

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Pearl River 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 '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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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	\$11,471,833	27.85
Noncurrent Assets:		
Capital, Net	25,182,419	61.14
Other	<u>4,537,159</u>	<u>11.01</u>
Total Assets	<u>41,191,411</u>	<u>100.00</u>
Liabilities		
Current Liabilities	3,573,512	57.38
Noncurrent Liabilities	<u>2,654,919</u>	<u>42.62</u>
Total Liabilities	<u>6,228,431</u>	<u>100.00</u>
Net Assets		
Invested in Capital Assets, Net	21,613,110	61.82
Restricted:		
Nonexpendable	29,250	.07
Expendable	4,492,068	12.85
Unrestricted	<u>8,828,552</u>	<u>25.26</u>
Total Net Assets	<u>\$34,962,980</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, petty cash and certificates of deposit. The total amount of cash and cash equivalents reported as current assets on the college financial statements were \$2,666,294 at June 30, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Accounts Receivable

Accounts receivable relate to several transactions including county appropriations, accrued interest, student tuition and fee billings, and auxiliary enterprise sales such as food service and bookstore. 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 \$2,976,136 at June 30, 2003.

Inventories

The college maintains inventories of resale merchandise as well as items for internal consumption. Books, student supplies, and institutional memorabilia make up the majority of the resale inventory. Inventories maintained for internal departmental use include paper goods. Inventories totaled \$452,812 at June 30, 2003.

Noncurrent assets

Cash and Cash Equivalents

Cash and cash equivalents are those funds that are held in the bank accounts. The cash and cash equivalents that are considered noncurrent are cash in Endowment Funds. The amount of cash and cash equivalents considered noncurrent at June 30, 2003, totaled \$4,507,909.

Other Investments

Other long-term investments include bank certificates of deposit held by F.D.I.C. insured banks. The value at June 30, 2003, was \$29,250.

Capital Assets, Net

Capital assets, net, consist of land, infrastructure, buildings, equipment, and historical library holdings at June 30, 2003. The amount reported is net of accumulated depreciation. Capital assets, net totaled \$25,182,419 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 \$2,311,147 at June 30, 2003.

Long-Term Liabilities-Current Portion

Long-term liabilities-current portion, bonds, notes and capital leases, represents the portion of these balances that would be payable by the end of the June 30, 2003, fiscal year. The amount of the current portion of bonds, notes and capital leases at June 30, 2003, was \$942,485.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Noncurrent Liabilities

Long-Term Liabilities

This liability consists of the bonds, notes and capital leases balances. The total amount of the noncurrent portion of bonds, notes and capital leases balances was \$2,626,824 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 \$34,962,980.

Analysis of Net Assets

Restricted nonexpendable net assets consist of endowment gifts with specific restrictions on spending the principal given.

Restricted expendable net assets consist of endowment gifts, gifts with specific restrictions, grants from third party agencies with expenditure restrictions, and loan funds.

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	\$ 7,553,201
Unrestricted Auxiliary Fund	<u>1,275,351</u>
Total Unrestricted Net Assets	\$ <u>8,828,552</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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	\$ 1,816,083
Grants and Contracts	12,942,318
Sales and Services of Educational	120,560
Auxiliary Enterprises	3,047,013
Other Operating Revenues	<u>259,802</u>
 Total Operating Revenues	 <u>18,185,776</u>
 Operating Expenses	 <u>28,282,560</u>
 Operating Loss	 <u>(10,096,784)</u>
Nonoperating Revenues:	
State Appropriations	8,294,443
County Appropriations	3,636,716
Investment Income, Net	1,548
Other Nonoperating Expenses	<u>(113,155)</u>
 Net Nonoperating Revenues	 <u>11,819,552</u>
 Income Before Other Revenues	 1,722,768
 Capital Appropriations	 401,317
 Total Increase in Net Assets	 2,124,085
Net Assets	
Net Assets at Beginning of Year, as Restated	<u>32,838,895</u>
 Net Assets at End of Year	 <u>\$ 34,962,980</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Total operating loss for the fiscal year 2003 was \$10,096,784. 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.

