

**Central Texas College District  
Annual Financial Report  
Management's Discussion and Analysis  
For the Year Ended August 31, 2005**

This section of the Central Texas College District (the College) annual financial report presents a discussion and analysis of the financial performance of the College during the fiscal year ended August 31, 2005. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting change and current known facts. For management's discussion and analysis, we have presented the previous year's financial information in order to provide a comparison. The financial statements, footnotes and this discussion are the responsibility of management.

**BASIC FINANCIAL STATEMENTS**

The basic financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) 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 for Public Colleges and Universities". Three primary statements are required: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

Financial Statements for the College's component unit, the Central Texas College Foundation (the Foundation) are issued independent to those of the College but are presented with the College's basic financial statements.

One of the most important questions asked about the College's finances is whether or not the College's financial position has improved as a result of the year's activities. The key to understanding this question is the Statement of Net Assets, 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 used by corporations. The college's net assets are one indicator of its' 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 Net Assets includes all assets and liabilities. 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 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 non-operating. 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 the information related to cash inflows and outflows summarized by operating, capital and non-capital financing and investing activities.

Required supplementary audited financial information is presented in Schedule's A through F. Each of these schedules presents in detail information from the basic financial statements. Additionally, required supplementary audited financial information includes schedules of statistical information relevant to the College's operation.

Schedules G, G-1 and G-2 are provided to reflect the campus organizational structure of the College and additional information is presented to provide detailed property/casual, workers compensation and general liability insurance information of the College. These schedules are not required by GASB and are not audited.

### **FINANCIAL AND ENROLLMENT HIGHLIGHTS**

- Cash and short term investments increased approximately \$10 million or 18% during the fiscal year.
- The College's total assets increased approximately \$10 million or 7% during the fiscal year while total liabilities increased approximately \$2 million or 8%. Combining the increase in assets and the increase in liabilities, net assets increased approximately \$8 million or 7%.
- The College's investment portfolio remains on a relatively short term basis while returns reflect the continued increases in the prime rate.
- The College continues to solidify its foothold in the federal contracting arena with successful performance in our military educational contracts.
- Distance Education enrollment and contact hour production show the continued trend to this alternative method of education. Operating revenues clearly reflect military and distance learning initiatives.
- Total State dollars for education and general support increased slightly as a result of the 79<sup>th</sup> Legislative session. Additionally, state appropriations for the group health insurance program reflect a slight increase for the year.

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- Local ad valorem tax revenues increased slightly with new construction within the college district continuing at a brisk pace.
- The College Board of Trustees lowered the local ad valorem tax rate for maintenance and operation from \$.1470/100 in 2004 to \$.1460/100 in 2005. The College's tax rate has decreased or remained constant over the last ten year period.

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### **Statement of Net Assets**

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions. Net assets - the difference between assets and liabilities - are one way to measure the financial health of the college.

	(In Millions)		
	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Current assets:			
Cash and short-term investments	\$ 67.5	\$ 57.1	18.2
Receivables	19.9	21.7	(8.3)
Inventory, prepaid expenses and other	<u>4.0</u>	<u>3.9</u>	<u>2.6</u>
Total current assets	91.4	82.7	10.5
Non-current assets:			
Long-term investments	.3	.2	50.0
Capital assets, net of depreciation	<u>61.3</u>	<u>60.3</u>	<u>1.7</u>
Total non-current assets	<u>61.6</u>	<u>60.5</u>	<u>1.8</u>
Total assets	<u>153.0</u>	<u>143.2</u>	<u>6.8</u>
Current liabilities:			
Accounts payable and accrued liabilities	9.0	8.8	2.3
Deferred revenue	8.0	4.5	77.8
Long-term liabilities - current portion	<u>2.4</u>	<u>2.1</u>	<u>14.3</u>
Total current liabilities	19.4	15.4	26.0
Non-current liabilities:			
Long-term liabilities	<u>7.7</u>	<u>9.6</u>	<u>(20.0)</u>
Total liabilities	27.1	25.0	8.4
Net assets			
Invested in capital assets, net of related debt	52.7	49.9	5.6
Restricted	35.1	34.7	1.2
Unrestricted	<u>38.1</u>	<u>33.6</u>	<u>13.4</u>
Total net assets	<u>125.9</u>	<u>118.2</u>	<u>6.5</u>
Total liabilities and net assets	\$ <u>153.0</u>	\$ <u>143.2</u>	<u>6.8</u>

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Cash and short term investments, which show an increase of approximately \$10 million during the year reflects the College's continual management of its federal accounts receivable.

