



**College for all Texans**

# **Financial Condition Analysis Of Texas Public Community College Districts**

**2012**

**Planning and Accountability**



## **Texas Higher Education Coordinating Board**

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### **Mission of the Coordinating Board**

The Texas Higher Education Coordinating Board's mission is to work with the Legislature, Governor, governing boards, higher education institutions, and other entities to help Texas meet the goals of the state's higher education plan, *Closing the Gaps by 2015*, and thereby provide the people of Texas the widest access to higher education of the highest quality in the most efficient manner.

### **Philosophy of the Coordinating Board**

The Texas Higher Education Coordinating Board will promote access to quality higher education across the state with the conviction that access without quality is mediocrity and that quality without access is unacceptable. The Board will be open, ethical, responsive, and committed to public service. The Board will approach its work with a sense of purpose and responsibility to the people of Texas and is committed to the best use of public monies. The Coordinating Board will engage in actions that add value to Texas and to higher education. The agency will avoid efforts that do not add value or that are duplicated by other entities.

The Texas Higher Education Coordinating Board does not discriminate on the basis of race, color, national origin, gender, religion, age, or disability in employment or the provision of services.

## Executive Summary

An annual report about the financial condition of the state's community colleges is required as referenced in the General Appropriations Act, House Bill 1 (HB 1), 82nd Texas Legislature, Section 14 (page III-198). The rider states:

*"Each community college shall provide to the Texas Higher Education Coordinating Board financial data related to the operation of each community college using the specific content and format prescribed by the Coordinating Board. Each community college shall provide the report no later than January 1st of each year.*

*The Coordinating Board shall provide an annual report due on May 1 to the Legislative Budget Board and Governor's Office about the financial condition of the state's community college districts."*

This report is provided in satisfaction of that requirement, and the information contained in it is intended for use by the Legislature and Governor's Office. The analysis included is intended to be a broad financial evaluation. Other key performance indicators must be taken into account to gain a more robust and complete understanding of institutional strength. This analysis is not intended for peer group comparisons or for benchmarking purposes.

The financial condition of each of the state's 50 public community college districts was assessed using data from published annual financial reports (AFRs). The AFRs are independently audited by accounting firms contracted by the districts.

Complete access to annual financial reporting data for all 50 public community college districts is available online through a system called CARAT (Community College Annual Reporting and Analysis Tool) at <https://www1.thecb.state.tx.us/apps/CARAT/>.

Ratios referenced in this report are commonly used by external entities to measure the health of higher education institutions. A composite financial index (CFI) was calculated to provide one metric to more efficiently analyze the financial health of all the districts. Other ratios used in this analysis include an equity ratio, debt burden ratio, and leverage ratio, along with enrollment figures and qualitative factors.

The objective of this report is to identify institutions in which the potential for financial stress exists. Twelve of the 50 districts are so identified because they do not meet the threshold for three or more of the 12 financial indicators. Fifteen districts do not meet the threshold for two or fewer indicators. Twenty-three districts meet the threshold for all indicators.

The institutions were given an opportunity to provide feedback. A summary of their comments is included in the body of the report, with verbatim comments included in Appendix M.

## Overview

There are 50 public community college districts in Texas, the oldest dating back to 1869. They are locally controlled governmental entities established via an election process. State statute specifies that new districts created must have 15,000 secondary students and a minimum assessed property valuation of \$2.5 billion. Eleven of the existing districts do not meet that rule.

To a significant degree, local control enables the districts to determine their own financial destiny. State law and Coordinating Board rules impose some limitations, but local autonomy and demographics account for much of the variation in resource allocation and revenue collection.<sup>1</sup>

The majority of the revenue the districts receive is from four sources, including state formula funding, local property tax revenue, tuition and fee revenue, and other income which is largely federal funds. Although some districts do have endowments, they are more commonly found in universities, and revenue from them is often used for tuition assistance as opposed to operations.

## Financial Analysis in Higher Education<sup>2</sup>

The concept of using selected indicators, such as ratios, during the course of financial analysis is nothing new in higher education and dates back to at least 1980. Financial analysis can measure success against institutional objectives and provide useful information upon which sound planning can be based.

The overall financial health of an institution can be assessed via two dimensions of inquiry. First, is the institution financially capable of successfully carrying out its current programs? Second, is the institution able to carry out its intended programs well into the future?

Along those two dimensions, four key financial questions need to be asked:

- Are resources sufficient and flexible enough to support the mission?
- Are resources, including debt, managed strategically to advance the mission?
- Does asset performance and management support the strategic direction?
- Do operating results indicate the institution is living within available resources?

A widely accepted metric called the Composite Financial Index (CFI) is often used to address these four key questions. The index was developed over time by a consortium of consulting companies led by KPMG and introduced in 1999. The index itself, or similar approaches, is employed by many institutions, including the U.S. Department of Education, the State of Ohio Board of Regents, credit rating agencies, Ranger College, McLennan Community College, LoneStar College System, The University of Texas System, and countless other institutions of higher education.

The CFI blends four core financial ratios into one metric, providing a more balanced view of the institution's finances since weakness in one measure can be offset by strength in another. Additionally, measuring the index over time provides a glimpse as to the progress institutions are making toward achieving financial goals.

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<sup>1</sup> Texas Research League, *Bench Marks for Community and Junior Colleges in Texas*, August 1993.

<sup>2</sup> For more information see the book *Strategic Financial Analysis for Higher Education*, Sixth Edition, KPMG, Prager, Sealy and Co, Bearing Point.

The Coordinating Board has been calculating the CFI and sharing related data with the community college districts since 2007. The viability ratio specifically is now included in the Texas Higher Education Accountability System.

The composite financial index includes the following core ratios:

**Primary Reserve Ratio** – measures financial strength and flexibility by comparing expendable net assets to total expenses. This measure answers the question, “How long can the institution survive without additional net assets generated by operating revenue?”

**Viability Ratio** – measures the financial health of the institution by comparing total expendable net assets to total non-current liabilities. This ratio is similar to a coverage ratio used in the private sector to indicate the ability of an organization to cover its long term debt and answers the question, “How much of their debt can the institution pay off with existing resources?”

**Return on Net Assets** – measures total economic return during the fiscal year. This measure is similar to the return on equity ratio used in examining for profit concerns and answers the question, “Are they better off financially than they were a year ago?” A temporary decline in this ratio could be reasonable should it reflect a strategy to improve the institution’s condition.

**Operating Margin** – indicates an operating surplus or deficit in the given fiscal year. This ratio is similar to a profit margin and answers the question, “Did they balance operating expenses with available revenue?” Depreciation expense is included to reflect the use of physical assets in measuring operating performance.

Appendix G provides more detail as to how the core ratios are calculated and how the CFI is determined. CFI numbers generally range from 0.0 to 10.0, although it is possible to have a number higher than 10.0. It is also possible to have a CFI below zero.

## **Additional Indicators**

In addition to the CFI, a more robust understanding is obtained via additional indicators that can affect an institution’s finances. One comes from the U.S. Department of Education. Two are from Moody’s, the national credit rating agency. And two more are included based on staff recommendation. They are described below.

## **Enrollment Fluctuation**

Consistent enrollments are considered integral to financial health. Since state formula funding is driven by contact hours generated, fluctuations in enrollment can cause volatility in formula funding. Also, tuition and fee revenue is dependent on enrollment since charges are normally applied on a per credit hour basis. The credit rating agencies, specifically Moody’s, rely on this data to determine student demand and market position, which is one of the factors in their ratings analysis.<sup>3</sup>

Enrollment in this context is measured by full time student equivalents (FTSE). For the community colleges, FTSE numbers are calculated by dividing the total academic and technical semester credit hours by 30 and adding continuing education contact hours divided by 900. Year over year decreases

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<sup>3</sup> *Moody’s Approach for Evaluating Community Colleges*, Moody’s Investors Service, December 1999.

of more than 5 percent or increases of more than 10 percent are considered unusual and worthy of attention. Appendix D includes enrollment data across all the districts.

## **Diversity of Revenues**

Based on input from subject matter experts, community college representatives, and best practices, the diversity of an institution's revenues is considered as well. As included in a study conducted by the national auditing firm Grant Thornton on behalf of the Legislative Budget Board,<sup>4</sup> over reliance on one source of revenue can subject an institution to volatility should that revenue source substantially change.

Considering each revenue source's percentage of an institution's total revenue gives some indication of an over dependence on any one revenue source. Anything higher than 50 percent of the total is an indicator of potential financial stress. Appendix E includes data on revenues.

## **Equity Ratio**

An equity ratio is another element of an early warning of potential financial stress. This ratio was introduced by the U.S. Department of Education (DOE) as a replacement for the viability ratio in such instances where institutions do not carry long-term debt. A low ratio suggests the institution is increasingly leveraged in its liabilities even without long term debt.

The U.S. DOE uses financial ratios in part to provide oversight of institutions participating in programs authorized under Title IV of the Higher Education Act.<sup>5</sup> Appendix F includes the calculated ratio for each district, while Appendix G provides more detail on the calculation of this ratio.

## **Leverage Ratio and Debt Burden Ratio**

Debt position analysis is one of several fundamental rating factors considered by Moody's, KPMG, and others. According to the Texas State Auditor's Methodology Manual, "Effective debt management is essential because of its far-reaching consequences. [Issuing] debt may commit an entity's revenues for several decades into the future and, as a result, limits the entity's flexibility to respond to changes."<sup>6</sup>

The leverage ratio measures the amount of debt in relation to net assets and provides an indication of the amount of debt service the institution must absorb into the future relative to existing resources. The higher the number, the more debt the institution is acquiring relative to its existing ability to service debt.

The debt burden ratio measures the cost of borrowing relative to overall expenses and examines an institution's dependence on borrowed funds. Appendix F includes the calculated ratios for each district, while more detail on the calculation of both ratios can be found in Appendix G.

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<sup>4</sup> LBB report, *Community College Financial Ratios Report*, produced by Grant Thornton, October 22, 2010. [http://www.lbb.state.tx.us/Perf\\_Rvw\\_Agy/CC and JC\\_Colleges/LBB%20Community%20College%20Financial%20Ratios.pdf](http://www.lbb.state.tx.us/Perf_Rvw_Agy/CC_and_JC_Colleges/LBB%20Community%20College%20Financial%20Ratios.pdf).

<sup>5</sup> FSA Handbook, Vol 2 – School Eligibility and Operations, 2009-10, Chapter 11, Financial Standards. <http://ifap.ed.gov/fsahandbook/attachments/0910FSAHbkVol2Ch11Financial.pdf>.

<sup>6</sup> SAO, Methodology Manual, Financial Modules, Debt Overview, 2006. [http://www.sao.state.tx.us/resources/Manuals/Method/financial/debt\\_intro.html](http://www.sao.state.tx.us/resources/Manuals/Method/financial/debt_intro.html).

## Qualitative Measures

Certain indicators are not numerical in nature but are considered important in determining financial health. Some can have a large impact on an institution's operations. These include audit findings and sanctions imposed by the regional accrediting body.

## Audit Findings

This is an indicator used by the U.S. DOE to assess financial responsibility. As mentioned on page 134 of volume 2 of the FSA Handbook, "...the Department does not consider the school to be financially responsible if in the audited financial statement the opinion expressed by the auditor was adverse, qualified, or disclaimed..."<sup>7</sup> Further, based on institutions' external auditor input, Coordinating Board staff concluded that any findings of material weakness in internal controls would be considered problematic.

The community college districts are required to get an external audit of their financial reports every year. The auditor expresses an opinion of the financial statements, control systems, and other issues. A qualified audit opinion, meaning the auditor was not able to establish to their satisfaction a proper determination, would lead to further scrutiny. Additionally, any material internal control weaknesses identified by the auditor would raise the level of concern about the institution's condition. Appendix C includes the audit opinions and any related findings for the districts.

## Accreditation Sanctions

Actions taken by the regional accrediting body are also considered. Texas is served by the Southern Association of Colleges and Schools (SACS). As referenced in the Principles of Accreditation,<sup>8</sup> comprehensive standards 3.10.1 through 3.10.4 speak to the financial stability and control expected of each institution and represent good practice.

Accreditation is a prerequisite for an institution to receive federal financial aid funding for students and is therefore fundamental to an institution's financial viability. Institutions can be accredited by non-regional accreditors and therefore be eligible for financial aid funding.

Finally, any currently known facts that are considered material to an institution's future condition are taken into account. The management discussion and analysis (MD&A) portion of the annual financial report contains a section on any known facts that could affect future operations.

