred outflows related to OPEB	104,958
Total Deferred Outflows of Resources	<u>6,902,928</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	3,951,827
Unearned revenues	875,048
Long-term liabilities - current portion (Note 5)	852,000
Net OPEB liability - current portion	101,490
Total Current Liabilities	<u>5,780,365</u>

Noncurrent liabilities:

Long-term liabilities (Note 5)	6,338,000
Net pension liability	55,043,715
Net OPEB liability	2,360,495
Total Noncurrent Liabilities	<u>63,742,210</u>

Total Liabilities	<u>69,522,575</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	3,566,798
Deferred inflows related to OPEB	155,051
Total Deferred Inflows of Resources	<u>3,721,849</u>

NET POSITION

Net investment in capital assets	40,655,700
Restricted for:	
Expendable:	
Scholarships and fellowships	536,897
Capital projects	3,947,554
Debt service	2,519,465
Other purposes	62,335
Unrestricted	(38,562,001)
Total Net Position	<u>\$ 9,159,950</u>

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

Holmes Community College Development Foundation, Inc.
A Component Unit of Holmes Community College
Statement of Financial Position
December 31, 2017

	<u>2017</u>
Assets	
Cash and cash equivalents	\$ 254,920
Investments	7,888,987
Assets held in remainder trust	39,208
Beneficial interest in remainder trust	<u>170,394</u>
Total Assets	<u><u>8,353,509</u></u>
 Liabilities	
Liabilities under remainder trust	<u>39,208</u>
Total Liabilities	<u><u>39,208</u></u>
 Net Assets	
Unrestricted	3,524,751
Temporarily Restricted	4,669,268
Permanently Restricted	<u>120,282</u>
Total Net Assets	<u>8,314,301</u>
Total Liabilities & Net Assets	<u><u>\$ 8,353,509</u></u>

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

HOLMES COMMUNITY COLLEGE
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

Operating Revenues:	
Tuition and fees (net of scholarship allowances of \$9,607,877)	\$ 7,403,610
Federal grants and contracts	14,506,263
State grants and contracts	4,605,863
Nongovernmental grants and contracts	384,079
Sales and services of educational departments	56,930
Auxiliary enterprises:	
Student housing (net of scholarship allowances of \$413,317)	385,937
Food services (net of scholarship allowances of \$489,172)	456,767
Athletics	8,772
Other auxiliary revenues	1,783,300
Other operating revenues	<u>532,514</u>
 Total Operating Revenues	 <u>30,124,035</u>
Operating Expenses:	
Salaries and wages	21,233,982
Fringe benefits	9,234,985
Travel	331,203
Contractual services	6,849,034
Utilities	1,409,116
Scholarships and fellowships	6,918,247
Commodities	2,016,233
Depreciation expense	1,942,594
Other operating expense	<u>2,625,230</u>
 Total Operating Expenses	 <u>52,560,624</u>
 Operating Income (Loss)	 <u>(22,436,589)</u>
Nonoperating Revenues (Expenses):	
State appropriations	17,726,735
Local Appropriations	3,227,194
Investment income	32,579
Interest expense on capital related debt	(186,765)
Other nonoperating revenues (expenses)	<u>(9,183)</u>
 Total Net Nonoperating Revenues (Expenses)	 <u>20,790,560</u>
 Income (Loss) before Other Revenues, Expenses, Gains and Losses	 <u>(1,646,029)</u>
 State appropriations restricted for capital purposes	106,384
Local appropriations restricted for capital purposes	<u>3,271,872</u>
Total	<u>3,378,256</u>
 Change in Net Position	 <u>1,732,227</u>
Net Position:	
Net Position - Beginning of Year, as previously reported	9,927,767
Prior Period Adjustments (Note 10)	<u>(2,500,044)</u>
Net Position - Beginning of Year, as restated	<u>7,427,723</u>
Net Position - End of Year	<u>\$ 9,159,950</u>

Holmes Community College Development Foundation, Inc.

A Component Unit of Holmes Community College

Statement of Activities

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Gains and Support				
Contributions	\$ 30,375	504,475		534,850
Changes in split-interest agreement		21,052		21,052
Event Revenue	43,258			43,258
Interest income	252	5		257
Investment Earnings	56,224	121,324	620	178,168
Unrealized gains on investments	429,118	488,071	4,732	921,921
Net Assets Released from Restrictions	174,454	(174,324)	(130)	0
Total Revenues, Gains and Support	733,681	960,603	5,222	1,699,506
Expenses				
Program Services				
Scholarships	157,436			157,436
Mini grants	23,206			23,206
Support for Holmes Community College	30,154			30,154
Total program services	210,796	-	-	210,796
Supporting services				
General and administrative	88,776			88,776
Special events direct costs	42,947			42,947
Fund raising	3,811			3,811
Total supporting services	135,534	-	-	135,534
Total expenses	346,330			346,330
Change in Net Assets	387,351	960,603	5,222	1,353,176
Net Assets at Beginning of Year	3,137,400	3,708,665	115,060	6,961,125
Net Assets at End of Year	\$ 3,524,751	\$ 4,669,268	\$ 120,282	\$ 8,314,301