Receivables include Continental and International (C&I) student promissory notes and third party contractual revenues. The State of Texas requires all eligible students to be paid in full prior to the start of the term. The College contracts extensively with the federal government and subcontracts with commercial organizations which contract with the military. Distance education subcontracts with the Army constitute the majority of the accounts receivable.

Inventory, prepaid expenses and other current assets consist primarily of textbooks and related instructional materials for resale. The decrease in inventory is primarily the result of the College's contract with the Missouri Book Company to provide textbooks to our Continental sites.

Capital assets show a slight increase for the fiscal year. This increase reflects the College's continuing efforts to insure that the student is trained using the latest technology.

Accounts payable and accrued liabilities increased ever so slightly for the year and can probably be attributed to the overall increases in cost of goods and services.

Long term debt decreased as a result of payments made on the 1999 revenue bond.

Net assets invested in capital assets increased slightly while unrestricted net assets increased approximately 13%. Federal, state and local statutes require certain net assets be restricted for future use and as working capital for instructional programs. Other net assets are unrestricted, however, a majority of these net assets have been designated or reserved for specific purposes such as: insurance reserves, repairs and replacement of equipment, future debt service and capital projects.

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### **STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

The Statement of Revenues, Expenses and Changes in Net Assets present the operating results of the college, as well as the non-operating revenues and expenses. Annual ad valorem tax revenues, while budgeted for operations, are considered non-operating revenues in GASB 34-35. Additionally, State appropriations, which previously have been classified as operating revenues, were reclassified as non-operating revenues in accordance with directives from the Texas Higher Education Coordinating Board (THECB). This reclassification is designed to align Texas Community College's financial presentation with that of other States.

	(In Millions)		
	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Operating revenue:			
Net tuition and fees	\$ 25.7	\$ 26.8	(4.1)
Federal Funds	47.9	44.0	8.9
Grants and Contracts	1.9	1.6	18.8
Auxiliary Funds	9.3	9.2	1.1
Other	<u>1.7</u>	<u>1.6</u>	<u>6.3</u>
Total	86.5	83.2	4.0
Operating expenses	<u>107.5</u>	<u>99.4</u>	<u>8.1</u>
Net operating loss	<u>(21.0)</u>	<u>(16.2)</u>	<u>29.6</u>
Non-operating revenues (expenses)			
State Appropriations	21.1	20.9	1.0
Local ad valorem taxes	6.6	6.2	6.5
Investment income	1.5	.6	150.0
Other revenues and expenses	<u>(.5)</u>	<u>(.6)</u>	<u>16.7</u>
Total	<u>28.7</u>	<u>27.1</u>	<u>5.9</u>
Increase in net assets	7.7	10.8	(28.7)
Net assets - Beginning of year	<u>118.2</u>	<u>107.4</u>	<u>10.1</u>
Net assets - End of year	\$ <u>125.9</u>	\$ <u>118.2</u>	<u>6.5</u>

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Tuition and fees, net of scholarship allowances, decreased approximately \$1.1 million or 4.1% this year. This slight decrease can be primarily attributed to the troop reductions at the continental campuses through out the year.

While state appropriations increased slightly from those of the prior year it should be noted that prior year appropriations were reduced significantly due to State budget restrictions. Additionally, State appropriations for health insurance show a slight increase for the year which can be attributed to the actions of the 79<sup>th</sup> Legislature.

Federal revenues increased approximately \$3.9 million or 8.9% for the year. This increase can be attributed primarily to our successful distance learning initiatives.

Auxiliary revenues consist of housing, bookstore and food services. The minimal increase this year can be largely attributed to the cost adjustment due to inflation.

Non-operating revenues of approximately \$6.6 million from the collection of local ad valorem taxes are reflected as such through interpretation of GASB 34-35. Because these collections are so closely related to the operation of the College's physical plant, many feel this source of revenue should be classified as operating revenues.

Investment income increased approximately \$.9 million or 150% and reflects the continued upturn in the nation's economy. Average returns of just over 1.0% in the prior fiscal year can be compared with average returns this year of just over 2.5% in the current fiscal year.

Overall, the increase in net assets compares favorably with the prior year and clearly reflects the significant increase in federal contracting and enrollment initiatives and a continuous effort to effectively manage the educational programs of the college.

Federal revenues comprise the largest contribution (42%) of the total revenues of the College. Tuition and fee revenues, net of scholarship expenses, ranks second in total revenues (22%). State appropriations (18%) are third and local ad valorem tax revenues (6%) comprise the majority of the College's total revenues.