## Establishing Standards

The financial data used in this analysis came from CARAT (Community College Annual Reporting and Analysis Tool). CARAT is available online at: <https://www1.theccb.state.tx.us/apps/CARAT/>. Data are reported by the institutions and came from published annual financial reports. Auditor opinions similarly came from the published annual financial reports.

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<sup>7</sup> FSA Handbook, Vol 2 – School Eligibility and Operations, 2009-10, Chapter 11, Financial Standards. <http://ifap.ed.gov/fsahandbook/attachments/0910FSAHbkVol2Ch11Financial.pdf>.

<sup>8</sup> Southern Association of Colleges and Schools, Principles of Accreditation, 5<sup>th</sup> edition, 2012. <http://sacscoc.org/pdf/2012PrinciplesOfAccreditation.pdf>.

Enrollment data as measured by full time student equivalents (FTSE) came from Coordinating Board Management (CBM) reports, specifically the CBM004 and CBM00C. Appendix A includes all the core financial ratio calculations, including the CFI, using FY2011 data.

After collecting the data for the previously defined 12 indicators, relevant thresholds were established based on industry practice. The thresholds are listed below, followed by a discussion of how they were established. An instance in which an indicator is measured outside the threshold suggests the institution could face potential financial stress.

<b>Quantitative Indicators</b>	<b>Threshold for Potential Financial Stress</b>
Composite Financial Index	2.0 or lower
Primary Reserve Ratio	Less than 0.13
Viability Ratio	Less than 0.41
Return on Net Assets	Less than zero
Operating Margin	Less than zero
Enrollment Fluctuation	Decline of 5% or more; increase of 10% or more
Diversity of Revenues	Individual source greater than 50% of total
Equity Ratio	Below 20%
Leverage Ratio	Greater than 2.0
Debt Burden Ratio	Greater than 5%

<b>Qualitative Indicators</b>	<b>Threshold for Potential Financial Stress</b>
Audit Opinions	Qualified opinion or material internal control weaknesses
Accreditation Actions	Sanctions imposed, including warning or probation

Appendix G provides more detail as to how the core ratios are defined and how the CFI is determined. CFI numbers generally range from 0.0 to 10.0, although it is possible to have a number higher than 10.0. It is also possible to have a CFI below zero.

The threshold for the CFI was established by considering the original work conducted by KPMG in creating the index and industry practice. Their publication, *Strategic Financial Analysis for Higher Education*, references 3.0 as the minimum required for financial health. Other organizations' use of the CFI, was considered including the Board of Regents for the State of Ohio and the U.S. DOE. Coordinating Board staff therefore recommends a floor of 2.0.

The thresholds for the core ratios that feed into the CFI, including the primary reserve, viability, return on net assets, and operating margin, are defined in *Strategic Financial Analysis for Higher Education*.

KPMG recommends using 0.7 percent for the operating margin and 2.0 percent for the return on net assets. Although KPMG's thresholds are used in the calculation of the CFI, Coordinating Board staff recommends using less than zero for both to provide some measure of flexibility in consideration of institutional mission and economic climate.

The thresholds for enrollment fluctuation and the diversity of revenues are seen as early warning indicators. Both metrics are used in analysis conducted by credit bureaus and are seen as fundamental to understanding an institution's financial viability. The threshold used for enrollment



fluctuation comes from recommendations made by the national auditing firm Grant Thornton in a report<sup>9</sup> they wrote on behalf of the Legislative Budget Board.

The diversity of revenues threshold comes from the same source; however, the Grant Thornton report on page 4-2 suggests any revenue source over 50 percent of total revenues is deemed risky. None of the community college districts exceeded that level in Fiscal Year 2011.

The discussion of thresholds for both the leverage and debt burden ratios is included in chapter 7 of KPMG's book, *Strategic Financial Analysis for Higher Education*. Most institutions will have a leverage ratio of higher than 1.0, but how much higher is largely dependent on the institution. Therefore, Coordinating Board staff recommends a standard of 2.0 realizing that a measurement higher than that does not necessarily indicate financial stress when considered in isolation.

The threshold for the debt burden ratio is also highly dependent on the institution. KPMG recommends 7 percent for most but realizes that 5 percent or less might be more realistic. Higher levels of debt burden over the long term will reduce the institution's flexibility to fund other strategic initiatives.

## **Process of Analysis**

To echo the sentiment of the Office of the Controller at The University of Texas System, "all of these ratios, including the CFI, only deal with the financial aspects of the institution and must be considered with key performance indicators in academics, infrastructure, and student and faculty satisfaction to understand a more complete measure of total institutional strength."<sup>10</sup>

This report is intended to be a broad financial evaluation for use by the Legislature and Governor's Office. The objective is to identify institutions in which the potential for financial stress exists. The process starts with the identification of relevant financial indicators after which standards are defined. The extent to which an institution meets all the standards will then provide an indication as to whether the institution could potentially experience financial stress in the future.

The financial indicators are measured using current data. In this case, the most recent data collected is from Fiscal Year 2011. Whether or not an institution meets the standards is based on that one year of financial data, which is inherently short term in nature. With that in mind, trending data are considered to further refine the understanding of an institution's financial condition. Trend data for the districts are included in Appendices H through L.

## **Financial Condition**

### **Institutions with No Indication of Financial Stress**

Thirty-eight of the 50 public community college districts have little or no indication of financial stress. Twenty-three of those 38 have no indication of financial stress at all, meaning they meet the

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<sup>9</sup> LBB report, *Community College Financial Ratios Report*, produced by Grant Thornton, October 22, 2010. [http://www.lbb.state.tx.us/Perf\\_Rvw\\_Agy/CC and JC Colleges/LBB%20Community%20College%20Financial%20Ratios.pdf](http://www.lbb.state.tx.us/Perf_Rvw_Agy/CC_and_JC_Colleges/LBB%20Community%20College%20Financial%20Ratios.pdf).

<sup>10</sup> *2011 Analysis of Financial Condition*, UT System, February 2012. [http://www.utsystem.edu/cont/Reports\\_Publications/AFC/2011%20AFC.pdf](http://www.utsystem.edu/cont/Reports_Publications/AFC/2011%20AFC.pdf).

threshold for all indicators. They are robustly capitalized, adding positive net asset balances, have strong internal controls, and are properly positioned for future success.

The remaining 15 do not meet the threshold for two or fewer indicators. Four of the 15 institutions have a CFI below 2.0 mainly due to missing the threshold for return on net assets or operating margin. When looking at the trend data for these institutions, Blinn College, Dallas County Community College District, Frank Phillips College, and The Victoria College meet the threshold for both indicators in most of the previous five years, suggesting short term, revenue related stress.

Eight of the 15 do not meet the threshold for the viability ratio or leverage ratio, meaning their level of long-term debt might restrict future flexibility to invest in institutional priorities.

Vernon College is experiencing enrollment volatility with a year over year increase of 11 percent in full time student equivalents. Enrollment has grown 32 percent since 2007. Enrollment growth is a positive development; however, substantial short term growth can place undue stress on existing financial resources.

### **Institutions Facing Potential Financial Stress**

There are 12 institutions facing potential financial stress because they do not meet the threshold for 3 or more of the indicators. A discussion of these institutions is included below.

Ten of the 12 institutions do not meet the threshold for the viability ratio or leverage ratio, meaning their level of long-term debt might restrict future flexibility to invest in institutional priorities. However, many of them are taking advantage of historically low interest rates and recapitalizing their campuses or undertaking capital expansion projects. Therefore, they have large increases in long-term liabilities.

Many are in urban areas, including Austin Community, San Antonio, and Houston, with robust tax bases enabling a relatively confident debt service capability. In practice, many use general obligation (GO) bonds in a strategic effort to finance long-term capital programs. Debt service related to GO bonds, approved by voters, is paid for with restricted property tax collections and not current net assets. For that reason, some of the institutions believe the calculation of these ratios should exclude GO bond debt. Appendix B includes calculations of the primary ratios and the CFI excluding GO bond debt.

Coordinating Board staff disagrees because these ratios are designed to gain an understanding of the institution's ability to service long-term debt with existing resources. Local taxpayer fatigue is also a possibility. If voters are asked to pay higher taxes for long-term capital programs, they may not be motivated to increase tax rates for operations and maintenance thereby creating a delicate balance between raising additional revenue for debt versus operations.

As evidenced by continued, high quality, investment grade credit ratings, many of these institutions including Dallas Community College District, Lonestar College District, Alamo Community College District, and Austin Community College are well positioned to service expanding levels of long term debt. However, the total level of debt is an important consideration in determining financial condition.

Credit ratings were not included as a separate financial metric because they provide a limited financial snapshot of an institution and generally relate to the debt security being issued. Further, the three

credit rating agencies use proprietary models not available to Coordinating Board staff, although the general methodology used by the credit agencies was incorporated.

Eight of the 12 institutions do not meet the threshold for the debt burden ratio, which means each institution is using more than 5 percent of annual expenditures to service long-term debt.

Three of the 12 institutions do not meet the threshold for enrollment fluctuation. Texarkana College experienced a drop of 10 percent year over year, with a 5 percent drop since 2007. Ranger College had a year over year increase of 46 percent in full time student equivalents. Much of that increase is being driven by continuing education contact hours. Enrollment has grown 66 percent since 2007. San Jacinto College saw a year over year increase of 11 percent, with growth of 25 percent since 2007.

Two of the 12 institutions had sanctions imposed on them by Southern Association of Colleges and Schools (SACS) during their December 2011 meeting.<sup>11</sup> Austin Community College was placed on warning after review of a second violation regarding the reporting of substantive changes. The expectation is that they will return to good standing within the next year. They remain accredited and retain access to federal financial aid funding. They also have a CFI below 2.0, but as previously stated, it is due to capital expansion and resulting debt.

Ranger College was placed on probation by SACS following its fifth-year interim review for a lack of compliance related to institutional effectiveness of educational programs. The expectation is that they will return to good standing. In the meantime, they remain accredited and retain access to federal financial aid funding.

Additionally, Ranger College had material internal control weaknesses as identified by their external auditor. They had nine findings in total related to their financial statements. The findings included material weaknesses in cash reconciliation procedures, financial reporting, recording receipts in the general ledger, and tuition and fee discounting. A new chief financial officer was hired in September 2011, with new policies and procedures being implemented in the current fiscal year.

Texarkana College also had material internal control weaknesses as identified by their external auditor. There were 20 audit findings in total. Findings 1 through 9 were related to their financial statements, and findings 10 through 20 were related to federal awards and grant programs. The majority of the findings are related to control issues, i.e., a lack of separation of duties, questionable systems access, undocumented processes, and similar issues.

As of fall 2011, Texarkana College has hired both a new president and chief financial officer. Additionally, they are implementing Banner software and other systems to mediate the control issues. Staff from the Coordinating Board visited Texarkana College in late February 2012.

Based on FY2011 data, Texarkana College had a negative CFI, with a negative return on net assets of 25 percent and a negative operating margin of 36 percent. Fortunately, they have little long-term debt, so their viability ratio is a healthy 4.6.

Texarkana College finished FY2011 with an operational deficit of \$8.5M which they financed with unrestricted net assets. Unrestricted net assets have decreased from \$16.3M in 2009 to \$1.6M in

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<sup>11</sup> More information can be obtained at: <http://sacscoc.org/December2011ActionsandDisclosureStatements.asp>.

2011, representing a 90 percent drop in two years. They expect to extinguish the remaining balance this year, partially financing a projected deficit of \$3.1M.

Comparing year over year, Texarkana College's operating revenue dropped 14 percent mainly due to a 34 percent drop in net tuition and fee collections, largely due to a local scholarship program. Operating expenses increased 9.6 percent, which was mainly due to an 18 percent increase in instruction costs and a 51 percent increase in academic support costs.

Texarkana College is making hard decisions to position itself for future prosperity. A new president and chief financial officer are in place. Reductions in staff and other expenditure control measures are currently underway. Voters in the district will be asked to approve a taxing district expansion in November 2012. And increases in out-of-district tuition and fees will further improve the revenue picture.

One other district had a CFI below 0.0 based on FY2011 data. Brazosport College had a negative return on assets, a negative operating margin, a primary reserve of 0.04, and a viability ratio of 0.03.

Comparing year over year, total assets at Brazosport increased by \$24.2M (or 30 percent) largely due to an increase of \$33.4M (or 54 percent) in capital assets. The balance was a drop in other assets, including a decline of \$4.1M (or 80 percent) in unrestricted net assets. Meanwhile, non-current liabilities increased by \$28.4M (or 80 percent). Only 9 percent of total assets are not capital in nature.