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

HOLMES COMMUNITY COLLEGE

Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities		
Tuition and fees	\$ 5,662,471	\$ 13,462,431
Grants and contracts	18,572,882	62,335
Sales and services of educational activities	56,930	
Auxiliary services	2,634,776	<u>13,524,766</u>
Other operating revenue	532,514	
Salary and wages	(21,289,170)	
Benefits	(6,447,363)	
Travel	(331,203)	
Contractuals	(6,849,031)	
Commodities	(1,998,418)	
Utilities	(1,409,113)	
Financial Aid	(6,918,247)	
Other	4,385	
Net cash used by operating activities	<u>(17,778,587)</u>	<u>(22,436,589)</u>
Cash flows from noncapital financing activities		
State appropriations	17,711,208	
Local appropriations	3,134,707	
Agency transfers - in	189,868	
Agency transfers - out	(174,938)	
Federal loan program receipts	4,791,885	
* Federal loan program disbursements	(4,791,885)	
Net cash provided by noncapital financing activities	<u>20,860,845</u>	<u>1,942,594</u>
Cash flows from capital financing activities		
State and local appropriations for capital purposes	3,271,872	
Cash paid for capital assets	(704,324)	
Interest paid on capital debt	(186,762)	
* Principal paid on capital debt	(911,000)	
Net cash provided by capital and related financing activities	<u>1,469,786</u>	<u>(1,353,067)</u>
Cash flows from investing activities		
Purchases of investments	(5,761,524)	
Gains on investments sold	1,502,256	
* Interest received on investments	32,579	
Net cash provided by investing activities	<u>(4,226,689)</u>	<u>4,044,478</u>
Net increase in cash and cash equivalents	<u>325,355</u>	<u>23,997</u>
Cash and cash equivalents - beginning of the year	<u>13,199,411</u>	<u>4,658,002</u>
Cash and cash equivalents - end of year	<u>\$ 13,524,766</u>	<u>\$ 106,384</u>
		<u>\$ 106,384</u>

Reconciliation of cash and cash equivalents to the statement of net position	
Cash and cash equivalents classified as current assets	
Cash and cash equivalents classified as noncurrent assets	
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	
Adjustments to reconcile operations loss to net cash used by operating activities	
Depreciation expense	
Changes in assets and liabilities	
Accounts receivable	
Accounts payables and accrued liabilities	
Unearned revenue	
Total adjustments	
Net cash used by operating activities	
Supplemental disclosure of cash flow information	
Renovations and repairs purchased by the Bureau of Buildings on behalf of the College	
Total noncash contributions	

The accompanying notes are an integral part of this statement.

Holmes Community College Development Foundation, Inc.
A Component Unit of Holmes Community College
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows From Operating Activities:

Increase in net assets	\$ 1,353,176
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Net unrealized and realized (gains) losses on investments	(1,070,838)
change in value of trust	(3,439)
Actuarial (gain) loss on split interest agreement	(17,612)
Payment of annuity obligations	10,000
Net cash provided by operating activities	<u>271,287</u>

Cash Flows From Investing Activities:

Purchases of Investments	(1,164,559)
Sales of Investments	980,223
Net cash used by investing activities	<u>(184,336)</u>

Cash Flows From Financing Activities:

Payment to annuity obligations	(10,000)
Net cash used by financing activities	<u>(10,000)</u>

Net Change in Cash	76,951
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Beginning of Year	<u>177,969</u>
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End of Year	<u><u>\$ 254,920</u></u>
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The notes to the financial statements are an integral part of this statement.

Holmes Community College

Notes to the Financial Statements
For the Year Ended June 30, 2018

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

Basis of Presentation

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

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

Basis of Accounting

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

Cash Equivalents

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

Short-term Investments

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

Accounts Receivables, Net

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

Restricted Cash and Cash Equivalents

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

Capital Assets, Net of Accumulated Depreciation

Capital assets are recorded at cost at the date of acquisition, or if donated, at acquisition 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 expense categories. Expenses for construction in progress are capitalized as incurred. Interest expense relating to construction is

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

capitalized net of interest income earned on resources set aside for this purposes. See Note 4 for additional details concerning useful lives, salvage values and capitalization thresholds.

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

Unearned Revenues

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deferred outflows/inflows of resources

In addition to assets, the statement of net 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 and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net 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 and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows of resources and deferred inflows of resources presented in the financial statements pertain to the pension plan and other post-employment benefits (OPEB) as further described in Note 6 and Note 7.

Compensated Absences

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

Classification of Revenues

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

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition, net of scholarship discounts and allowance, (2) sales and services of auxiliary

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

enterprises, net of scholarship discounts and allowances, and (3) most federal, state and local grants and contracts.

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

State and Local Appropriations

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

Scholarship Discounts and Allowance

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

Net Position

Net position is classified according to external donor restrictions or availability of assets for satisfaction of college obligations. Net position is divided in three categories. Net investment in capital assets, consists of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Expendable

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

restricted net position represents funds that have been gifted for specific purposes and funds held in federal loan programs.

The unrestricted net position balance of (\$38,562,001) at June 30, 2018, includes \$2,372,883 reserved for auxiliaries and remaining unreserved amount of (\$40,934,884) after adjustments required by GASB 68 and 71 for deferred outflows and inflows related to pensions and OPEB.

Note 2. Cash, Cash Equivalents and Investments

Policies

Cash policies as set forth by policy and state statute authorize the College to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market funds, U.S. Treasury bills and notes, and repurchase agreements. For the year ended June 30, 2018, the College had \$13,462,431 in cash and cash equivalents, excluding \$62,335 in restricted assets.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the College's will not be able to recover deposits or collateral securities that are in the possession of an outside party. The College does not have a deposit policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the College. As of June 30, 2018, none of the College's bank balance of \$13,916,588 was exposed to custodial credit risk.

Investments

Investment policies as set forth by policy and state statute authorize the College to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market funds, U.S. Treasury bills and notes, and repurchase agreements. In 2018, short-term investments were comprised of certificates of deposit with maturities greater than three months. All certificates of deposit are scheduled to mature within twelve months or less.

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

The College's level 1 type of investments of \$7,126,850 are valued using quoted market prices (Level 1 inputs) as of June 30, 2018.

Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2018:

Student tuition	\$	17,135,166
Federal, state, and private grants and contracts		2,788,208
State appropriations		344,534
Other		251,353
Total accounts receivable		20,519,261
Less allowance for doubtful accounts		(13,515,131)
Accounts receivable - end of year	\$	<u>7,004,130</u>

Note 4. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2018 is presented as follows:

	Beginning Balance	Additions	Deletions	Completed Construction	Ending Balance
Non-depreciable capital assets:					
Land	\$ 3,944,887	2,400			3,947,287
Construction in progress	90,693	471,602		(523,976)	38,319
Total non-depreciable capital assets	<u>4,035,580</u>	<u>474,002</u>	<u>0</u>	<u>(523,976)</u>	<u>3,985,606</u>
Depreciable capital assets:					
Improvements other than buildings	6,925,785			189,620	7,115,405
Buildings	58,628,981			334,356	58,963,337
Equipment	8,972,551	321,728	181,821		9,112,458
Library books	1,398,745	14,978	39,579		1,374,144
Total depreciable capital assets	<u>75,926,062</u>	<u>336,706</u>	<u>221,400</u>	<u>523,976</u>	<u>76,565,344</u>
Less accumulated depreciation for:					
Improvements other than buildings	3,173,057	248,671			3,421,728
Buildings	19,570,324	1,063,048			20,633,372
Equipment	7,064,862	576,464	172,638		7,468,688
Library books	1,166,630	54,411	39,579		1,181,462
Total accumulated depreciation	<u>30,974,873</u>	<u>1,942,594</u>	<u>212,217</u>	<u>0</u>	<u>32,705,250</u>
Total depreciable capital assets, net	<u>44,951,189</u>	<u>(1,605,888)</u>	<u>9,183</u>	<u>523,976</u>	<u>43,860,094</u>
Total capital assets, net	<u>\$ 48,986,769</u>	<u>(1,131,886)</u>	<u>9,183</u>	<u>0</u>	<u>47,845,700</u>

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

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

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

The details of construction-in-progress are as follows:

Project	Spent to June 30, 2018
Goodman Maintenance Building Construction	\$ 33,552
McDaniel Hall Auditorium Remodel	<u>4,767</u>
Total construction in progress	\$ <u>38,319</u>

Outstanding construction commitments for the year ended June 30, 2018 were approximately \$1,872,852. These funds will be provided from amounts restricted for capital projects and from unrestricted resources.

Note 5. Long-Term Liabilities

Long-term liabilities of the College consist of bonds and notes payable that are expected to be liquidated 13 years from June 30, 2018.

Information regarding original issue amounts, interest rates and maturity dates for bonds and notes included in the long-term liabilities balance at June 30, 2018, is listed in the following schedule. A schedule detailing the annual requirements necessary to amortize the outstanding debt is also provided.

Description and Purpose	Original Issue	Annual Int. Rate	Maturity	Balance July 1, 2017	Deletions	Balance June 30, 2018	Due Within One Year
Bonded debt							
G.O. Refunding Bond, Series 2012	\$ 7,935,000	2.0% - 2.85%	2025	\$ 4,175,000	680,000	3,495,000	615,000
G.O. Notes, Series 2015	\$ 4,150,000	1.0% - 2.99%	2031	3,926,000	231,000	3,695,000	237,000
Total bonded debt				<u>\$ 8,101,000</u>	<u>911,000</u>	<u>7,190,000</u>	<u>852,000</u>

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

The following is a schedule by years of the total payments due on this debt:

1. G.O. Refunding Bond, Series 2012:

Year Ended June 30	Principal	Interest	Total
2019	\$ 615,000	84,053	699,053
2020	640,000	71,753	711,753
2021	415,000	58,153	473,153
2022	430,000	48,815	478,815
2023	450,000	38,280	488,280
2024 - 2025	945,000	40,148	985,148
Total	\$ <u>3,495,000</u>	<u>341,202</u>	<u>3,836,202</u>

2. G.O. Notes, Series 2015:

Year Ended June 30	Principal	Interest	Total
2019	\$ 237,000	89,398	326,398
2020	244,000	85,985	329,985
2021	252,000	82,032	334,032
2022	259,000	77,471	336,471
2023	267,000	72,395	339,395
2024 - 2028	1,456,000	321,737	1,777,737
2029 - 2031	980,000	29,739	1,009,739
Total	\$ <u>3,695,000</u>	<u>758,757</u>	<u>4,453,757</u>

Total general obligation debt payments for all issues:

Year Ended June 30	Principal	Interest	Total
2019	\$ 852,000	173,451	1,025,451
2020	884,000	157,738	1,041,738
2021	667,000	140,185	807,185
2022	689,000	126,286	815,286
2023	717,000	110,675	827,675
2024 - 2028	2,401,000	361,885	2,762,885
2029 - 2031	980,000	29,739	1,009,739
Total	\$ <u>7,190,000</u>	<u>1,099,959</u>	<u>8,289,959</u>

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

Note 6. Defined Benefit Pension Plan

Plan Description. The College contributes to the Public Employee's Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. 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 numbers 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 institution is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2018 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The College's contributions to PERS for the fiscal years ending June 30, 2018, 2017 and 2016 were \$3,227,981, \$3,345,566, and \$3,353,895, respectively, which equaled to 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, 2018, the College reported a liability of \$55,043,715 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2018 net pension liability was 0.331122 percent, which was based on a measurement date of June 30, 2017. This was a decrease of 0.001749 percent from its proportionate share used to calculate the June 30, 2017 net pension liability, which was based on a measurement date of June 30, 2016.

For the year ended June 30, 2017, the College recognized pension expense of \$6,072,838. At June 30, 2018 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	\$ 2,441,499	401,638
Net difference between projected and actual earnings on pension plan investments.	4,227,575	
Changes of assumptions	56,216	
Changes in proportion and differences between contributions and proportionate share of contributions	(3,155,301)	3,165,160
Contributions subsequent to the measurement date	3,227,981	
	<u>\$ 6,797,970</u>	<u>3,566,798</u>

\$3,227,981 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

Year Ending June 30:		
2018	\$	389,207
2019		657,239
2020		19,987
2021		(1,063,242)
Total	\$	<u>3,191</u>

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.25 – 18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2022, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	
U.S. Broad	27 %	4.60	%
International Equity	18	4.50	
Emerging Markets Equity	4	4.75	
Global	12	4.75	
Fixed Income	18	0.75	
Real Estate	10	3.50	
Private Equity	8	5.10	
Emerging Debt	2	2.25	
Cash	1	0.00	
Total	<u>100 %</u>		

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at the current employer contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan 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 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
College's proportionate share of the net pension liability	\$ 72,193,506	\$ 55,043,715	\$ 40,805,661

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

Note 7. Other Postemployment Benefits (OPEB)

General Information about the OPEB Plan.