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**OPERATING EXPENSES (by functional classification)**

	(In Millions)		
	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Instruction	\$ 49.5	\$ 42.2	17.3
Public service	1.3	1.3	0.0
Academic support	8.2	8.4	(2.4)
Student services	7.6	6.5	16.9
Institutional support	13.0	13.0	0.0
Operation and maintenance of plant	6.4	6.2	3.2
Depreciation	3.0	2.3	30.4
Scholarships and related expenses	10.0	9.6	4.2
Auxiliary activities	<u>8.4</u>	<u>9.9</u>	<u>(15.1)</u>
Total Expenses	\$ 107.5	\$ 99.4	8.1

**OPERATING EXPENSES (by natural classification)**

	(In Millions)		
	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Salaries and wages	\$ 58.4	\$ 52.7	10.8
State Benefits	3.2	3.0	6.7
Local Benefits	8.1	7.6	6.6
Scholarships and related expenses	9.9	9.4	5.3
Supplies and related expenses	24.9	24.4	2.0
Depreciation	<u>3.0</u>	<u>2.3</u>	<u>30.4</u>
	\$ 107.5	\$ 99.4	8.1

Salaries and wages, which clearly represent the largest operating expense, increased due to additional personnel and annual pay increases throughout each functional category. State benefits increased slightly as a result of the 79<sup>th</sup> Legislative session appropriations and increases in health cost. Local benefits increase can primarily be attributed to increases in health costs. Scholarships and related expenses increase is primarily due to increases in the number of awards. Supplies and other expenses increased due to increases in market prices.

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### **STATEMENT OF CASH FLOWS**

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also helps users assess the college's ability to generate net cash flows, its ability to meet its obligations as they come due and its need for external financing.

	(In Millions)		
	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Cash provided by (used in):			
Operating activities	\$(12.3)	\$(17.4)	(29.3)
Non-capital financing activities	27.8	27.1	2.6
Capital and related financing activities	(6.5)	(3.4)	91.2
Investing activities	<u>(7.8)</u>	<u>1.7</u>	<u>(558.8)</u>
Net increase (decrease) in cash	1.2	8.0	(85.0)
Cash - beginning of year	<u>40.7</u>	<u>32.7</u>	<u>24.5</u>
Cash - end of year	\$ 41.9	\$ 40.7	2.9

Cash provided by operating activities represents the difference in the incoming and outgoing cash for all educational programs while cash provided by non-capital financing activities represents the collections from local ad valorem taxes and State appropriations.

Cash used in capital and related financing activities represents the cash paid to contractors during the year for construction projects and for the purchase of other capital assets. This number also represents the payment made on the 1999 bond issue.

Cash used for investing activities represents the difference in investment income and cash used to purchase short term investments.

While this statement reflects the changes to our cash position for the year, one should keep in mind that the statement of cash flows while helping to measure the ability of CTCD to meet financial obligations, does not include short term investments of approximately \$25.9 million which compares to \$16.6 million in the prior year.

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### **LOOKING AHEAD**

The ability of the College to fulfill its' mission and execute its' strategic plan is directly influenced by enrollment, state appropriations and continued federal contracting. Additionally, the continued increases in salaries and wages, health care, utilities and unfunded state and federal mandates will require continual oversight.

The College's overall financial position is very strong. Our ability to remain competitive in a rapidly advancing technological market allows the College to be a recognized leader in military education. With federal dollars comprising approximately 42% of our revenues, our dependence on the state appropriation process, while extremely important, is not as paramount to our strategic planning process as it is with many of the community colleges in Texas. One of the pieces of the strategic plan is the approval of a technology renewal initiative providing a three year rotation for student, faculty and staff computers, enhancement of the College's network infrastructure, replacement of the administrative computer hardware and upgrade of all core administrative systems (student, financial aid, human resources and finance). This project, which was completed in the fall of 2005, provides state of the art technology for students, faculty and staff.

A second piece of the strategic plan is the facilities master plan. College and community personnel are currently working with an externally contracted architectural firm to prepare a new facilities master plan which will serve as a guide for future expansion of our educational programs.

Overall, fiscal year 2005 was a very good year financially and we anticipate fiscal year 2006 to be even better.

During the 2004 fiscal year the College had the ability to absorb a considerable State appropriation reduction, restructure our tuition schedules, weather the storm and remain cautiously optimistic even considering the war on terrorism and its toll on the nations economy and more closely the troop strength at Fort Hood. In the 2005 fiscal year we witnessed the war on terrorism continue to take its toll on the troop strength at Ft. Hood and many of the other sites the College serves. While troop reductions at home were most prevalent during this fiscal year the college pursued other contracting initiatives and successfully initiated college classes in the mid east.

That ability will carry forward to the current fiscal year and for years to come and will allow the College to prosper in times of economic uncertainty. We applaud the continued efforts of all our faculty and staff that make Central Texas College one of the premier community colleges in the nation.