Looking at operations year over year, total operating revenues increased by \$3.9M (or 40 percent), while total operating expenses increased by \$6.2M (or 20 percent). With non-operating revenues and expenses roughly constant, that leaves an operating deficit of \$2.3M (or 6 percent).

Voters in the district approved \$70M in general obligation bonds back in 2007 to construct the master plan which adds several buildings and renovates the majority of the existing campus. \$57.8M have been authorized and issued since, which creates the large increase in non-current liabilities and resulting increase in capital assets.

Revitalization of the campus is a positive development but is not without risk. Large increases in non-current liabilities can restrict future financial flexibility. In response, the Brazosport College Board of Trustees approved property tax increases to generate additional operational revenue of \$944,000 per year and to pay the debt service on the general obligation bonds.

### **Feedback from the Institutions**

The draft report was shared with the institutions on two separate occasions in March 2012. Many provided feedback, suggestions, and comments. Five provided specific responses as included verbatim in Appendix M.

A number of institutions spoke of including demographic information in the analysis. Since the districts have different capacities to generate revenue, there was some thought as to including a metric like total assessed tax value per full time student equivalent that may provide insight as to the revenue generating capacity of the districts. Others suggested a look at the largest area employers, tuition and fee policies, average income statistics, and other data.

Although the sufficiency of financial resources is a key question, Coordinating Board staff believes the inclusion of demographic information of that type would inherently lead to a natural tendency to

benchmark the institutions. Doing so would obscure the analysis of the other key financial questions, including the strategic management of resources.

A group of institutions spoke to the possibility of including credit ratings in the analysis. Credit ratings were not included as a separate financial metric because they provide a limited financial snapshot of an institution and generally relate to the debt security being issued. Further, the three credit rating agencies use proprietary models not available to Coordinating Board staff. Although the general methodology used by the credit agencies was incorporated, the credit ratings are available via subscription, and if used, would lead to additional cost to the state.

Many of the institutions spoke to the variability of revenue sources, specifically state funding, as a specific source of volatility that lends complexity to the financial planning process. With base year to base year enrollment increasing by 20 percent, funding on a per contact hour basis has declined 18 percent. Cuts to benefits funding further complicated the matter.

Revenue volatility makes it hard for districts to know if financial resources will be adequate to support enrollments and student success initiatives. Tuition and fee policies, along with tax rate determinations, are made well in advance of semester start dates and can require stakeholder input and approval.

Finally, a number of institutions commented on the inclusion of general obligation (GO) debt in the calculation of the financial indicators. A discussion of this topic is included in the analysis section of the report. The ratios are calculated both with GO debt included and without and displayed in Appendices A and B for reference.

Because this report is an annual event required by the General Appropriations Act, the expectation is that work will continue on these issues via the annual conference of the Texas Association of Community College Business Officers (TACCBO), the semi-annual meeting of chief financial officers in Austin during the fall, and the Community College Advisory Group (CCAG) which meets quarterly at the Coordinating Board.

## Appendix A: Core Financial Ratios and Composite Financial Index

Metrics highlighted do not meet established thresholds.

District	Return on Net Assets	Operating Margin	Primary Reserve	Viability Ratio	Composite Financial Index
ALAMO COMMUNITY COLLEGE DIST	-1.17%	4.83%	0.22	0.15	1.28
ALVIN COMMUNITY COLLEGE	-2.28%	-0.65%	0.16	0.39	0.43
AMARILLO COLLEGE	1.55%	3.57%	0.36	0.56	2.09
ANGELINA COLLEGE	6.05%	4.41%	0.35	0.58	2.65
AUSTIN COMMUNITY COLLEGE	-5.35%	2.96%	0.15	0.12	0.37
BLINN COLLEGE	1.75%	1.24%	0.15	0.33	1.02
BRAZOSPORT COLLEGE	-7.15%	-0.20%	0.04	0.03	(0.61)
CENTRAL TEXAS COLLEGE	7.54%	8.41%	0.70	76.13	67.70
CISCO JUNIOR COLLEGE	8.30%	6.62%	0.29	0.52	2.98
CLARENDON COLLEGE	11.51%	15.60%	0.40	0.72	5.04
COASTAL BEND COLLEGE	6.87%	2.99%	0.19	0.98	2.45
COLLEGE OF THE MAINLAND	1.13%	-1.11%	0.25	3.49	3.55
COLLIN CO COMM COLL DISTRICT	6.41%	15.54%	1.49	4.32	10.40
DALLAS CO COMMUNITY COLLEGE DIST	-0.72%	2.10%	0.37	0.42	1.55
DEL MAR COLLEGE	9.89%	11.72%	0.19	0.17	3.30
EL PASO COMMUNITY COLLEGE DIST	5.06%	4.38%	0.27	0.71	2.44
FRANK PHILLIPS COLLEGE	1.70%	-3.59%	0.20	0.79	0.86
GALVESTON COLLEGE	7.66%	8.46%	0.49	4.53	7.06
GRAYSON COUNTY COLLEGE	6.11%	10.23%	0.58	0.43	3.96
HILL COLLEGE	8.92%	5.35%	0.29	2.54	4.56
HOUSTON COMMUNITY COLLEGE	5.56%	11.57%	0.19	0.12	2.82
HOWARD COLLEGE	7.42%	4.66%	0.30	0.49	2.59
KILGORE COLLEGE	7.12%	7.02%	0.35	6.39	8.00
LAREDO COMMUNITY COLLEGE	8.62%	8.64%	0.34	0.29	3.23
LEE COLLEGE	10.06%	5.70%	0.20	0.33	2.64
LONE STAR COLLEGE SYSTEM DISTRICT	10.01%	11.18%	0.16	0.09	3.10
MCLENNAN COMMUNITY COLLEGE	9.81%	5.30%	0.11	0.09	2.10
MIDLAND COLLEGE	7.63%	4.63%	0.35	0.42	2.68
NAVARRO COLLEGE	10.23%	3.19%	0.21	0.43	2.38
NORTH CENTRAL TEXAS COLLEGE	2.93%	3.10%	0.44	2.38	3.89
NORTHEAST TEXAS COMM COLLEGE	22.49%	5.84%	0.13	0.13	3.54
ODESSA COLLEGE	8.84%	5.63%	0.52	0.26	3.28
PANOLA COLLEGE	15.52%	11.57%	0.64	2.01	6.57
PARIS JUNIOR COLLEGE	15.99%	11.56%	0.52	1.18	5.60
RANGER COLLEGE	18.00%	5.15%	0.32	3.87	6.63
SAN JACINTO COMMUNITY COLLEGE	2.96%	7.98%	0.39	0.26	2.68
SOUTH PLAINS COLLEGE	8.52%	6.21%	0.20	3.75	5.42
SOUTH TEXAS COLLEGE	11.90%	15.76%	0.69	2.01	6.93
SOUTHWEST TEXAS JUNIOR COLLEGE	6.68%	3.38%	0.20	0.95	2.47
TARRANT COUNTY COLLEGE DISTRICT	6.13%	12.94%	0.50	6.23	8.99
TEMPLE COLLEGE	18.03%	10.99%	0.46	0.48	4.99
TEXARKANA COLLEGE	-24.80%	-35.96%	0.08	4.60	(3.54)
TEXAS SOUTHMOST COLLEGE	5.18%	13.67%	0.44	0.31	3.87
TRINITY VALLEY COMM COLLEGE	-1.03%	1.51%	0.14	3.12	3.10
TYLER JUNIOR COLLEGE	13.79%	14.66%	0.02	0.02	3.53
VERNON COLLEGE	9.04%	5.94%	0.30	0.52	2.97
VICTORIA COLLEGE	-1.88%	3.72%	0.21	0.65	1.46
WEATHERFORD COLLEGE	13.15%	13.16%	1.06	4.79	10.00
WESTERN TEXAS COLLEGE	8.40%	0.65%	0.05	0.10	1.14
WHARTON COUNTY JUNIOR COLLEGE	6.35%	5.25%	0.47	4.31	6.24

## Appendix B: Core Financial Ratios and Composite Financial Index (Excludes GO Debt)

Metrics highlighted do not meet established thresholds.

District	Return on Net Assets	Operating Margin	Primary Reserve	Viability Ratio	Composite Financial Index
ALAMO COMMUNITY COLLEGE DIST	-1.17%	-6.01%	0.22	0.42	(0.04)
ALVIN COMMUNITY COLLEGE	-2.28%	-4.44%	0.16	10.23	8.15
AMARILLO COLLEGE	1.55%	-1.81%	0.36	20.29	17.88
ANGELINA COLLEGE	6.05%	-0.49%	0.35	10.28	10.09
AUSTIN COMMUNITY COLLEGE	-5.35%	1.08%	0.15	0.15	0.14
BLINN COLLEGE	1.75%	1.24%	0.15	0.33	1.02
BRAZOSPORT COLLEGE	-7.15%	-5.88%	0.04	0.19	(1.28)
CENTRAL TEXAS COLLEGE	7.54%	8.41%	0.70	76.13	67.70
CISCO JUNIOR COLLEGE	8.30%	6.62%	0.29	0.52	2.98
CLARENDON COLLEGE	11.51%	15.60%	0.40	0.72	5.04
COASTAL BEND COLLEGE	6.87%	2.99%	0.19	0.98	2.45
COLLEGE OF THE MAINLAND	1.13%	-1.11%	0.25	3.49	3.55
COLLIN CO COMM COLL DISTRICT	6.41%	13.09%	1.49	30.00	31.61
DALLAS CO COMMUNITY COLLEGE DIST	-0.72%	2.10%	0.37	4.04	4.59
DEL MAR COLLEGE	9.89%	2.92%	0.19	0.55	2.37
EL PASO COMMUNITY COLLEGE DIST	5.06%	4.38%	0.27	0.71	2.44
FRANK PHILLIPS COLLEGE	1.70%	-3.59%	0.20	0.79	0.86
GALVESTON COLLEGE	7.66%	8.46%	0.49	4.53	7.06
GRAYSON COUNTY COLLEGE	6.11%	2.77%	0.58	1.67	3.93
HILL COLLEGE	8.92%	5.35%	0.29	2.54	4.56
HOUSTON COMMUNITY COLLEGE	5.56%	6.53%	0.19	0.15	2.12
HOWARD COLLEGE	7.42%	-0.01%	0.30	2.33	3.47
KILGORE COLLEGE	7.12%	7.02%	0.35	6.39	8.00
LAREDO COMMUNITY COLLEGE	8.62%	3.84%	0.34	0.48	2.71
LEE COLLEGE	10.06%	2.76%	0.20	0.50	2.36
LONE STAR COLLEGE SYSTEM DISTRICT	10.01%	0.53%	0.16	0.85	2.21
MCLENNAN COMMUNITY COLLEGE	9.81%	-2.23%	0.11	0.50	1.37
MIDLAND COLLEGE	7.63%	-0.76%	0.35	1.38	2.72
NAVARRO COLLEGE	10.23%	3.19%	0.21	0.43	2.38
NORTH CENTRAL TEXAS COLLEGE	2.93%	3.10%	0.44	2.38	3.89
NORTHEAST TEXAS COMM COLLEGE	22.49%	1.90%	0.13	0.31	3.12
ODESSA COLLEGE	8.84%	5.63%	0.52	1.20	4.07
PANOLA COLLEGE	15.52%	11.57%	0.64	2.01	6.57
PARIS JUNIOR COLLEGE	15.99%	11.56%	0.52	1.18	5.60
RANGER COLLEGE	18.00%	5.15%	0.32	3.87	6.63
SAN JACINTO COMMUNITY COLLEGE	2.96%	-2.10%	0.39	13.12	12.03
SOUTH PLAINS COLLEGE	8.52%	6.21%	0.20	3.75	5.42
SOUTH TEXAS COLLEGE	11.90%	9.89%	0.69	61.58	56.09
SOUTHWEST TEXAS JUNIOR COLLEGE	6.68%	3.38%	0.20	0.95	2.47
TARRANT COUNTY COLLEGE DISTRICT	6.13%	11.20%	0.50	49.38	44.96
TEMPLE COLLEGE	18.03%	7.27%	0.46	1.26	5.11
TEXARKANA COLLEGE	-24.80%	-35.96%	0.08	4.60	(3.54)
TEXAS SOUTHMOST COLLEGE	5.18%	5.61%	0.44	1.20	3.47
TRINITY VALLEY COMM COLLEGE	-1.03%	1.51%	0.14	3.12	3.10
TYLER JUNIOR COLLEGE	13.79%	14.66%	0.02	0.03	3.54
VERNON COLLEGE	9.04%	5.94%	0.30	0.52	2.97
VICTORIA COLLEGE	-1.88%	0.03%	0.21	2.96	2.86
WEATHERFORD COLLEGE	13.15%	11.74%	1.06	12.17	15.99
WESTERN TEXAS COLLEGE	8.40%	0.65%	0.05	0.10	1.14
WHARTON COUNTY JUNIOR COLLEGE	6.35%	5.25%	0.47	4.31	6.24

## Appendix C: Audit Opinions

Metrics highlighted do not meet established thresholds.

