

Holmes Community College
Management's Discussion and Analysis
For the Year Ended June 30, 2003

This section of the Holmes Community College annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2003. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. Since this is a transition year for this format, only one year of financial data is presented. In future years, a comparative analysis will be presented. The financial statements, footnotes, and this discussion are the responsibility of management.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. These financial statements differ significantly, in both form and the accounting principles used, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

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

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

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies state 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.

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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.

Condensed Statement of Net Assets

June 30, 2003

	<u>Amount</u>	<u>Percent</u>
Assets		
Current Assets	\$ 15,262,680	37.33
Noncurrent Assets:		
Capital, Net	25,606,526	62.62
Other	26,289	.05
Total Assets	<u>40,895,495</u>	<u>100.00</u>
Liabilities		
Current Liabilities	902,886	13.62
Noncurrent Liabilities	5,725,127	86.38
Total Liabilities	<u>6,628,013</u>	<u>100.00</u>
Net Assets		
Invested in Capital Assets, Net	19,506,461	56.92
Restricted:		
Expendable	2,145,058	6.26
Unrestricted	12,615,963	36.82
Total Net Assets	<u>\$ 34,267,482</u>	<u>100.00</u>

Assets

Current Assets

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the College's bank accounts and certificates of deposits. The total amount of cash and cash equivalents reported as current assets on the College financial statements were \$6,658,425 at June 30, 2003.

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 receivables totaled \$790,596 at June 30, 2003.

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Noncurrent assets

Cash and Cash Equivalents

Cash and cash equivalents are those funds that are held in the bank accounts and certificates of deposits. The 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 cash and cash equivalents considered noncurrent at June 30, 2003 totaled \$26,289.

Capital Assets, Net

Capital assets, net, consist of land, improvements, buildings, equipment, historical library holdings and construction in progress at June 30, 2003. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$25,606,526 at June 30, 2003.

Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities

Accounts Payable and accrued liabilities represent amounts due at June 30, 2003 for goods and services received before the end of the fiscal year. The accounts payable and accrued liabilities totaled \$324,522 at June 30, 2003.

Long-Term Liabilities-Current Portion

Long-term liabilities-current portion represents the portion of long-term debt that would be payable by the end of the June 30, 2004 fiscal year. The amount of the current portion of long-term debt at June 30, 2003 was \$374,936.

Noncurrent Liabilities

Long-Term Liabilities

This liability consists of long-term debt for outstanding bonds, notes, and capital leases. The total amount of the noncurrent portion of long-term debt was \$5,725,127 at June 30, 2003.

Net Assets

Net assets represent the difference between the College's assets and liabilities. Total net assets at June 30, 2003 were \$34,267,482.

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Analysis of Net Assets

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

The following is a breakdown of the restricted net assets:

	<u>Amount</u>
Unemployment Funds	\$ 26,289
Capital Projects	1,966,903
Scholarships & Fellowships	(99,446)
Debt Obligations	<u>251,312</u>
 Total Restricted Net Assets	 <u>\$2,145,058</u>

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

The following is a breakdown of the unrestricted net assets:

	<u>Amount</u>
Unrestricted General Fund	\$ 10,051,187
Unrestricted Auxiliary Funds	<u>2,564,776</u>
 Total Unrestricted Net Assets	 <u>\$ 12,615,963</u>

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Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2003

	<u>Amount</u>
Operating Revenues:	
Tuition and Fees	
(Net of Scholarship Allowance of \$4,537,696)	\$ 1,057,281
Federal Appropriation	125,048
Grants and Contracts	11,163,883
Sales & Services	21,698
Auxiliary Enterprises	
(Net of Scholarship Allowance of \$115,842)	697,010
Other Operating Revenues	357,410
 Total Operating Revenues	 13,422,330
 Operating Expenses	 24,222,613
 Operating Loss	 (10,800,283)
Nonoperating Revenues:	
State Appropriations	9,175,632
Local Appropriations	1,563,669
Investment Income, Net	331,926
Other Nonoperating Expenses	(322,518)
 Net Nonoperating Revenues	 10,748,709
 Loss Before Other Revenues	 (51,574)
State Appropriations restricted for Capital Purposes	603,478
Local Appropriations restricted for Capital Purposes	1,244,571
Other Additions (deletions), net	(7,945)
 Total Other Revenues	 1,840,104
 Total Increase in Net Assets	 1,788,530
Net Assets	
Net Assets at Beginning of Year, as Restated	32,478,952
 Net Assets at End of Year	 \$34,267,482

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Total operating loss for the fiscal year 2003 was \$10,800,283. Since the State of Mississippi appropriation is not included within operating revenue per GASB No. 35, beginning this year and going forward, the College will show a significant operating loss. Another factor in the operating loss for this year is that depreciation expense shown is cumulative and not just for this year. In the future depreciation expense will be for the current year only.