Plan description. State law mandates that all state, public education, library, junior and community college and retiring employees be offered health and life benefit coverage through the State and School Employees' Life and Health Insurance Plan (the Plan). The Plan was established by Section 25-15-3 et. seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Plan. The Board has the sole legal authority to promulgate rules and regulations governing the operations of the Plan within the confines of the law governing the Plan. The Plan is self-insured and is financed through premiums collected from employers, employees, retirees and COBRA participants. The Plan provides for Other Postemployment Benefits (OPEB) as a multiple-employer defined benefit OPEB plan. A trust was created June 28, 2018 for the OPEB Plan and, while no trust was in place for the June 30, 2017 plan year-end, for purposes of comparability for future periods, terminology used herein is based on the plan being a cost-sharing multiple-employer defined benefit OPEB plan. The plan does not issue a stand-alone financial report.

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

Benefits provided.

The Plan was formed by the State Legislature to provide group health and life benefits to full-time active and retired employees of the State, agencies, universities, community/ junior colleges, public school districts and public libraries. In addition, the spouse and/or children of covered employees and retirees, as well as surviving spouses and COBRA participants, may be eligible for health insurance coverage under the Plan. Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between the average cost of providing health care benefits to retirees under age 65 and the average cost of providing health care benefits to all participants when premiums paid by retirees are not age adjusted. Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the Plan. Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance must pay the full cost of such insurance premium. If the Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance. The Plan offers a Base option and a Select option for health benefits for non-Medicare participants. The Plan includes a separate coverage level for Medicare eligible retirees, Medicare Eligible surviving spouses, and Medicare eligible dependents of retirees and surviving spouses.

Contributions.

The Board has the sole authority for setting life and health insurance premiums for the Plan. The required premiums vary based on the plan selected and the type of participant. Employers pay no premiums for retirees while employees' premiums are funded primarily by their employer. Contributions to the OPEB plan from the College were \$104,958 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

At June 30, 2018, the College reported a liability of \$2,461,985 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The basis for the College's proportion is determined by comparing the employer's average monthly employees participating in the Plan with the total average employees participating in the Plan in the fiscal year of all employers. The allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by the employee. At the measurement date of June 30, 2017, the College's proportion was 0.31378497 percent. This

HOLMES COMMUNITY COLLEGE
For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

was a decrease of 0.00427392 percent from the proportionate share as of the measurement date of June 30, 2016.

For the year ended June 30, 2018, the College recognized OPEB expense of \$116,992. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$	\$ 125,363
Changes in proportion and differences between College contributions and proportionate share of contributions		29,688
College contributions subsequent to the measurement date	104,958	
Total	\$ 104,958	\$ 155,051

\$104,958 reported as deferred outflows of resources related to OPEB resulting from College contributions subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	
2019	\$ (27,202)
2020	(27,202)
2021	(27,202)
2022	(27,202)
2023	(27,202)
Thereafter	(19,041)
Total	\$ (155,051)

Actuarial assumptions. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00 percent
Salary increases	3.25 - 18.50 percent, including wage inflation

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

Long-term Investment Rate of Return, net of OPEB plan investment expense, including inflation	N/A
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	3.01 percent
Year FNP is projected to be depleted	
Measurement Date	2017
Prior Measurement Date	2016
Single Equivalent Interest Rate, net of OPEB plan investment expense, including inflation	
Measurement Date	3.56 percent
Prior Measurement Date	3.01 percent
Health Care Cost Trends	
Medicare Supplement Claims	7.75 percent for 2017 decreasing to an
Pre-Medicare	ultimate rate of 5.00 percent by 2023

Both pre-retirement and post-retirement mortality rates were based on the RP 2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, male rates set forward 1 year and adjusted by 106% for males at all ages, and females adjusted to 90% for ages less than 76, 95% for age 76, 105% for age 78 and 110% for ages 79 and greater. Post-disability mortality rates were based on the RP 2014 Disabled Retiree Mortality Table set forward 4 years for males and 3 years for females.

The demographic actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated April 18, 2017.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The plan had no assets as of the measurement date of 2017.

Discount rate. The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.56 percent. Since the Prior Measurement Date, the Discount Rate has changed from 3.01% to 3.56%.

Since no trust was set up as of June 30, 2017, there was no projection of cash flows for the Plan and the Plan was projected to be depleted in 2017.

HOLMES COMMUNITY COLLEGE

For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used, if necessary, for this purpose is the average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

Sensitivity of the College's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the College's proportionate share of the net OPEB liability, as well as what the College's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage point higher (4.56 percent) than the current discount rate:

		1% Decrease (2.56%)		Discount Rate (3.56%)		1% Increase (4.56%)
Net OPEB liability	\$	2,527,004	\$	2,461,985	\$	2,413,565

Sensitivity of the College's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the College's proportionate share of the net OPEB liability, as well as what the College's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		1% Decrease		Healthcare Cost Trend Rates Current		1% Increase
Net OPEB liability	\$	2,273,808	\$	2,461,985	\$	2,676,809

OPEB plan fiduciary net position. The fiduciary net position for the OPEB plan was zero as of June 30, 2017, the measurement date. Therefore, no separately issued financials were prepared. Detailed information about the OPEB plan's fiduciary net position for June 30, 2018 and going forward will be available in separately issued financial reports available on the Mississippi Department of Finance and Administration's website.