District	Financial Audit Letter	Single Audit Letter	Findings / Program Name
ALAMO COMMUNITY COLLEGE DIST	Unqualified	No Material Weakness	Title IV
ALVIN COMMUNITY COLLEGE	Unqualified	No Material Weakness	ARRA
AMARILLO COLLEGE	Unqualified	No Material Weakness	Perkins / Title IV
ANGELINA COLLEGE	Unqualified	No Material Weakness	None
AUSTIN COMMUNITY COLLEGE	Unqualified	No Material Weakness	None
BLINN COLLEGE	Unqualified	No Material Weakness	Title IV
BRAZOSPORT COLLEGE	Unqualified	No Material Weakness	Skills Development
CENTRAL TEXAS COLLEGE	Unqualified	No Material Weakness	None
CISCO JUNIOR COLLEGE	Unqualified	No Material Weakness	None
CLARENDON COLLEGE	Unqualified	No Material Weakness	ARRA, Title IV
COASTAL BEND COLLEGE	Unqualified	No Material Weakness	None
COLLEGE OF THE MAINLAND	Unqualified	No Material Weakness	Internal Control, HR/Payroll
COLLIN CO COMM COLL DISTRICT	Unqualified	No Material Weakness	ARRA, Title IV
DALLAS CO COMMUNITY COLLEGE DIST	Unqualified	No Material Weakness	ARRA, Sub Monitoring
DEL MAR COLLEGE	Unqualified	No Material Weakness	None
EL PASO COMMUNITY COLLEGE DIST	Unqualified	No Material Weakness	None
FRANK PHILLIPS COLLEGE	Unqualified	No Material Weakness	Title IV
GALVESTON COLLEGE	Unqualified	No Material Weakness	None
GRAYSON COUNTY COLLEGE	Unqualified	No Material Weakness	None
HILL COLLEGE	Unqualified	No Material Weakness	Perkins(Budget control)
HOUSTON COMMUNITY COLLEGE	Unqualified	No Material Weakness	Title IV
HOWARD COLLEGE	Unqualified	No Material Weakness	Title IV, Skill Development
KILGORE COLLEGE	Unqualified	No Material Weakness	None
LAREDO COMMUNITY COLLEGE	Unqualified	No Material Weakness	None
LEE COLLEGE	Unqualified	No Material Weakness	None
LONE STAR COLLEGE SYSTEM DISTRICT	Unqualified	No Material Weakness	None
MCLENNAN COMMUNITY COLLEGE	Unqualified	No Material Weakness	None
MIDLAND COLLEGE	Unqualified	No Material Weakness	None
NAVARRO COLLEGE	Unqualified	No Material Weakness	ARRA, Title IV
NORTH CENTRAL TEXAS COLLEGE	Unqualified	No Material Weakness	None
NORTHEAST TEXAS COMM COLLEGE	Unqualified	No Material Weakness	None
ODESSA COLLEGE	Unqualified	No Material Weakness	None
PANOLA COLLEGE	Unqualified	No Material Weakness	None
PARIS JUNIOR COLLEGE	Unqualified	No Material Weakness	None
RANGER COLLEGE	Unqualified	Material Weakness	Not Program Specific
SAN JACINTO COMMUNITY COLLEGE	Unqualified	No Material Weakness	None
SOUTH PLAINS COLLEGE	Unqualified	No Material Weakness	None
SOUTH TEXAS COLLEGE	Unqualified	No Material Weakness	None
SOUTHWEST TEXAS JUNIOR COLLEGE	Unqualified	No Material Weakness	None
TARRANT COUNTY COLLEGE DISTRICT	Unqualified	No Material Weakness	None
TEMPLE COLLEGE	Unqualified	No Material Weakness	None
TEXARKANA COLLEGE	Unqualified	Material Weakness	Not Program Specific
TEXAS SOUTHMOST COLLEGE	N/A	N/A	N/A
TRINITY VALLEY COMM COLLEGE	Unqualified	No Material Weakness	None
TYLER JUNIOR COLLEGE	Unqualified	No Material Weakness	ABE(sub monitor), Title IV
VERNON COLLEGE	Unqualified	No Material Weakness	Title IV
VICTORIA COLLEGE	Unqualified	No Material Weakness	None
WEATHERFORD COLLEGE	Unqualified	No Material Weakness	None
WESTERN TEXAS COLLEGE	Unqualified	No Material Weakness	None
WHARTON COUNTY JUNIOR COLLEGE	Unqualified	No Material Weakness	None



## Appendix D: Enrollment Fluctuation based on Full Time Student Equivalents

Metrics highlighted do not meet established thresholds.

Institution	2007	2008	2009	2010	2011	Fluctuation
ALAMO COMMUNITY COLLEGE DISTRICT	34,099	34,627	36,254	41,075	39,162	-4.7%
ALVIN COMMUNITY COLLEGE	3,433	3,325	3,330	3,741	3,768	0.7%
AMARILLO COLLEGE	6,731	6,744	6,699	7,444	7,708	3.6%
ANGELINA COLLEGE	3,428	3,393	3,428	3,979	4,094	2.9%
AUSTIN COMMUNITY COLLEGE	21,423	22,108	23,691	26,734	28,500	6.6%
BLINN COLLEGE	10,714	11,236	12,011	13,022	13,224	1.6%
BRAZOSPORT COLLEGE	2,374	2,320	2,344	2,582	2,805	8.6%
CENTRAL TEXAS COLLEGE	8,600	9,131	9,022	10,534	11,212	6.4%
CISCO JUNIOR COLLEGE	2,591	2,428	2,589	3,068	3,256	6.1%
CLARENDON COLLEGE	840	856	999	1,155	1,220	5.7%
COASTAL BEND COLLEGE	2,200	2,301	2,568	2,988	3,073	2.8%
COLLEGE OF THE MAINLAND COMMUN	2,719	2,659	2,718	3,101	3,198	3.1%
COLLIN CO COMM COLL DISTRICT	13,396	14,357	15,389	17,771	18,404	3.6%
DALLAS CO COMMUNITY COLLEGE DISTRICT	42,138	42,883	45,499	51,299	51,360	0.1%
DEL MAR COLLEGE	7,492	7,279	7,251	8,096	8,111	0.2%
EL PASO COMMUNITY COLLEGE DISTRICT	17,200	16,692	16,975	19,129	19,892	4.0%
FRANK PHILLIPS COLLEGE	1,044	1,002	911	917	924	0.7%
GALVESTON COLLEGE	1,492	1,405	1,324	1,522	1,651	8.5%
GRAYSON COUNTY COLLEGE	2,963	2,950	3,186	3,664	3,991	8.9%
HILL COLLEGE	2,551	2,457	2,789	3,253	3,321	2.1%
HOUSTON COMMUNITY COLLEGE	29,808	30,837	33,713	38,955	41,274	6.0%
HOWARD COLLEGE	3,042	3,115	3,231	3,744	4,003	6.9%
KILGORE COLLEGE	4,134	4,885	4,877	5,579	5,629	0.9%
LAREDO COMMUNITY COLLEGE	5,662	5,539	5,643	6,242	6,418	2.8%
LEE COLLEGE	4,263	4,434	4,371	4,917	4,916	0.0%
LONE STAR COLLEGE SYSTEM DISTRICT	27,319	28,928	29,681	35,734	38,629	8.1%
MCLENNAN COMMUNITY COLLEGE	6,006	6,160	6,159	7,201	7,690	6.8%
MIDLAND COLLEGE	4,041	3,988	3,938	4,296	4,454	3.7%
NAVARRO COLLEGE	5,370	5,877	6,327	7,630	8,299	8.8%
NORTH CENTRAL TEXAS COLLEGE	4,811	4,969	5,384	5,909	6,144	4.0%
NORTHEAST TEXAS COMM COLLEGE	1,811	1,816	1,863	2,265	2,319	2.4%
ODESSA COLLEGE	3,172	3,208	3,201	3,650	3,697	1.3%
PANOLA COLLEGE	1,405	1,413	1,475	1,577	1,670	5.9%
PARIS JUNIOR COLLEGE	3,035	3,123	3,427	4,301	4,525	5.2%
RANGER COLLEGE	651	617	620	744	1,083	45.6%
SAN JACINTO COMMUNITY COLLEGE	16,959	16,929	17,229	19,119	21,118	10.5%
SOUTH PLAINS COLLEGE	6,716	6,725	6,816	7,510	7,568	0.8%
SOUTH TEXAS COLLEGE	11,812	12,992	14,105	17,893	18,534	3.6%
SOUTHWEST TEXAS JUNIOR COLLEGE	3,360	3,262	3,423	3,965	4,070	2.6%
TARRANT COUNTY COLLEGE DISTRICT	23,658	25,565	27,168	31,553	34,015	7.8%
TEMPLE COLLEGE	3,025	3,353	3,623	4,055	4,233	4.4%
TEXARKANA COLLEGE	3,223	3,416	3,508	3,733	3,371	-9.7%
TEXAS SOUTHMOST COLLEGE	6,931	6,563	6,014	6,548	6,684	2.1%
TRINITY VALLEY COMM COLLEGE	4,649	4,685	4,743	5,547	5,845	5.4%
TYLER JUNIOR COLLEGE	7,234	7,341	7,779	8,845	9,096	2.8%
VERNON COLLEGE	2,091	2,106	2,259	2,487	2,765	11.2%
VICTORIA COLLEGE, THE	2,723	2,684	2,687	2,837	3,054	7.7%
WEATHERFORD COLLEGE	3,412	3,254	3,448	3,959	4,087	3.2%
WESTERN TEXAS COLLEGE	1,360	1,446	1,736	1,822	1,731	-5.0%
WHARTON COUNTY JUNIOR COLLEGE	4,218	4,124	4,213	4,798	4,985	3.9%
Totals	393,329	403,507	421,638	482,489	500,783	3.8%

## Appendix E: Diversity of Revenues

Institution	Federal	State	Local Taxes	Tuition/Fees	Other
ALAMO COMMUNITY COLLEGE DIST	28%	18%	28%	24%	2%
ALVIN COMMUNITY COLLEGE	16%	26%	29%	26%	3%
AMARILLO COLLEGE	29%	25%	16%	22%	8%
ANGELINA COLLEGE	33%	25%	15%	19%	8%
AUSTIN COMMUNITY COLLEGE	18%	19%	32%	26%	4%
BLINN COLLEGE	21%	30%	2%	45%	4%
BRAZOSPORT COLLEGE	21%	20%	31%	21%	7%
CENTRAL TEXAS COLLEGE	35%	15%	7%	40%	3%
CISCO JUNIOR COLLEGE	34%	24%	2%	35%	4%
CLARENDON COLLEGE	29%	24%	3%	28%	16%
COASTAL BEND COLLEGE	34%	25%	5%	30%	5%
COLLEGE OF THE MAINLAND	20%	21%	41%	12%	6%
COLLIN CO COMM COLL DISTRICT	17%	24%	38%	20%	2%
DALLAS CO COMMUNITY COLLEGE DIST	22%	24%	32%	19%	4%
DEL MAR COLLEGE	21%	19%	36%	21%	3%
EL PASO COMMUNITY COLLEGE DIST	37%	19%	18%	22%	3%
FRANK PHILLIPS COLLEGE	24%	30%	12%	26%	9%
GALVESTON COLLEGE	23%	23%	36%	14%	3%
GRAYSON COUNTY COLLEGE	31%	21%	22%	20%	6%
HILL COLLEGE	41%	23%	11%	18%	7%
HOUSTON COMMUNITY COLLEGE	26%	19%	26%	26%	2%
HOWARD COLLEGE	24%	34%	15%	17%	9%
KILGORE COLLEGE	30%	27%	11%	27%	5%
LAREDO COMMUNITY COLLEGE	31%	18%	23%	21%	7%
LEE COLLEGE	29%	21%	29%	18%	4%
LONE STAR COLLEGE SYSTEM DISTRICT	23%	21%	28%	24%	3%
MCLENNAN COMMUNITY COLLEGE	32%	19%	20%	28%	2%
MIDLAND COLLEGE	17%	20%	32%	22%	9%
NAVARRO COLLEGE	40%	24%	5%	30%	2%
NORTH CENTRAL TEXAS COLLEGE	31%	25%	5%	34%	5%
NORTHEAST TEXAS COMM COLLEGE	38%	19%	13%	24%	6%
ODESSA COLLEGE	21%	22%	33%	19%	5%
PANOLA COLLEGE	28%	20%	24%	23%	6%
PARIS JUNIOR COLLEGE	37%	24%	7%	27%	5%
RANGER COLLEGE	30%	26%	3%	33%	8%
SAN JACINTO COMMUNITY COLLEGE	26%	20%	28%	22%	4%
SOUTH PLAINS COLLEGE	31%	30%	17%	20%	3%
SOUTH TEXAS COLLEGE	31%	15%	19%	29%	5%
SOUTHWEST TEXAS JUNIOR COLLEGE	39%	20%	5%	29%	7%
TARRANT COUNTY COLLEGE DISTRICT	22%	17%	41%	15%	5%
TEMPLE COLLEGE	31%	19%	14%	32%	5%
TEXARKANA COLLEGE	27%	39%	4%	24%	6%
TEXAS SOUTHMOST COLLEGE	2%	17%	23%	52%	6%
TRINITY VALLEY COMM COLLEGE	28%	26%	15%	22%	8%
TYLER JUNIOR COLLEGE	25%	21%	18%	28%	7%
VERNON COLLEGE	25%	25%	7%	32%	11%
VICTORIA COLLEGE	33%	18%	13%	27%	10%
WEATHERFORD COLLEGE	21%	22%	22%	25%	11%
WESTERN TEXAS COLLEGE	26%	26%	22%	23%	3%
WHARTON COUNTY JUNIOR COLLEGE	22%	23%	11%	38%	6%