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 \$18,185,776. Tuition and fees were \$1,816,083. Operating expenses, including depreciation of \$1,508,609 totaled \$28,282,560. Of this total \$11,922,209 or 42% was for instruction.

Revenues

Operating Revenues

Tuition and Fees

This category includes all tuition and fees assessed for educational purposes totaling \$1,816,083.

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 Source	\$ 8,761,589
Other Sources	<u>4,180,729</u>
Total All Sources	<u>\$ 12,942,318</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Noncapital Gifts

This consists of gifts made to the college from a nongovernmental organization and/or individuals. The cash gifts totaled \$230,615 at June 30, 2003.

Sales and Services from Educational Activities

Other operating revenues consist of income from educational activities that totaled \$120,560 for the 2003 fiscal year.

Sales and Services, Net

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

Auxiliary enterprises primarily include the college bookstore.

Operating Expenses

Operating expenses totaling \$28,282,560 include salaries and benefits of \$14,638,911 scholarships and fellowships of \$4,730,999, utilities of \$873,170, supplies of \$2,943,306, services of \$3,295,273 and depreciation of \$1,508,609.

	<u>Amount</u>
Expenses by Function:	
Instruction	\$ 11,922,209
Academic Support	541,936
Student Services	2,668,754
Institutional Support	3,128,670
Operations and Maintenance of Plant	2,310,240
Student Financial Aid	3,449,616
Auxiliary Enterprises	2,752,526
Depreciation	<u>1,508,609</u>
 Total Operating Expenses by Function	 <u>\$ 28,282,560</u>

Nonoperating Revenues (Expenses)

State Aid

The college's largest source of nonoperating revenue is the State of Mississippi appropriation. The college received \$8,695,760 for 2002-2003 fiscal year, of which \$8,294,443 was for operations. In addition, the college received \$401,317 in general obligation bonds of the state for capital improvements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

County Appropriations

The college also receives revenue from the six county district in which the school resides. The college uses the funding for salaries and benefits, for operational purposes. The college receives the appropriation in monthly payments, beginning in July of each year, since the fiscal year begins July 1st. The college received \$3,636,716 for the 2003 fiscal year from the counties. This appropriation was fully recorded by the college during the fiscal year.

Investment Income, Net

This includes the interest income from the cash in the bank accounts. The investment income at June 30, 2003, was \$179,478.

Other Nonoperating Expenses

This includes losses on the sale of fixed assets that the college incurred during the 2003 fiscal year. Total other nonoperating expenses amounted to \$113,155.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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	\$ (8,461,072)
Noncapital Financing Activities	12,060,428
Capital and Related Financing Activities	(2,151,557)
Investing Activities	<u>(4,735,895)</u>
Net Decrease in Cash and Cash Equivalents	(3,288,096)
Cash and Cash Equivalents – Beginning of the Year	<u>10,462,299</u>
Cash and Cash Equivalents – End of the Year	<u>\$ 7,174,203</u>

The major sources of funds included in operating activities include student tuition and fees, \$6,114,921, auxiliary enterprises, \$3,263,029, and grants and contracts, \$11,948,024. The major uses of funds were payments made to employees, \$14,082,055 and to suppliers, \$6,864,976.

The largest inflow of cash in the noncapital financing activities group is the state appropriation of \$7,743,077.

Significant Capital Asset Transactions

None noted for the FY 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Factors Impacting Future Periods

There are a number of issues of community college-wide importance that directly impacted the fiscal year 2003 financial situation. The level of state support, compensation increases, student tuition and fee increases, and energy cost increases impact the college's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

State appropriations contribute approximately fifty-five percent of general operations' revenue. The level of state support is therefore one of the key factors influencing the college's financial condition.

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

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