HOLMES COMMUNITY COLLEGE
For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

Note 8. Natural Classifications with Functional Classifications

	Salaries and Wages	Fringe Benefits	Travel	Contractual Services	Utilities
Instruction	\$ 13,560,928	5,601,653	127,532	2,137,782	50,570
Academic support	468,702	207,047	2,733	60,107	
Student services	2,206,260	1,031,112	71,667	387,840	
Institutional support	2,969,475	1,294,021	61,551	1,812,356	3,815
Operating of plant	1,491,826	793,848	63,211	287,228	1,354,731
Student aid					
Auxiliary enterprises	536,791	307,304	4,509	2,163,721	
Depreciation					
Total operating expenses	\$ <u>21,233,982</u>	<u>9,234,985</u>	<u>331,203</u>	<u>6,849,034</u>	<u>1,409,116</u>

	Scholarships and Fellowships	Commodities	Depreciation Expense	Other	Balance
Instruction	\$ 254,342	714,384		435,310	22,882,501
Academic support		33,674		71,008	843,271
Student services		478,953		27,149	4,202,981
Institutional support		89,848		1,452,220	7,683,286
Operating of plant		685,876		638,161	5,314,881
Student aid	6,663,905				6,663,905
Auxiliary enterprises		13,498		1,382	3,027,205
Depreciation			1,942,594		1,942,594
Total operating expenses	\$ <u>6,918,247</u>	<u>2,016,233</u>	<u>1,942,594</u>	<u>2,625,230</u>	<u>52,560,624</u>

Note 9. 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 expense or disbursement of resources for allowable purposes. Any disallowance 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 operations. It is not possible at the present time to estimate the 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.

HOLMES COMMUNITY COLLEGE
For the Year Ended June 30, 2018

NOTES TO FINANCIAL STATEMENTS

Note 10. Prior Period Adjustments

A summary of significant Net Position adjustments is as follows:

Statement of Revenues, Expenses and Changes in Net Position

Explanation	Amount
1. Implementation of GASB 75:	\$
Net OPEB liability (06-30-17)	(2,596,916)
Deferred outflows - contributions made during fiscal year	<u>96,872</u>
Total	\$ <u><u>(2,500,044)</u></u>

Note 11. Subsequent Events

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

Holmes Community College Foundation, Inc.

Notes to the Financial Statements
For the Year Ended December 31, 2017

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 Summary of Significant Accounting Policies

Statement of Organizational Activities

Holmes Community College Development Foundation, Inc. (The Foundation) is a non-profit organization established to solicit and manage funds for the benefit of Holmes Community College (the College). The membership of the Foundation represents the nine county district served by the College and is led by a Board of Directors elected by the membership. Its purpose is to provide scholarships and other financial support to the students registered at Holmes Community College. Funds may also be used to support other educational activities of the College, such as faculty and student development.

Basis of Presentation

The Foundation prepares its financial statements on the accrual basis of accounting. The accounts of the Foundation are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. In accordance with FASB ASC Subtopic 958-205, Not-For-Profit Entities—Presentation of Financial Statements, fund balances are classified on the statement of financial position as unrestricted, temporarily restricted, or permanently restricted net assets, based on the absence or existence and type of donor-imposed restrictions.

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

Permanently Restricted Net Assets

Permanently restricted net assets include gifts required by donors to be permanently retained. The Foundation's permanently restricted net assets consist primarily of endowed scholarship funds. Typically these scholarships award annual earnings on the

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements

For the Year Ended December 31, 2017

funds up to five percent and all earnings over five percent are added back to the principal of the endowed scholarship.

Income Taxes

The Holmes Community College Development Foundation, Inc. is a not-for-profit organization exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code. In addition, the Foundation files form 5227 *Split-interest Trust Information Return* for the Charitable Remainder Annuity Trust. As of December 31, 2017, there were no material uncertain tax positions. Also, the Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2014, 2015, and 2016 are subject to examination by the Internal Revenue Service, generally for three years after they were filed as is form 5227 for those years.

Donated Assets

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

Donated Services and Facilities

The Foundation receives a substantial amount of services donated by citizens interested in the Foundation's programs. Because of the difficulty in assigning values for such services, these items are generally not reflected in the accompanying financial statements.

Investments

The Foundation follows FASB Accounting Standards Codification Subtopic 958-320, Not-For-Profit Entities—Investments—Debt and Equity Securities. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increase in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be all highly liquid investments with maturities of three months or less at the time of acquisition. Cash and cash equivalents include cash on hand, demand deposit accounts, savings account, and certificate of deposits.

Fixed Assets

The Foundation has no fixed assets. All fixed assets are owned by the College.

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements
For the Year Ended December 31, 2017

Pledges Receivable

Unconditional pledges receivable are recognized as revenues in the period the pledge is received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met.

The Foundation uses the allowance method to determine uncollectible pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There were no pledges receivable and therefore no allowance for uncollectible pledges receivable at December 31, 2017.

Estimates

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

Related Party Transactions

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

During each year, the Foundation remits scholarship funds and student organizational related cost to the College to cover tuition, books and other student fees for specified students of the College. Additionally, the Foundation disburses funds for the benefit of faculty and staff at the College. During the year ended December 31, 2017, funds disbursed to the College totaled \$125,125. These funds are included in scholarship expense, grant distribution and support for the College in the accompanying financial statements.

Fair Value of Financial Instruments

The carrying amounts reported in the statements of financial position for cash, assets held in remainder trust, and accrued expenses approximate fair value because of the immediate or short-term maturities of these financial instruments. The fair values of beneficial interest in remainder trust and liabilities under remainder trust approximate carrying values at December 31, 2017 due to discount rates and actuarial assumptions used in the calculation of the Foundation's interest and liabilities.

Split Interest Agreement

During 2009, donors established a charitable remainder annuity trust naming the Foundation as trustee and remainder beneficiary. Under the terms of the trust agreement, \$10,000 is to be paid annually to the donors for life with any remainder assets transferred to the Foundation. Based on the donors' life expectancies and 5.97% discount rate for 2017, the fair values of the Foundation's remainder interest was estimated to be \$170,394

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements

For the Year Ended December 31, 2017

for 2017 and is recorded as temporarily restricted contributions. The resulting liabilities for annuity payments were recorded at the present value of an annuity using the same discount rates and applicable life expectancies of the donors. The beneficial interest and liabilities will be revalued annually based upon applicable life expectancies and current returns on assets held in the trust at the date of revaluation. Trust assets are invested with a local investment firm.