## Appendix F: Equity, Leverage and Debt Burden Ratios

Metrics highlighted do not meet established thresholds.

District	Equity Ratio	Leverage Ratio	Leverage Ratio w/o GO debt	Debt Burden Ratio
ALAMO COMMUNITY COLLEGE DIST	28.3%	2.26	0.82	6.9%
ALVIN COMMUNITY COLLEGE	46.8%	0.80	-	2.1%
AMARILLO COLLEGE	58.2%	0.56	0.00	3.1%
ANGELINA COLLEGE	53.4%	0.62	0.03	3.5%
AUSTIN COMMUNITY COLLEGE	17.3%	3.98	2.96	5.0%
BLINN COLLEGE	51.6%	0.49	0.49	1.6%
BRAZOSPORT COLLEGE	31.5%	1.92	0.26	7.2%
CENTRAL TEXAS COLLEGE	84.4%	-	-	0.0%
CISCO JUNIOR COLLEGE	39.6%	0.82	0.82	3.7%
CLARENDON COLLEGE	69.4%	0.10	0.10	3.8%
COASTAL BEND COLLEGE	53.6%	0.38	0.38	0.6%
COLLEGE OF THE MAINLAND	67.8%	0.02	0.02	0.1%
COLLIN CO COMM COLL DISTRICT	84.1%	0.12	0.02	1.5%
DALLAS CO COMMUNITY COLLEGE DIST	44.3%	0.90	0.09	4.1%
DEL MAR COLLEGE	37.0%	1.31	0.35	6.0%
EL PASO COMMUNITY COLLEGE DIST	47.7%	0.54	0.54	1.8%
FRANK PHILLIPS COLLEGE	73.6%	0.19	0.19	2.3%
GALVESTON COLLEGE	82.3%	0.08	0.08	0.6%
GRAYSON COUNTY COLLEGE	39.2%	1.42	0.37	6.6%
HILL COLLEGE	72.7%	0.13	0.13	0.7%
HOUSTON COMMUNITY COLLEGE	28.0%	2.14	1.73	8.3%
HOWARD COLLEGE	56.0%	0.61	0.13	2.1%
KILGORE COLLEGE	85.0%	0.04	0.04	0.3%
LAREDO COMMUNITY COLLEGE	24.4%	2.44	1.43	6.5%
LEE COLLEGE	47.1%	0.59	0.30	3.5%
LONE STAR COLLEGE SYSTEM DISTRICT	25.8%	2.37	0.24	6.5%
MCLENNAN COMMUNITY COLLEGE	28.0%	2.11	0.37	5.6%
MIDLAND COLLEGE	58.8%	0.56	0.16	4.2%
NAVARRO COLLEGE	44.9%	0.64	0.64	2.7%
NORTH CENTRAL TEXAS COLLEGE	73.6%	0.21	0.21	1.0%
NORTHEAST TEXAS COMM COLLEGE	30.4%	1.76	0.69	4.9%
ODESSA COLLEGE	25.2%	2.59	0.52	1.4%
PANOLA COLLEGE	65.0%	0.28	0.28	1.5%
PARIS JUNIOR COLLEGE	59.4%	0.44	0.44	2.2%
RANGER COLLEGE	57.3%	0.17	0.17	0.8%
SAN JACINTO COMMUNITY COLLEGE	35.2%	1.55	0.02	6.1%
SOUTH PLAINS COLLEGE	82.7%	0.06	0.06	0.1%
SOUTH TEXAS COLLEGE	76.3%	0.21	0.01	1.4%
SOUTHWEST TEXAS JUNIOR COLLEGE	48.6%	0.47	0.47	1.0%
TARRANT COUNTY COLLEGE DISTRICT	91.6%	0.03	-	0.0%
TEMPLE COLLEGE	32.8%	1.41	0.48	3.1%
TEXARKANA COLLEGE	78.4%	-	-	0.0%
TEXAS SOUTHMOST COLLEGE	43.2%	1.05	0.27	7.2%
TRINITY VALLEY COMM COLLEGE	86.2%	0.05	0.05	0.3%
TYLER JUNIOR COLLEGE	47.7%	0.75	0.48	4.1%
VERNON COLLEGE	46.8%	0.70	0.70	2.4%
VICTORIA COLLEGE	61.3%	0.41	0.09	1.9%
WEATHERFORD COLLEGE	74.6%	0.16	0.06	1.1%
WESTERN TEXAS COLLEGE	50.7%	0.58	0.58	3.4%
WHARTON COUNTY JUNIOR COLLEGE	74.2%	0.10	0.10	0.4%

## Appendix G – Definition of Ratios

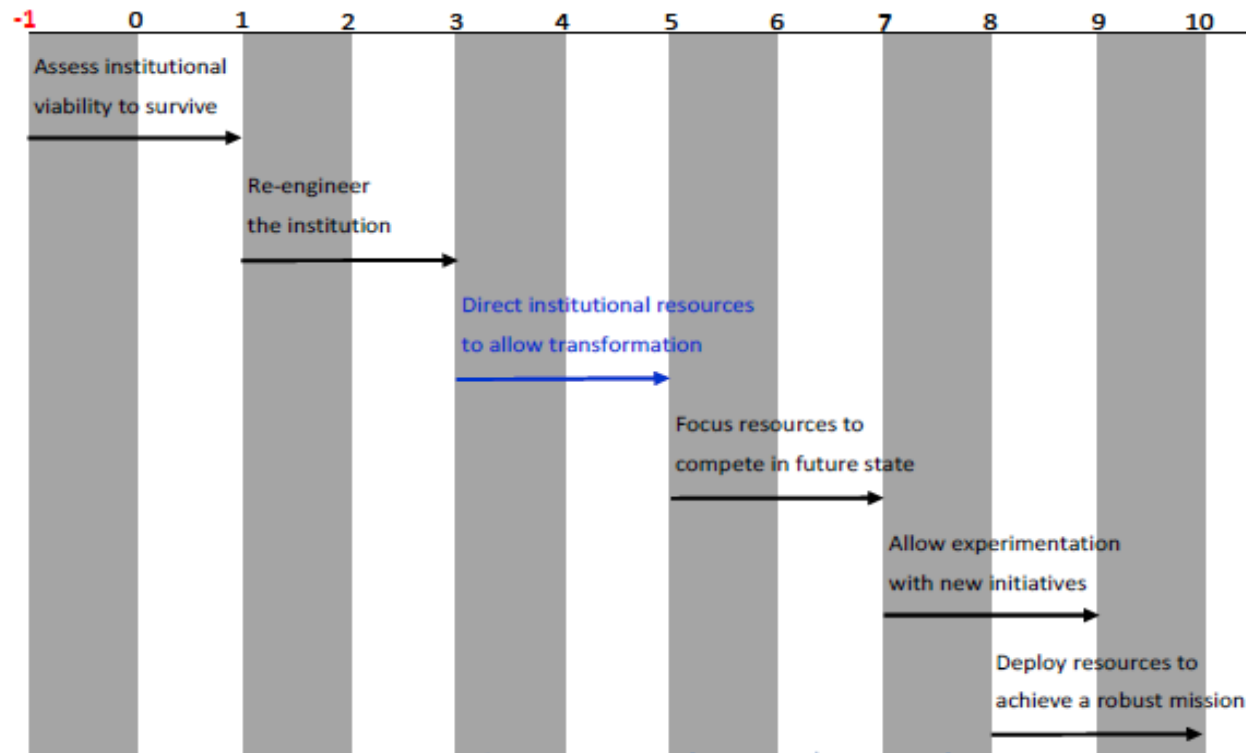
**Composite Financial Index (CFI)** – measures the overall health of an institution by combining four ratios into one metric. The four core ratios include return on net assets, operating margin, primary reserve, and viability ratio. The CFI is computed using a four-step methodology:

1. Computing the values of the core ratios.
2. Calculating strength factors by dividing the core ratios by threshold values.
3. Multiplying the factors by specific weights.
4. Totalling the resulting scores to obtain the composite financial index.

<b>Core Ratio</b>		<b>Value</b>		<b>Strength Factor</b>		<b>Weight</b>		<b>Score</b>	
Return on Net Assets	/	0.02	=	Factor	X	20%	=	Score	
Operating Margin	/	0.007	=	Factor	X	10%	=	Score	
Primary Reserve	/	0.133	=	Factor	X	35%	=	Score	
Viability Ratio	/	0.417	=	Factor	X	35%	=	Score	
Composite Financial Index								=	<b><u>Total Score</u></b>

### Analysis

The calculation process described above is taken directly from KPMG’s publication, *Strategic Financial Analysis for Higher Education*. A negative CFI is an indication of financial instability. CFI numbers generally range from 0.0 to 10.0, although it is possible to have a number higher than 10.0. A CFI below 2.0 calls into question the institution’s ability to carry out existing programs and effectively position itself for future success.



**Return on Net Assets** – measures total economic return during the fiscal year. This measure is similar to the return on equity ratio used in examining for profit concerns and answers the question, “Are they better off financially than they were a year ago?”

Change in net assets

Total net assets (beginning of year)

**Operating Margin** – indicates an operating surplus or deficit in the given fiscal year. This ratio is similar to a profit margin and answers the question, “Did they balance operating expenses with available revenue?” Depreciation expense is included to reflect the use of physical assets in measuring operating performance.

Total income – total operating expense

Total income\*

\*Includes all operating revenue plus formula funding, property tax, and Title IV federal revenue.

**Primary Reserve Ratio** – measures financial strength and flexibility by comparing expendable net assets to total expenses. This measure answers the question, “How long can the institution survive without additional net assets generated by operating revenue?”

Total expendable net assets + unrestricted net assets

Operating expenses + interest expense on debt

**Viability Ratio** – measures the financial health of the institution by comparing total expendable net assets to total non-current liabilities. This ratio is similar to a coverage ratio used in the private sector to indicate the ability of an organization to cover its long term debt and answers the question, “How much of their debt can the institution pay off with existing resources?”

Total expendable net assets + unrestricted net assets

Total non-current liabilities

**Equity ratio** – measures capital resources available and the college’s ability to borrow. This ratio was introduced by the U.S. Department of Education (DOE) as part of its financial responsibility ratios to be used instead of the viability ratio for those institutions that do not have long-term debt. DOE uses financial ratios in part to provide oversight to institutions participating in programs authorized under Title IV of the Higher Education Act.

Net assets

Total assets

**Leverage ratio** – measures the amount of debt in relation to net assets and provides an indication of the amount of interest and principle the institution must absorb in the future. This ratio is similar to the debt to equity ratio used in the private sector. The leverage ratio differs from the viability ratio in that investment in physical plant assets is included as part of the numerator.