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 2003 were \$13,422,330. Tuition and fees were \$1,057,281. The tuition discount was \$4,537,696. Operating expenses, including depreciation of \$1,158,882, totaled \$24,222,613.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$1,057,281. The tuition discount for the 2003 fiscal year was \$4,537,696.

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, 2003:

	<u>Amount</u>
Federal	\$ 8,017,079
State	3,146,804
Total All Sources	<u>\$11,163,883</u>

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Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$21,698 for the 2003 fiscal year.

Sales and Services, Net

Auxiliary enterprises consist of housing and meal plans.

Operating Expenses

Operating expenses totaling \$24,222,613 include salaries and benefits of \$13,382,974, utilities of \$831,727, supplies of \$1,484,923, services of \$2,112,299, and depreciation of \$1,158,882.

	<u>Amount</u>
Expenses by Function:	
Instruction	\$ 11,209,364
Instructional Support	419,339
Student Services	1,975,544
Institutional Support	2,815,853
Operations and Maintenance of Plant	3,385,859
Student Financial Aid (Net of Scholarship Allowance)	2,642,069
Auxiliary Enterprises	615,703
Depreciation	1,158,882
Total Operating Expenses by Function	\$ 24,222,613

Nonoperating Revenues (Expenses)

State Appropriations

The College's largest source of nonoperating revenue is the State of Mississippi appropriation. The College received \$9,175,632 for fiscal year 2003.

Local Appropriations

The College also receives revenue from the nine counties that make up its local district. They include Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Yazoo and Webster counties. The College received \$2,808,240 for the 2003 fiscal year from the local government of which \$1,563,669 was for operating purposes and \$1,244,571 for capital projects or retirement of debt.

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Investment Income, Net

This includes the interest income from the cash in the bank accounts. \$331,926 was earned during the 2003 fiscal year.

Other Nonoperating Expenses

Other nonoperating expenses for fiscal year 2003 totaled \$322,518.

Other Revenues

Local Appropriations for Capital Purposes

This includes revenue received from the nine county support district for capital projects during the fiscal year. The amount of this revenue totaled \$1,244,571 for the 2003 fiscal year.

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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 Year Ended June 30, 2003

	<u>Amount</u>
Cash and Cash Equivalents Provided (Used) by:	
Operating Activities	\$ (8,942,116)
Noncapital Financing Activities	10,791,590
Capital and Related Financing Activities	(273,915)
Investing Activities	(2,981,733)
Net Decrease in Cash and Cash Equivalents	(1,406,174)
Cash and Cash Equivalents – Beginning of the Year	8,090,888
Cash and Cash Equivalents – End of the Year	\$ 6,684,714

The major sources of funds included in operating activities include student tuition and fees of \$1,033,016, auxiliary enterprises of \$697,010, and grants and contracts of \$11,173,278. The major uses of funds were payments made to employees of \$13,579,236 and to scholarships and fellowships of \$3,385,050 and to suppliers of \$1,484,923.

The largest inflow of cash in the noncapital financing activities group is the State appropriation of \$9,317,475. In addition, the college received \$1,472,115 from the nine counties that make up its district.

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Factors Impacting Future Periods

There are a number of issues that are directly impacting the community college system as a whole. The continuing decline of state revenues and therefore, state funding is the main issue which will continue to have an impact on our financial position. This is occurring at the same time we are experiencing an increase in enrollment and increases in compensation for quality faculty personnel and utility cost.

One of internal considerations with each year's budget is the desire to refrain from tuition increases as we consider this to be one of the barriers to college education for our local residents. However, with continuing increases in expenditures and decreases in state funding, there may be little choice for the college administration if we wish to expand programs, add new programs and continue to meet our mission.

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

Holmes Community College enjoys strong support from the local community both in individual and business support of our foundation and in local support for expansion and addition of existing programs. This support has helped the college to weather the decreases in state funding and yet continue to serve the citizens of its nine county district.