Changes in split-interest agreement as of December 31st consists of the following:

	2017	2016
Interest and dividends	\$ 4,004	\$ 5,649
Realized and unrealized gains	23,609	6,209
Actuarial charge	3,439	462
Annuity payment	(10,000)	(10,000)
Total	\$ <u>21,052</u>	\$ <u>2,320</u>

Functional Allocation of Expenses

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

Note 2 Cash and Investments

Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash and temporary investments, investment securities, and pledges receivable. The Foundation places its cash and temporary investments with creditworthy, high quality financial institutions. Cash deposits in excess of \$250,000 are not insured by the FDIC.

For the year ended December 31, 2017 the College had \$254,920 in cash and cash equivalents.

The Foundation has significant investments in equity and debt securities and is therefore subject to concentrations of credit risk. Investments are managed by investment managers who are supervised by the Board of Directors. Though the market value of investments is subject to fluctuations on a year to year basis, the Board believes that the investment policy is prudent for the long-term welfare of the Foundation.

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements

For the Year Ended December 31, 2017

Credit risk with respect to contributions receivable is limited due to the credit worthiness of the individual who has made the pledge.

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

Investments

The FASB Accounting Standards Codification Topic ("ASC") 820, Fair Value Measurement, prescribes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments 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 December 31, 2017, the Foundation had the following investments

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Commonfund Multi-Strategy Equity Fund	\$5,425,219	69%
Commonfund Multi-Strategy Bond Fund	<u>2,463,768</u>	<u>31%</u>
Total	<u>\$7,888,987</u>	100%

The Commonfund uses the net asset value as a practical expedient to determine the fair value of all Crossfund Investments and Third Party Investment Funds which a) do not have a readily determinable fair value and b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company specified in ASC 946-10-15-2. Accordingly, these type investments held by The Commonfund are not categorized within the fair value hierarchy. Crossfund Investments and Third Party Investments amounted to \$5,105,495 (94.11%), and \$2,462,380 (99.94%) for the Commonfund Equity Fund and Commonfund Bond Fund respectively at December 31, 2017.

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements

For the Year Ended December 31, 2017

Within the Commonfund, transfers between Level 1, 2, and 3, if any, are recognized at ending value on December 31, 2017 and there were no transfers into or out of Level 3 for the year. There were no Level 3 investments held at December 31, 2017 within the Commonfund Equity or Bond funds.

The following table presents the financial assets carried at fair value by level within the valuation hierarchy as of December 31, 2017.

Description	Level 1	Level 3	Total
Commonfund Multi Strategy Equity Fund	\$ 319,724	23	319,747
Commonfund Multi Strategy Bond Fund	1,388		1,388
Subtotal	321,112	23	321,135
Commonfund investments measured at net asset value			7,567,852
Subtotal	0	0	7,888,987
Assets Held in Remainder Trust	39,208		39,208
Beneficial Interest in Remainder Trust		170,394	170,394
Total Investments	\$ 360,320	170,417	8,098,589

The following table includes a rollforward of the amounts for the year ended December 31, 2017 for investments classified within Level 3.

	Beneficial Interest in Remainder Trust
Balance as of December 31, 2016	\$ 149,343
Gains(losses)	21,051
Balance as of December 31, 2017	\$ 170,394

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements
For the Year Ended December 31, 2017

(a) Commonfund

The following schedule summarizes transactions in investments in Commonfund:

		Multi Strategy Equity	Multi Strategy Bond	Total
Fund balance 01-01-2017	\$	3,807,531	1,899,439	5,706,970
Income reinvested		46,582	74,212	120,794
Fees		(18,599)	(6,659)	(25,258)
Withdrawals		(30,000)	(20,000)	(50,000)
Additions		728,735	485,824	1,214,559
Unrealized gains		890,970	30,952	921,922
Fund balance 12-31-2017	\$	<u>5,425,219</u>	<u>2,463,768</u>	<u>7,888,987</u>

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

		2013	2014	2015	2016	2017
Income	\$	74,111	86,634	103,695	98,282	120,794
Net unrealized market gains (losses)		548,552	301,350	(143,549)	263,697	921,921
Fund fees		(13,380)	(15,830)	(18,860)	(19,640)	(25,258)
Transfers in (out)		145,000	320,000	450,000	200,000	1,164,559
Net change		754,283	692,154	391,286	542,339	2,182,016
Balance beginning of year		3,326,909	4,081,192	4,773,346	5,164,632	5,706,971
Balance end of year	\$	<u>4,081,192</u>	<u>4,773,346</u>	<u>5,164,632</u>	<u>5,706,971</u>	<u>7,888,987</u>
Increase (decrease) from initial balances		<u>22.67%</u>	<u>16.96%</u>	<u>8.20%</u>	<u>10.50%</u>	<u>38.23%</u>

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements
For the Year Ended December 31, 2017

(b) Edward Jones

The following schedule summarizes transactions in investments held at Edward Jones.

	Corporate Account Fund			Advisory Solutions Fund		Combined Funds	
	Cash	Securities	Total	Securities	Total	Cash	Securities
Fund balance 01/01/2017	\$ 4,993	47,937	52,930	873,913	873,913	4,993	921,850
Income		(529)	(529)	57,904	57,904	-	57,375
Expenses		(108)	(108)	(3,887)	(3,887)	-	(3,995)
Withdrawals	(4,993)	(47,300)	(52,293)	(927,930)	(927,930)	(4,993)	(975,230)
Fund balance 12/31/2017	\$ 0	0	0	0	0	0	0

Overall Investment Objective

The Foundation's investment committee is responsible for investment policies, return objectives and risk parameters for the endowment funds. Currently the endowments' return objectives are preservation of principal with enough investment return to exceed bank deposit returns. The nature of the Foundation's investment strategy is balanced with an approximately 65% to 35% equity to fixed income ratio. Appropriations for expenditures from the endowment funds are periodically made as financial needs arise to fund support and expenses of the College, from amounts classified as unrestricted.