Total long term debt\*  
Total net assets

\*Long-term debt includes bonds payable, long-term liabilities, and revenue bonds payable.

**Debt burden ratio** – measures the cost of borrowing relative to overall expenses and examines an institution's dependence on borrowed funds. This metric and others related to debt service and capacity are commonly used by credit analysts to determine institutional credit ratings.

Interest expense on debt  
Operating expenses + interest expense on debt

## Appendix H: Trend Data, Return on Net Assets

District	FY2011	FY2010	FY 2009	FY 2008	FY2007
ALAMO COMMUNITY COLLEGE DIST	-1.2%	1.3%	-1.6%	13.1%	23.1%
ALVIN COMMUNITY COLLEGE	-2.3%	-2.8%	-0.4%	1.7%	3.2%
AMARILLO COLLEGE	1.6%	-4.1%	1.4%	-1.2%	3.5%
ANGELINA COLLEGE	6.0%	3.9%	2.4%	9.4%	7.7%
AUSTIN COMMUNITY COLLEGE	-5.4%	8.1%	7.1%	21.2%	27.0%
BLINN COLLEGE	1.7%	7.2%	7.1%	9.1%	7.7%
BRAZOSPORT COLLEGE	-7.1%	-1.0%	-0.5%	-4.1%	3.1%
CENTRAL TEXAS COLLEGE	7.5%	9.0%	7.2%	10.1%	7.0%
CISCO JUNIOR COLLEGE	8.3%	17.1%	5.8%	3.3%	0.3%
CLARENDON COLLEGE	11.5%	10.3%	31.7%	0.4%	2.0%
COASTAL BEND COLLEGE	6.9%	1.6%	1.1%	0.6%	-5.9%
COLLEGE OF THE MAINLAND	1.1%	-12.2%	4.0%	10.6%	13.8%
COLLIN CO COMM COLL DISTRICT	6.4%	8.4%	10.2%	13.4%	18.5%
DALLAS CO COMMUNITY COLLEGE DIST	-0.7%	2.2%	5.5%	5.3%	5.7%
DEL MAR COLLEGE	9.9%	8.6%	8.0%	-1.9%	10.7%
EL PASO COMMUNITY COLLEGE DIST	5.1%	4.7%	3.6%	5.0%	8.8%
FRANK PHILLIPS COLLEGE	1.7%	-5.0%	10.6%	-0.4%	2.1%
GALVESTON COLLEGE	7.7%	12.6%	10.7%	10.6%	24.7%
GRAYSON COUNTY COLLEGE	6.1%	3.9%	15.1%	2.0%	14.8%
HILL COLLEGE	8.9%	6.3%	4.0%	10.4%	6.2%
HOUSTON COMMUNITY COLLEGE	5.6%	2.7%	3.0%	10.1%	10.9%
HOWARD COLLEGE	7.4%	1.3%	5.9%	15.1%	1.4%
KILGORE COLLEGE	7.1%	5.8%	7.6%	10.6%	8.3%
LAREDO COMMUNITY COLLEGE	8.6%	7.4%	18.1%	11.3%	-7.8%
LEE COLLEGE	10.1%	-2.2%	4.0%	7.5%	6.4%
LONE STAR COLLEGE SYSTEM DISTRICT	10.0%	8.0%	7.2%	16.0%	13.7%
MCLENNAN COMMUNITY COLLEGE	9.8%	3.3%	1.5%	17.0%	8.7%
MIDLAND COLLEGE	7.6%	6.4%	5.6%	10.1%	13.6%
NAVARRO COLLEGE	10.2%	11.4%	7.9%	2.3%	1.5%
NORTH CENTRAL TEXAS COLLEGE	2.9%	7.0%	7.7%	11.4%	15.5%
NORTHEAST TEXAS COMM COLLEGE	22.5%	11.1%	7.4%	-1.1%	6.3%
ODESSA COLLEGE	8.8%	4.1%	10.0%	11.5%	13.1%
PANOLA COLLEGE	15.5%	10.3%	12.1%	14.1%	7.2%
PARIS JUNIOR COLLEGE	16.0%	14.9%	14.1%	22.5%	15.8%
RANGER COLLEGE	18.0%	-0.5%	2.7%	11.6%	0.5%
SAN JACINTO COMMUNITY COLLEGE	3.0%	7.3%	14.3%	7.8%	7.7%
SOUTH PLAINS COLLEGE	8.5%	10.2%	13.4%	9.9%	10.4%
SOUTH TEXAS COLLEGE	11.9%	13.4%	11.4%	13.9%	13.5%
SOUTHWEST TEXAS JUNIOR COLLEGE	6.7%	7.9%	5.8%	0.5%	0.8%
TARRANT COUNTY COLLEGE DISTRICT	6.1%	9.9%	13.4%	19.0%	22.9%
TEMPLE COLLEGE	18.0%	15.2%	6.5%	14.1%	11.7%
TEXARKANA COLLEGE	-24.8%	-13.7%	-4.1%	3.0%	1.1%
TEXAS SOUTHMOST COLLEGE	5.2%	4.5%	13.2%	14.3%	13.5%
TRINITY VALLEY COMM COLLEGE	-1.0%	2.7%	1.9%	6.2%	4.9%
TYLER JUNIOR COLLEGE	13.8%	10.0%	6.4%	8.5%	18.0%
VERNON COLLEGE	9.0%	9.1%	5.7%	3.8%	4.0%
VICTORIA COLLEGE	-1.9%	4.6%	3.2%	4.0%	3.7%
WEATHERFORD COLLEGE	13.1%	12.8%	12.7%	37.0%	9.6%
WESTERN TEXAS COLLEGE	8.4%	6.2%	1.1%	58.6%	11.0%
WHARTON COUNTY JUNIOR COLLEGE	6.3%	8.5%	-0.7%	3.0%	7.4%

## Appendix I: Trend Data, Operating Margin

District	FY2011	FY2010	FY 2009	FY 2008	FY2007
ALAMO COMMUNITY COLLEGE DIST	4.8%	0.8%	-0.9%	9.5%	14.3%
ALVIN COMMUNITY COLLEGE	-0.7%	-1.6%	-0.2%	1.1%	2.0%
AMARILLO COLLEGE	3.6%	0.3%	5.0%	4.7%	5.1%
ANGELINA COLLEGE	4.4%	3.4%	2.2%	3.3%	4.7%
AUSTIN COMMUNITY COLLEGE	3.0%	2.7%	2.7%	7.0%	7.5%
BLINN COLLEGE	1.2%	6.3%	6.5%	7.6%	6.3%
BRAZOSPORT COLLEGE	-0.2%	-1.2%	-0.7%	-6.4%	3.7%
CENTRAL TEXAS COLLEGE	8.4%	9.7%	8.0%	10.4%	7.4%
CISCO JUNIOR COLLEGE	6.6%	8.1%	3.7%	1.8%	0.2%
CLARENDON COLLEGE	15.6%	13.1%	13.3%	0.6%	3.0%
COASTAL BEND COLLEGE	3.0%	0.6%	0.5%	0.3%	-3.3%
COLLEGE OF THE MAINLAND	-1.1%	-7.5%	2.3%	5.7%	7.0%
COLLIN CO COMM COLL DISTRICT	15.5%	18.5%	22.2%	27.3%	32.0%
DALLAS CO COMMUNITY COLLEGE DIST	2.1%	2.2%	5.8%	5.9%	6.2%
DEL MAR COLLEGE	11.7%	5.5%	5.0%	-1.3%	6.8%
EL PASO COMMUNITY COLLEGE DIST	4.4%	2.9%	2.5%	3.4%	5.6%
FRANK PHILLIPS COLLEGE	-3.6%	-7.5%	11.5%	-0.4%	2.5%
GALVESTON COLLEGE	8.5%	10.9%	9.3%	9.1%	15.4%
GRAYSON COUNTY COLLEGE	10.2%	3.6%	13.3%	8.3%	12.8%
HILL COLLEGE	5.4%	5.8%	3.2%	9.8%	6.2%
HOUSTON COMMUNITY COLLEGE	11.6%	2.0%	2.6%	8.2%	8.3%
HOWARD COLLEGE	4.7%	1.0%	5.6%	9.6%	1.4%
KILGORE COLLEGE	7.0%	6.7%	9.2%	12.4%	9.7%
LAREDO COMMUNITY COLLEGE	8.6%	3.2%	6.8%	4.4%	-3.3%
LEE COLLEGE	5.7%	-1.4%	2.8%	4.6%	4.1%
LONE STAR COLLEGE SYSTEM DISTRICT	11.2%	5.3%	5.1%	10.2%	8.6%
MCLENNAN COMMUNITY COLLEGE	5.3%	1.9%	1.0%	10.0%	5.3%
MIDLAND COLLEGE	4.6%	7.9%	7.3%	11.8%	14.8%
NAVARRO COLLEGE	3.2%	5.7%	5.3%	1.7%	1.1%
NORTH CENTRAL TEXAS COLLEGE	3.1%	5.1%	6.9%	10.0%	12.8%
NORTHEAST TEXAS COMM COLLEGE	5.8%	4.3%	1.9%	-0.6%	1.1%
ODESSA COLLEGE	5.6%	2.7%	5.0%	6.5%	7.2%
PANOLA COLLEGE	11.6%	8.9%	9.9%	10.7%	5.5%
PARIS JUNIOR COLLEGE	11.6%	10.8%	10.8%	14.4%	9.6%
RANGER COLLEGE	5.2%	-0.3%	1.5%	5.7%	0.3%
SAN JACINTO COMMUNITY COLLEGE	8.0%	7.1%	13.0%	7.1%	6.9%
SOUTH PLAINS COLLEGE	6.2%	6.9%	8.8%	6.3%	6.3%
SOUTH TEXAS COLLEGE	15.8%	14.6%	12.4%	16.5%	15.3%
SOUTHWEST TEXAS JUNIOR COLLEGE	3.4%	2.9%	2.4%	0.2%	0.4%
TARRANT COUNTY COLLEGE DISTRICT	12.9%	21.5%	28.5%	36.3%	36.7%
TEMPLE COLLEGE	11.0%	7.3%	3.4%	7.2%	6.2%
TEXARKANA COLLEGE	-36.0%	-19.1%	-6.3%	4.5%	1.8%
TEXAS SOUTHMOST COLLEGE	13.7%	4.9%	15.2%	15.2%	13.1%
TRINITY VALLEY COMM COLLEGE	1.5%	2.5%	2.1%	6.7%	5.4%
TYLER JUNIOR COLLEGE	14.7%	8.8%	5.9%	7.9%	13.9%
VERNON COLLEGE	5.9%	5.9%	3.6%	0.2%	2.5%
VICTORIA COLLEGE	3.7%	3.8%	4.3%	6.5%	4.8%
WEATHERFORD COLLEGE	13.2%	12.3%	12.0%	24.0%	7.7%
WESTERN TEXAS COLLEGE	0.6%	4.0%	0.8%	24.4%	5.8%
WHARTON COUNTY JUNIOR COLLEGE	5.3%	8.1%	-0.8%	3.5%	8.3%



## Appendix J: Trend Data, Primary Reserve Ratio

District	FY2011	FY2010	FY 2009	FY 2008	FY2007
ALAMO COMMUNITY COLLEGE DIST	0.22	0.22	0.24	0.32	0.30
ALVIN COMMUNITY COLLEGE	0.16	0.17	0.21	0.23	0.21
AMARILLO COLLEGE	0.36	0.34	0.38	0.41	0.40
ANGELINA COLLEGE	0.35	0.34	0.37	0.37	0.32
AUSTIN COMMUNITY COLLEGE	0.15	0.16	0.16	0.19	0.14
BLINN COLLEGE	0.15	0.19	0.21	0.22	0.21
BRAZOSPORT COLLEGE	0.04	0.18	0.19	0.29	0.31
CENTRAL TEXAS COLLEGE	0.70	0.68	0.71	0.78	0.76
CISCO JUNIOR COLLEGE	0.29	0.32	0.29	0.28	0.28
CLARENDON COLLEGE	0.40	0.20	0.21	0.33	0.33
COASTAL BEND COLLEGE	0.19	0.17	0.17	0.20	0.20
COLLEGE OF THE MAINLAND	0.25	0.27	0.38	0.45	0.40
COLLIN CO COMM COLL DISTRICT	1.49	1.54	1.65	2.00	2.01
DALLAS CO COMMUNITY COLLEGE DIST	0.37	0.43	0.50	0.54	0.50
DEL MAR COLLEGE	0.19	0.19	0.19	0.19	0.25
EL PASO COMMUNITY COLLEGE DIST	0.27	0.29	0.35	0.36	0.54
FRANK PHILLIPS COLLEGE	0.20	0.18	0.22	0.23	0.31
GALVESTON COLLEGE	0.49	0.55	0.65	0.64	0.60
GRAYSON COUNTY COLLEGE	0.58	0.61	0.70	0.62	0.67
HILL COLLEGE	0.29	0.31	0.36	0.38	0.40
HOUSTON COMMUNITY COLLEGE	0.19	0.19	0.20	0.23	0.21
HOWARD COLLEGE	0.30	0.30	0.38	0.41	0.36
KILGORE COLLEGE	0.35	0.36	0.35	0.44	0.32
LAREDO COMMUNITY COLLEGE	0.34	0.30	0.39	0.35	0.30
LEE COLLEGE	0.20	0.17	0.22	0.30	0.31
LONE STAR COLLEGE SYSTEM DISTRICT	0.16	0.15	0.20	0.22	0.21
MCLENNAN COMMUNITY COLLEGE	0.11	0.13	0.18	0.20	0.16
MIDLAND COLLEGE	0.35	0.28	0.31	0.37	0.36
NAVARRO COLLEGE	0.21	0.21	0.23	0.21	0.23
NORTH CENTRAL TEXAS COLLEGE	0.44	0.46	0.53	0.61	0.57
NORTHEAST TEXAS COMM COLLEGE	0.13	0.11	0.09	0.08	0.23
ODESSA COLLEGE	0.52	0.50	0.58	0.71	0.74
PANOLA COLLEGE	0.64	0.56	0.52	0.52	0.51
PARIS JUNIOR COLLEGE	0.52	0.54	0.54	0.44	0.37
RANGER COLLEGE	0.32	0.30	0.33	0.30	0.22
SAN JACINTO COMMUNITY COLLEGE	0.39	0.53	0.64	0.56	0.53
SOUTH PLAINS COLLEGE	0.20	0.18	0.15	0.16	0.11
SOUTH TEXAS COLLEGE	0.69	0.60	0.67	0.71	0.71
SOUTHWEST TEXAS JUNIOR COLLEGE	0.20	0.20	0.19	0.16	0.32
TARRANT COUNTY COLLEGE DISTRICT	0.50	0.57	0.65	0.76	2.01
TEMPLE COLLEGE	0.46	0.38	0.39	0.41	0.42
TEXARKANA COLLEGE	0.08	0.36	0.63	0.79	0.81
TEXAS SOUTHMOST COLLEGE	0.44	0.38	0.44	0.40	0.27
TRINITY VALLEY COMM COLLEGE	0.14	0.31	0.35	0.40	0.34
TYLER JUNIOR COLLEGE	0.02	0.11	0.20	0.20	0.22
VERNON COLLEGE	0.30	0.24	0.22	0.20	0.20
VICTORIA COLLEGE	0.21	0.22	0.28	0.41	0.65
WEATHERFORD COLLEGE	1.06	0.90	0.87	0.83	0.61
WESTERN TEXAS COLLEGE	0.05	0.11	0.06	0.07	0.07
WHARTON COUNTY JUNIOR COLLEGE	0.47	0.49	0.52	0.60	0.63

## Appendix K: Trend Data, Viability Ratio

District	FY2011	FY2010	FY 2009	FY 2008	FY2007
ALAMO COMMUNITY COLLEGE DIST	0.15	0.16	0.15	0.17	0.16
ALVIN COMMUNITY COLLEGE	0.39	0.38	0.43	0.41	0.34
AMARILLO COLLEGE	0.56	0.51	0.64	0.86	1.97
ANGELINA COLLEGE	0.58	0.50	0.46	0.55	0.83
AUSTIN COMMUNITY COLLEGE	0.12	0.15	0.14	0.15	0.17
BLINN COLLEGE	0.33	0.36	0.56	0.52	0.40
BRAZOSPORT COLLEGE	0.03	0.16	0.15	0.20	0.78
CENTRAL TEXAS COLLEGE	76.13	70.27	69.79	79.38	25.72
CISCO JUNIOR COLLEGE	0.52	0.56	0.44	0.40	0.37
CLARENDON COLLEGE	0.72	0.30	0.73	0.97	0.85
COASTAL BEND COLLEGE	0.98	1.57	1.42	1.34	1.26
COLLEGE OF THE MAINLAND	3.49	3.30	5.06	6.48	4.40
COLLIN CO COMM COLL DISTRICT	4.32	3.88	3.42	3.47	2.95
DALLAS CO COMMUNITY COLLEGE DIST	0.42	0.44	0.47	1.62	1.31
DEL MAR COLLEGE	0.17	0.17	0.15	0.14	0.20
EL PASO COMMUNITY COLLEGE DIST	0.71	0.70	0.72	0.69	0.98
FRANK PHILLIPS COLLEGE	0.79	0.59	0.67	0.62	0.68
GALVESTON COLLEGE	4.53	4.04	3.67	2.85	2.39
GRAYSON COUNTY COLLEGE	0.43	0.41	0.36	0.28	1.01
HILL COLLEGE	2.54	1.82	1.67	1.56	1.37
HOUSTON COMMUNITY COLLEGE	0.12	0.12	0.12	0.12	0.12
HOWARD COLLEGE	0.49	0.44	0.55	0.54	0.43
KILGORE COLLEGE	6.39	5.89	4.44	4.08	2.42
LAREDO COMMUNITY COLLEGE	0.29	0.23	0.38	0.31	0.26
LEE COLLEGE	0.33	0.27	0.30	0.53	0.48
LONE STAR COLLEGE SYSTEM DISTRICT	0.09	0.06	0.17	0.27	0.22
MCLENNAN COMMUNITY COLLEGE	0.09	0.09	0.12	0.12	0.09
MIDLAND COLLEGE	0.42	0.31	0.30	0.33	0.34
NAVARRO COLLEGE	0.43	0.40	0.29	0.28	0.29
NORTH CENTRAL TEXAS COLLEGE	2.38	2.16	1.88	1.82	1.48
NORTHEAST TEXAS COMM COLLEGE	0.13	0.15	0.11	0.09	0.23
ODESSA COLLEGE	0.26	1.08	1.09	1.17	1.07
PANOLA COLLEGE	2.01	1.45	1.11	0.94	2.23
PARIS JUNIOR COLLEGE	1.18	1.11	1.12	0.86	0.68
RANGER COLLEGE	3.87	2.30	17.48	9.02	7.57
SAN JACINTO COMMUNITY COLLEGE	0.26	0.38	0.37	1.39	1.14
SOUTH PLAINS COLLEGE	3.75	6.23	3.99	1.65	2.17
SOUTH TEXAS COLLEGE	2.01	1.45	1.22	1.03	0.88
SOUTHWEST TEXAS JUNIOR COLLEGE	0.95	0.95	0.78	0.62	1.13
TARRANT COUNTY COLLEGE DISTRICT	6.23	4.69	3.24	2.45	6.81
TEMPLE COLLEGE	0.48	0.52	0.45	0.41	0.34
TEXARKANA COLLEGE	4.60	15.71	24.12	27.77	26.02
TEXAS SOUTHMOST COLLEGE	0.31	0.25	0.25	0.22	0.16
TRINITY VALLEY COMM COLLEGE	3.12	5.30	4.22	3.65	2.61
TYLER JUNIOR COLLEGE	0.02	0.11	0.24	0.20	0.20
VERNON COLLEGE	0.52	0.68	0.52	0.44	0.41
VICTORIA COLLEGE	0.65	0.55	0.48	0.61	1.03
WEATHERFORD COLLEGE	4.79	5.34	4.38	3.48	2.13
WESTERN TEXAS COLLEGE	0.10	0.22	0.24	0.33	0.30
WHARTON COUNTY JUNIOR COLLEGE	4.31	3.79	2.71	2.61	2.32

## Appendix L: Trend Data, Composite Financial Index

District	FY2011	FY2010	FY 2009	FY 2008	FY2007
ALAMO COMMUNITY COLLEGE DIST	1.28	0.97	0.47	3.63	5.28
ALVIN COMMUNITY COLLEGE	0.43	0.27	0.84	1.26	1.45
AMARILLO COLLEGE	2.09	0.97	2.39	2.35	3.79
ANGELINA COLLEGE	2.65	2.18	1.92	2.84	2.98
AUSTIN COMMUNITY COLLEGE	0.37	1.74	1.63	3.74	4.27
BLINN COLLEGE	1.02	2.42	2.66	3.02	2.56
BRAZOSPORT COLLEGE	(0.61)	0.33	0.48	(0.40)	2.31
CENTRAL TEXAS COLLEGE	67.70	63.05	62.31	71.18	25.35
CISCO JUNIOR COLLEGE	2.98	4.19	2.25	1.66	1.10
CLARENDON COLLEGE	5.04	3.68	6.23	1.79	2.21
COASTAL BEND COLLEGE	2.45	2.00	1.83	1.74	0.52
COLLEGE OF THE MAINLAND	3.55	1.21	5.99	8.48	7.12
COLLIN CO COMM COLL DISTRICT	10.40	10.79	11.41	13.42	14.19
DALLAS CO COMMUNITY COLLEGE DIST	1.55	2.02	3.10	4.16	3.88
DEL MAR COLLEGE	3.30	2.30	2.15	0.24	2.88
EL PASO COMMUNITY COLLEGE DIST	2.44	2.23	2.23	2.51	3.92
FRANK PHILLIPS COLLEGE	0.86	(0.59)	3.85	1.02	1.95
GALVESTON COLLEGE	7.06	7.65	7.18	6.43	8.24
GRAYSON COUNTY COLLEGE	3.96	2.85	5.55	3.24	5.91
HILL COLLEGE	4.56	3.80	3.21	4.75	3.71
HOUSTON COMMUNITY COLLEGE	2.82	1.17	1.30	2.88	2.92
HOWARD COLLEGE	2.59	1.43	2.87	4.42	1.66
KILGORE COLLEGE	8.00	7.44	6.72	7.42	5.10
LAREDO COMMUNITY COLLEGE	3.23	2.19	4.13	2.94	(0.24)
LEE COLLEGE	2.64	0.24	1.63	2.64	2.44
LONE STAR COLLEGE SYSTEM DISTRICT	3.10	2.00	2.12	3.85	3.33
MCLENNAN COMMUNITY COLLEGE	2.10	1.02	0.88	3.76	2.11
MIDLAND COLLEGE	2.68	2.77	2.66	3.94	4.70
NAVARRO COLLEGE	2.38	2.84	2.39	1.26	1.17
NORTH CENTRAL TEXAS COLLEGE	3.89	4.45	4.73	5.69	6.12
NORTHEAST TEXAS COMM COLLEGE	3.54	2.16	1.34	0.11	1.59
ODESSA COLLEGE	3.28	3.04	4.17	4.93	5.20
PANOLA COLLEGE	6.57	5.00	4.93	5.10	4.71
PARIS JUNIOR COLLEGE	5.60	5.39	5.31	6.18	4.50
RANGER COLLEGE	6.63	2.62	16.03	10.34	7.03
SAN JACINTO COMMUNITY COLLEGE	2.68	3.46	5.29	4.45	4.11
SOUTH PLAINS COLLEGE	5.42	7.72	6.32	3.69	4.05
SOUTH TEXAS COLLEGE	6.93	6.22	5.71	6.48	6.14
SOUTHWEST TEXAS JUNIOR COLLEGE	2.47	2.53	2.08	1.03	1.93
TARRANT COUNTY COLLEGE DISTRICT	8.99	9.49	9.85	11.16	18.53
TEMPLE COLLEGE	4.99	4.00	2.53	3.88	3.44
TEXARKANA COLLEGE	(3.54)	10.04	20.59	26.33	24.34
TEXAS SOUTHMOST COLLEGE	3.87	2.35	4.86	4.84	4.06
TRINITY VALLEY COMM COLLEGE	3.10	5.90	4.96	5.70	4.34
TYLER JUNIOR COLLEGE	3.53	2.64	2.20	2.68	4.52
VERNON COLLEGE	2.97	2.95	2.10	1.32	1.64
VICTORIA COLLEGE	1.46	2.05	2.07	2.91	3.63
WEATHERFORD COLLEGE	10.00	9.90	8.95	12.22	5.46
WESTERN TEXAS COLLEGE	1.14	1.67	0.58	9.81	2.37
WHARTON COUNTY JUNIOR COLLEGE	6.24	6.49	3.45	4.58	5.53

## **Appendix M: Verbatim Feedback Received from the Institutions**

### **Alamo Colleges**

Thank you for allowing us an opportunity to comment on the revised draft of the Financial Condition Analysis Report to be presented to THECB Board in April. We are disappointed that the feedback from numerous colleges regarding the misleading calculations on certain debt ratios did not lead to changing those ratios; however we understand the comments below will be included in the appendix of the report.