Note 3 - Endowment

The Foundation's endowment consists of more than 50 individual donor-restricted endowment funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported and reported based on the existence or absence of donor-imposed restrictions.

The State of Mississippi enacted the *Uniform Prudent Management of Institutional Funds Act (UPMIFA)* effective July 2012. The act requires the prudent spending of donor-restricted endowment funds absent explicit donor stipulations to the contrary. In accordance with UPMIFA, the Board may expend so much an endowment fund's net appreciation as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long-term purchasing power of the endowment fund.

The following is a summary of the Foundation's endowment net asset composition by type of fund as of December 31, 2017:

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements For the Year Ended December 31, 2017

		2017			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$		3,884,429	120,279	4,004,708
Board - designated		2,767,809			2,767,809
Total endowment net assets	\$	2,767,809	3,884,429	120,279	6,772,517

Changes in the Foundation's endowment net assets for the year December 31, 2017 is as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,396,165	3,301,640	115,060	5,812,865
Investment returns:				-
Investment income	43,874	115,473	617	159,964
Net depreciation (unrealized losses)	327,770	428,624	4,602	760,996
Total investment returns	371,644	544,097	5,219	920,960
Contributions		129,151		129,151
Appropriation of endowment assets for expenditure		(90,459)		(90,459)
Endowment net assets, end of year	\$ 2,767,809	3,884,429	120,279	6,772,517

Note 4 - Net Assets

Temporarily restricted net assets at December 31, 2017 were available for scholarships and other related support of the College. Permanently restricted net assets are restricted permanently and seventy five percent of the annual earnings are available for scholarships.

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 5 - Support for Holmes Community College

Support for Holmes Community College for fiscal year 2017 consisted of:

	2017
Athletic	\$ 10,928
Staff Development	2,540
Students awards	8,372
Learning equipment, supplies and facilities renovations	2,885
Other educational support	5,429
	<u>\$ 30,154</u>

Note 6 - General and Administrative Expense

General and Administrative expenses for the fiscal year 2017 consisted of:

	2017
Office Expense	\$ 5,813
President discretionary	176
Professional fees	9,350
Meetings	539
Salaries	43,343
Investment fees	29,252
Meals	303
	<u>\$ 88,776</u>

Note 7 - Revenues from Special Events and Direct Costs

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

Nature of Event	2017		
	Event Revenue	Contributions	Totals
Golf tournament	\$ 8,407	5,836	14,243
Legacy Club	8,468	14,457	22,925
Grenada Arts	6,090		6,090
	<u>\$ 22,965</u>	<u>20,293</u>	<u>43,258</u>

Holmes Community College Development Foundation, Inc.

Notes to the Financial Statements For the Year Ended December 31, 2017

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

	<u>2017</u>
Annual Giving	
Golf Tournament	\$ 8,407
Legacy Club	8,468
2-5K runs for Healthy at Holmes	400
Grenada Arts Partnership	
Grenada Arts Partnership	23,172
Special Events	
Purchase of Mascot	<u>2,500</u>
	<u>\$ 42,947</u>

Note 8 - Fund Raising Expenses

Expenses in regards to fundraising consisted of the following:

	<u>2017</u>
Other	\$ 399
Printing and mailing	3,412
	<u>\$ 3,811</u>

Note 9 – Subsequent Events

Events that occur after the Statement of Financial Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Financial Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Financial Positions date require disclosure in the accompanying notes. Management of the Holmes Community College Development Foundation, Inc. evaluated the activity of the Foundation through the date the financial statements were available to be issued, and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Holmes Community College

Schedule of the College's Proportionate Share of the Net Pension Liability

PERS

Last 10 Fiscal Years*

	2018	2017	2016	2015
College's proportion of the net pension liability (asset)	\$ 55,043,715	59,459,073	52,369,944	41,966,749
College's proportionate share of the net pension liability (asset)	0.331122%	0.332871%	0.338788%	0.345742%
College's covered payroll	21,241,689	21,294,571	21,165,517	21,126,603
College's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	259.13%	279.22%	247.43%	198.64%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%	67.21%

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

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

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

Holmes Community College
Schedule of College Contributions
PERS
Last 10 Fiscal Years*

		2018	2017	2016	2015
Contractually required contribution	\$	<u>3,227,981</u>	<u>3,345,566</u>	<u>3,353,895</u>	<u>3,270,393</u>
Contributions in relation to the contractually required contribution		3,227,981	3,345,566	3,353,895	3,270,393
Contribution deficiency (excess)	\$	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
College's covered payroll		20,495,117	21,241,689	21,294,571	20,764,400
Contributions as a percentage of covered payroll		15.75%	15.75%	15.75%	15.75%

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

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

Holmes Community College

Schedule of the College's Proportionate Share of the Net OPEB Liability

OPEB

Last 10 Fiscal Years*

College's proportion of the net OPEB liability	\$	<u>2018</u> 2,461,985
College's proportionate share of the net OPEB liability (asset)		0.31378497%
College's covered-employee payroll		14,097,496 **
College's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll		17.46%
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%

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

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the College has only presented information for the years in which information is available.

Holmes Community College
Schedule of College Contributions
OPEB
Last 10 Fiscal Years*

		2018
Contractually required contribution	\$	<u>104,958</u> **
Contributions in relation to the contractually required contribution		104,958 **
Contribution deficiency (excess)	\$	<u><u>-</u></u>
College's covered-employee payroll		19,643,431
Contributions as a percentage of covered-employee payroll		0.53%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 75 was implemented in FYE 6/30/18, and, until a full 10-year trend is compiled, the College has only presented information for the years in which information is available.

Holmes Community College

Notes to the Required Supplementary Information For the Year Ended June 30, 2018

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%.

2017:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

Holmes Community College

Notes to the Required Supplementary Information For the Year Ended June 30, 2018

(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.

(3) *Method and assumptions used in calculations of actuarially determined contributions.*

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2015 valuation for the June 30, 2017 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	33.9 years
Asset valuation method	5-year smoothed market
Price Inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

OPEB Schedules

(1) *Changes of assumptions*

2017:

The discount rate was changed from 3.01% for the prior Measurement Date to 3.56% for the current Measurement Date.

(2) *Changes in benefit provisions*

2017:

None

Holmes Community College

Notes to the Required Supplementary Information For the Year Ended June 30, 2018

- (3) *Methods and assumptions used in calculation of Actuarially Determined Contributions.* The Actuarially Determined Contributions rates, as a percentage of payroll, used to determine the Actuarially Determined Contribution amounts in the Schedule of Employer Contributions are calculated as of the most recent Valuation Date. The following actuarial methods and assumptions (from the June 30, 2016 actuarial valuation) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years, open
Asset valuation method	Market Value of Assets
Price Inflation	3 percent
Salary increases, including wage inflation	3.25 percent to 18.50 percent
Initial health care cost trend rates Medicare Supplement Claims Pre-Medicare	7.75 percent
Ultimate health care cost trend rates Medicare Supplement Claims Pre-Medicare	5.00 percent
Year of ultimate trend rates Medicare Supplement Claims Pre-Medicare	2022
Long-term investment rate of return, net of pension plan investment expense, including price inflation	3.56 percent

- (4) Under GASB 75, employers are also required to consider any implicit subsidy that may be occurring. Medical costs generally increase with advancing age. Therefore, the medical costs for the retiree group are higher than the medical costs for the employee group, even taking Medicare into account. Stated another way, when a plan includes both employees and retirees, the blended premiums are almost always higher than what the premiums would be for employees, and lower than what the premiums would be for retirees, if each group were rated separately. The premium rate difference is referred to as the implicit rate subsidy.

SUPPLEMENTARY INFORMATION

Holmes Community College
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2018

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity's Identifying Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Pass-through programs from:			
Mississippi State Board for Community & Junior Colleges			
State Administrative Matching Grants for the Supplemental			
Nutrition Assistance Program	10.561	185MS40552519	\$ 9,518
Total U.S. Department of Agriculture			<u>9,518</u>
<u>U.S. Department of Labor</u>			
Pass-through programs from:			
Mississippi Employment Security Commission			
WIOA Adult Program	17.258	N/A	58,065
WIA Dislocated Workers	17.260	N/A	4,095
Mississippi Institutions of Higher Learning			
WIOA Dislocated Formula Grant	17.278	N/A	26,062
Total WIA Programs			<u>88,222</u>
Mississippi Employment Security Commission			
Trade Adjustment Assistance (TAA)	17.245	N/A	710
Total U.S. Department of Labor			<u>88,932</u>
<u>U.S. Department of Education</u>			
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	N/A	178,945
Federal Work-Study Program (FWS)	84.033	N/A	176,511
Federal Pell Grant Program	84.063	N/A	13,141,904
Federal Direct Student Loans (FDSL)	84.268	N/A	5,793,551
Total Student Financial Assistance Programs Cluster			<u>19,290,911</u>
TRIO - Student Support Services	84.042A	N/A	299,135
Subtotal direct programs			<u>19,590,046</u>
Pass-through programs from:			
Mississippi State Board for Community & Junior Colleges			
Adult Education - Basic Grants to States	84.002	V002A180025	265,397
Mississippi Department of Education			
Career and Technical Education - Basic Grants to States	84.048	V048A170024	368,231
Subtotal pass-through programs			<u>633,628</u>
Total U.S. Department of Education			<u>20,223,674</u>
<u>U.S. Department of Health and Human Services</u>			
Pass-through Programs from:			
Mississippi State Board for Community & Junior Colleges			
Temporary Assistance for Needy Families	93.558	1701MSTANF	5,994
Mississippi Institutions of Higher Learning			
Temporary Assistance for Needy Families	93.558		25,000
Total U.S. Department of Health and Human Services			<u>30,994</u>
Total Expenditures of Federal Awards			<u>\$ 20,353,118</u>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Holmes Community College

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2018

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the College under programs of the federal government for the year ended June 30, 2018. 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). Because the schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position, or cash flows of the College.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are presented on the same basis of accounting and the same significant accounting policies, as applicable, as those used for the financial statements; however, the expenditures include transfers out. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Indirect Cost Rate

The College did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

(4) Other Items

The pass-through entities did not assign identifying numbers to the remaining catalog of federal domestic assistance (CFDA) numbers of this College.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees
Holmes Community College
Goodman, Mississippi

We have audited, 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, and the discretely presented component unit of the Holmes Community College, as of and for the year ended June 30, 2018 and December 31, 2017 and have issued our report thereon dated March 5, 2019. The financial statements of the Holmes Community College Development Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
March 5, 2019

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees
Holmes Community College
Goodman, Mississippi

Report on Compliance For Each Major Federal Program

We have audited the Holmes Community College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Holmes Community College's major federal program for the year ended June 30, 2018. The Holmes Community College's major federal program is identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management's 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 Holmes Community College's major federal program 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 the Holmes Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Holmes Community College's compliance.

Opinion on Each Major Federal Program

In our opinion, the Holmes 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 its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Holmes Community College is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Holmes 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 the Holmes Community College's internal control over compliance.

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 5, 2019

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees
Holmes Community College
Goodman, Mississippi

We have audited the financial statements of Holmes Community College as of and for the year ended June 30, 2018 and its discretely presented component unit as of December 31, 2017 and have issued our report thereon dated March 5, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Holmes Community College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

This report is intended solely for the information and use of the College and management, members of the Legislature, entities with accreditation overview, federal awarding agencies, the Office of State Auditor, 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
March 5, 2019

Certified Public Accountants

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Holmes Community College
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major programs: 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 program:

CFDA Numbers

Name of Federal Program or Cluster

84.007, 84.033, 84.063 & 84.268

Student Financial Assistance Programs Cluster

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000.
9. Auditee qualified as low-risk auditee? Yes.

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 III: Federal Award Findings and Questioned Costs

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