The calculations of the ratios for viability, leverage and debt burden do not appropriately exclude tax-supported debt, causing institutions who have recently undertaken a large capital improvement program using 20 to 30 year tax-supported debt to present a false “facing potential financial stress” status. The use of tax supported debt is a strategic decision by a Board of Trustees to fund a long term capital program. The levy to pay the debt is assessed annually and does not require net assets to support the repayment. The inclusion of restricted debt in operating ratios creates an apples and oranges situation; which is further evidenced by many of the institutions listed as “facing potential financial stress” have the highest Debt Bond Rating (AAA). The measures themselves are not meaningful if it takes 20 to 30 years to come within target especially when the Debt tax levy is set to cover the restricted debt satisfactorily. Because the Viability Ratio makes up 35 percent of the Composite Financial Index (CFI), CFI is also negatively impacted and thus, does not provide the balanced indicator of financial health that was intended. On page 10, the sentence “local taxpayer fatigue is also a possibility” should be removed as it is unclear as to what “fatigue” is. The level of tax levies are ultimately within the control of the local taxpayer. They have the option to rollback maintenance and operation levies; and the levy to service GO debt is voter authorized prior to issuance of debt.

**For Alamo Colleges, when tax-supported debt is excluded, the below debt ratios and CFI exceed the targets which would place us in a “no indication of financial stress” status, consistent with our recently affirmed AAA bond rating.**

#### **Viability Ratio (Target > 0.41):**

The viability ratio seeks to measure the financial health of the institution by comparing total expendable net assets to total non-current liabilities. It is comparable to a coverage ratio used in the private sector. The flaw in the calculation is including tax-supported debt, which is levied annually against the tax base. The coverage ratio is meant to measure the extent revenue-supported debt is covered.

	Exp net assets and unrestricted net assets	Long Term Debt (includes tax supported)	Should Be (only revenue supported debt)	New calculation	New CFI (target > 2)	Comment
Viability Ratio	\$95,032,727	\$619,999,914	\$65,935,000	1.44	2.37	*

\* Appropriately using revenue supported debt is more accurate as to what this ratio is measuring – the ability to “cover” debt with net asset balances. Tax supported debt is “covered” with a levy each year and is not accumulated in net assets.

**Leverage ratio (Target < 2.0):**

The leverage ratio is an indicator of the amount of interest and principal the institution must absorb in the future. This would be an accurate indicator if only revenue debt was included in the ratio. Tax supported debt is levied annually and is levied sufficient to pay principal and interest on the debt.

	Net assets	Long Term Debt (includes tax supported)	Should Be (only revenue supported debt)	New calculation	Comment
Leverage ratio	\$274,082,255	\$619,999,914	\$65,935,000	0.24	*

\* Using revenue supported debt is more accurate as to what this ratio is measuring – the ability to absorb interest and principal in the future. Tax supported debt is “covered” with a levy each year and is not accumulated in net assets.

**Debt Burden ratio (Target < 5%):**

The debt burden ratio is meant to measure the cost of borrowing relative to overall expenses and examine an institution’s dependence on borrowed funds. This metric is meant to capture the extent of revenue-support debt costs to operating expense and not tax-supported debt.

	Total operating expenses less depreciation less auxiliary plus debt service	Long Term Debt (includes tax supported)	Should Be only revenue supported debt	New calculation	Comment
Debt burden ratio	\$373,189,802	\$27,407,637	\$3,105,000	.8%	*

\* The debt service should only be for revenue supported debt in relation to the operating expenses.

**OTHER COMMENTS:**

- Highlight the sentence in the Executive Summary that *This analysis is intended to provide a broad financial evaluation of the state’s public community college districts. Other key performance indicators must be taken into account to gain a more robust and complete understanding of institutional strength.* Concern that the data being presented are data points and not the whole story – could be taken out of context.
- **Other qualitative categories could be included such as bond ratings, strength of the local economy and tax base.**
- Appendix: Allow for management comments explaining what is driving the numbers including local governance decisions of our elected Board of Trustees. For instance, Alamo made a strategic decision for the future that impacted the return on Net assets in FY11: \$4.3 million in increased expense from the retirement incentive and from an increase in the allowance for bad debt expense.

**Blinn College**

As an institution that has utilized the Composite Financial Index (CFI) for several years, I would suggest the Coordinating Board follow the advice of KPMG, the consulting firm that developed the index many years ago. KPMG recommends that the scoring for each of the four components that make up the CFI be capped at a maximum value of 10. According to their publication, Strategic Financial Analysis for Higher Education, “extending strength factors beyond the score of 10 will create a higher CFI and may unduly mask a weakness in another ratio.”

It is also our experience that one cannot over-emphasize the need for caution when it comes to focusing on one year’s results. These ratios will fluctuate from year-to-year. There are, in fact, legitimate reasons for temporary drops in certain numbers, many of which will have very positive impacts on the future of the college. For example, most bond issuances will cause a temporary drop in certain ratios. The college books will recognize a bond indebtedness 12 to 24 months before any increases in revenue generated from the bond projects have the opportunity to be realized.

## McLennan Community College

McLennan Community College (MCC) agrees with using metrics to better understand the financial position of the college. In fact, our college utilizes ratio analysis and also bench marking from published data bases for informed financial and institutional operational decisions. The Report of Fundable Operating Expenses (RFOE) and the Community College Annual Reporting and Analysis Tool (CARAT) found on the Texas Higher Education Coordinating Board web site are two examples of data bases or reports commonly used.

However, when colleges are being categorized and measured against each other, the uniqueness of each community college in Texas is not readily apparent. Sources of revenue and priorities for expenditures are very different at the 50 districts and reflect community priorities, size, location and support, as well as local economic conditions and influencers. Therefore, while financial measures are helpful, they do not tell the whole story of an institution's long-term financial stability. There are decisions and factors that influence operations and financial reports of individual colleges. Some specifics include:

- The largest districts have considerably larger tax bases, so their sources of revenue are very different, and their tuition is typically much lower. Other smaller colleges' tax bases are influenced from natural resources or the addition or reduction of area employers.
- Some colleges, like MCC, have many more full-time faculty than more urban colleges who have access to larger numbers of part-time faculty and thus have the capacity to prioritize part-time faculty as part of their operational plan. Our use of more full-time faculty means higher expenditures for benefits.
- McLennan Community College has a history of strategic planning for new and rehabbed facilities and for reducing deferred maintenance. Our college has utilized net assets, annual commitments in its Capital Improvement Fund, and also both revenue and general obligation bonds to fund deferred maintenance as well as new projects. The outcome has been virtual elimination of deferred maintenance, appropriate facilities for programs, and updated infrastructure that will serve the college well for many years.
- The above factors contribute to the Board of Trustees' decisions to invest as much of the college's available resources into programming for students and community and holding of reserve funds sufficient for the "rainy day," but not to excessive amounts which might suggest an unfairness to local tax payers. The Board approved a financial stability policy as well as a debt management policy to ensure long-term financial health for the institution, and these are both followed.

Our locally-elected Board of Trustees is not unlike other Texas community college boards who review and evaluate initiatives and needs and who then approve expenditures for institutional priorities. They are further like other college boards who have successfully passed general obligation bond issues to ensure long-term integrity of the physical plant, to construct buildings to support enrollment growth, and to provide new programs that reflect training priorities of the local community. What this means at McLennan Community College is that being proactive for the long term has meant (1)

passing general obligation bonds and selectively selling revenue bonds for facilities, (2) taking advantage of land opportunities with the realized goal of replacing lost net assets from these decisions, and (3) eliminating critical deferred maintenance while utilizing a continuous five-year plan for maintenance of all facilities.

The ratios presented in this report are standard financial ratios. Four of the eight ratios presented include long-term debt in the calculation, which can have a misleading effect. This is especially true when the debt is general obligation bond indebtedness that has ad valorem tax revenue assessed to satisfy the annual payment obligations. The tax rate is approved annually according to statute to satisfy the payment obligations without any direct effect on the taxes assessed for maintenance and operations. Both ad valorem tax rates have a statutorily set maximum. Many of the institutions with long-term general obligation debt are not favorably labeled in this report. Many of the same institutions have an excellent bond rating by the national rating agencies. While we had a very positive rating of AA in our last general obligation bond, we purchased bond insurance which raised the level to AAA. The rating agencies look extensively into the institution's financial stability and strengths and review additional data that go far beyond the limited ratio analysis presented in this report when making decisions.

For McLennan Community College, three of the four ratios that are labeled as financial stress are primarily related to general obligation bond issues which are backed by the tax payer and supported by bond insurance. Our position is that our local tax payers approved general obligation tax bond issues to show local support to our college. Our general obligation bond debt reflects our community's support of the college and yet creates a negative ratio. The fourth ratio suggesting stress is related to the primary reserve and is the result of the college's investment in two pieces of property in FY10 for a total of \$2,901,614 at the time the opportunities became available. One of these pieces of property is located directly across the street from the college on College Drive and had been monitored since 1990 for purchase and was purchased when the developer eventually went bankrupt—allowing the college to purchase the property at a reasonable price. The second piece adjoins the college and a major traffic loop and is important for future expansion and was purchased at the time it became available. Both pieces became available in the same fiscal year, and the Board chose to invest in the opportunity for both—prioritizing restoring the reserve fund to an acceptable level at the soonest possible time. At the end of FY12, the primary reserve will be restored to an appropriate ratio. Trends show this ratio was slightly below the appropriate measure for one year on the current report and will be in compliance in August of 2012. If the general obligation bonds were removed from the other three ratios, they would also be at levels that would not reflect a negative view.

For these reasons, McLennan Community College believes the ratios may be misleading because they only provide a snapshot and do not reflect the financial condition of our college or of other institutions.



## **Texarkana College**

Texarkana College (TC) recognizes the unsatisfactory financial analysis presented in this report and has taken corrective action over the last year to secure a stable financial future for the institution. As mentioned in the report, the TC Board of Trustees implemented a leadership change in the spring of 2011. Under this new leadership, the college has drastically reduced the budgeted 2011-2012 deficit by implementing organizational restructuring to improve staff efficiencies, renegotiating a major software contract, increasing tuition and fees, and increasing the tax rate. In February 2012, the board took action on further cost saving measures by approving the President's recommendation for mid-year reductions in force and the elimination of several non-mission critical programs, including all athletic programs.

To help sustain and secure the future of Texarkana College, the administration and board have implemented several measures to increase revenue sources. In spring 2012, TC launched a major fundraising campaign. To date, donations of over \$1.3 million dollars have been received and an additional \$4 million has been pledged over the next four years as a challenge matching grant. After considerable analysis, the administration is also recommending strategic increases in tuition and mandatory fees for implementation in fall 2012. Furthermore, since Texarkana College serves a large area that is not a part of the taxing district, plans and discussions are underway for a possible November 2012 tax annexation election that would provide much needed additional long-term revenue.

In addition to addressing expense and revenue issues, Texarkana College has made significant progress with existing issues in internal controls. Even though the latest audited financial statements show the alarming results of the year ended August 31, 2011, drastic changes have been implemented since that time to correct many of the problems of the past. Under the leadership of a new business office team, a strong system of internal controls is being implemented to protect and properly account for all college assets and secure the financial stability of Texarkana College for the future. Based on the actions taken by the board and new administration, along with the ongoing evaluations and future plans, Texarkana College will regain its strong financial position over the next few years to ensure its ability to fulfill its mission to provide for the educational needs of the Northeast Texas region it serves.

## **Victoria College**

During the FYE 08-31-11, Victoria College moved all of its endowments and scholarship funds to our Foundation to manage and disburse. On 11-13-2010, we transferred \$3,306,819 from net assets for that year which resulted in a drop in net assets of \$713,568 instead of what should have been an increase of \$2,593,251. This has caused our return on net asset ratio to be negative which also made our CFI out of normal range. So if we didn't transfer those assets, we would have had a positive change in net assets, a 6.84 percent return on investment, an operating margin of 3.72 percent, a primary reserve of 0.21, a viability ratio of 0.65, and a CFI of 2.33. We have a very strong financial condition, and Standard and Poor's just two weeks ago increased our bond rating to AA.



This document is available on the Texas Higher Education Coordinating Board Website: <http://www.thecb.state.tx.us>.

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