

VICTORIA COLLEGE FOUNDATION, INC.

VICTORIA, TEXAS

Financial Statements

August 31, 2013 and 2012

VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS

Financial Statements
August 31, 2013 and 2012

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BUMGARDNER, MORRISON & COMPANY, L.L.P.

BMC

CERTIFIED PUBLIC ACCOUNTANTS

JOSEPH B. BUMGARDNER, CPA
(1911-2002)
JACK R. MORRISON, SR., CPA
(1922-1997)

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November 5, 2013

Independent Auditors' Report

Board of Directors
Victoria College Foundation, Inc.
Victoria, Texas

We have audited the accompanying financial statements of Victoria College Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Victoria College Foundation, Inc. as of August 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 13-14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bumgardner, Morrison + Company, LLP

VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS

Statements of Financial Position
August 31, 2013 and 2012

	2013	2012
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 1,253,054	\$ 844,553
Tuition assistance receivable	1,942	1,942
Pledges receivable		
Temporary restricted	3,699	2,842
Permanently restricted	-	20,000
Due from Victoria College	-	35,923
Other current assets	-	450
Total Current Assets	1,258,695	905,710
Other Assets		
Endowment investments - money market funds	291,131	322,571
Endowment investments - equity securities	6,459,631	6,808,134
Total Investments - permanently restricted	6,750,762	7,130,705
Endowment investments - temporarily restricted	2,302,154	1,010,644
Total Other Assets	9,052,916	8,141,349
Total Assets	\$ 10,311,611	\$ 9,047,059
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Due to Victoria College	\$ 23,605	\$ -
Total Liabilities	23,605	-
Net Assets		
Unrestricted	109,994	73,576
Temporarily restricted	3,427,249	1,822,778
Permanently restricted	6,750,763	7,150,705
Total Net Assets	10,288,006	9,047,059
Total Liabilities and Net Assets	\$ 10,311,611	\$ 9,047,059

The accompanying notes are an integral part of these financial statements.

VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS

Statements of Activities
Years Ended August 31, 2013

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
	Unrestricted	Restricted	Restricted	
Support and revenues				
Grants and contributions	\$ 60,203	\$ 622,502	493,930	\$ 1,176,635
In-kind donations	162,325	-	-	162,325
Interest and dividends	230	279,188	-	279,418
Net increase (decrease) in fair value of investments	-	1,036,516	(539,672)	496,844
Total Unrestricted Support and Revenues	222,758	1,938,206	(45,742)	2,115,222
Net assets released from restrictions	663,715	(309,515)	(354,200)	-
Net assets returned to donors	-	(25)	-	(25)
Total Unrestricted Support and Revenues and Reclassifications	886,473	1,628,666	(399,942)	2,115,197
Expenses				
Program	666,627	-	-	666,627
Management and general	19,216	24,195	-	43,411
Fundraising	164,212	-	-	164,212
Total Unrestricted Expenses	850,055	24,195	-	874,250
Increase (decrease) in Net Assets	36,418	1,604,471	(399,942)	1,240,947
Net Assets, Beginning of Year	73,576	1,822,778	7,150,705	9,047,059
Net Assets, End of Year	\$ 109,994	\$ 3,427,249	\$ 6,750,763	\$ 10,288,006

The accompanying notes are an integral part of these financial statements.

VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS

Statements of Activities
Years Ended August 31, 2012

	2012			
	Temporarily		Permanently	Total
	Unrestricted	Restricted	Restricted	
Support and revenues				
Grants and contributions	\$ 43,133	\$ 287,461	294,534	\$ 625,128
In-kind donations	115,430	-	-	115,430
Interest and dividends	162	203,819	-	203,981
Net increase (decrease) in fair value of investments	-	396,272	138,998	535,270
Total Unrestricted Support and Revenues	158,725	887,552	433,532	1,479,809
Net assets released from restrictions	389,907	(150,615)	(239,292)	-
Net assets returned to donors	-	(3,250)	-	(3,250)
Total Unrestricted Support and Revenues and Reclassifications	548,632	733,687	194,240	1,476,559
Expenses				
Program	460,172	-	-	460,172
Management and general	13,972	-	-	13,972
Fundraising	124,811	-	-	124,811
Total Unrestricted Expenses	598,955	-	-	598,955
Increase (decrease) in Net Assets	(50,323)	733,687	194,240	877,604
Net Assets, Beginning of Year	123,899	1,089,091	6,956,465	8,169,455
Net Assets, End of Year	\$ 73,576	\$ 1,822,778	\$ 7,150,705	\$ 9,047,059

The accompanying notes are an integral part of these financial statements.

**VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS**

**Statements of Cash Flows
Years Ended August 31, 2013 and 2012**

	2013	2012
Cash Flows from Operating Activities		
Changes in net assets	\$ 1,240,947	\$ 877,604
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized (gains)/losses on investments	(496,844)	(535,270)
(Increase) decrease in interest receivable	-	-
(Increase) decrease in pledges receivable	19,143	(10,571)
(Increase) decrease in other current assets	450	(205)
(Increase) decrease in due from Victoria College	35,923	(35,923)
(Increase) decrease in tuition assistance receivable	-	968
Increase (decrease) in due to Victoria College	23,605	(19,617)
Net Cash Provided by Operating Activities	823,224	276,986
Cash Flows from Investing Activities		
Contributions to endowments	(493,930)	(294,534)
Donation of investments	(1,310)	-
Purchases of investments	(9,783,072)	(2,271,635)
Sales of investments	9,338,219	2,150,129
Net Cash Used by Investing Activities	(940,093)	(416,040)
Cash Flows from Financing Activities		
Contributions to endowments	493,930	294,534
Net Cash Provided by Financing Activities	493,930	294,534
Net Increase (Decrease) in Cash and Cash Equivalents	377,061	155,480
Cash and Cash Equivalents as of Beginning of Year	1,167,124	1,011,644
Cash and Cash Equivalents as of End of Year	\$ 1,544,185	\$ 1,167,124

Supplemental Disclosures for Cash Flows

Cash and Cash Equivalents consists of the following:

Cash and cash equivalents	\$ 1,253,054	\$ 844,553
Endowment investments - money market funds	291,131	322,571
Total Cash and Cash Equivalents	\$ 1,544,185	\$ 1,167,124

The accompanying notes are an integral part of these financial statements.

VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS

Notes to the Financial Statements
August 31, 2013 and 2012

Note 1 **Nature of Organization and Significant Accounting Policies**

The Victoria College Foundation, Inc. (the Foundation) is a nonprofit corporation organized and operated to solicit and receive donations, gifts and grants of money and property, and to administer the same and expend funds on charitable or non-profit basis on behalf of The Victoria County Junior College District (the College), its departments, facilities and activities. The primary function of the Foundation is to fund programs of the College. The Foundation's support comes primarily from individual donors' contributions.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC). The Foundation is required to report information regarding its financial position and activities according to three classes of net assets. The net assets of the Foundation are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted – Net assets that are subject to donor-imposed stipulations that may or will be met either by action of the Foundation and/or the passage of time.

Permanently Restricted – Net assets that are required by donor-imposed stipulations to be maintained permanently by the Foundation.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, certificates of deposit, money market accounts and investments with original maturities of less than three months.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities or mutual funds are measured at fair value (based on quoted market prices for those or similar investments) in the statement of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS

Notes to the Financial Statements, Continued
August 31, 2013 and 2012

Note 1 **Nature of Organization and Significant Accounting Policies, Continued**

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services, Goods, and Facilities

The Foundation receives a substantial amount of services, goods, and facilities donated by the College. Contributions of donated noncash assets are recorded at their fair values in the period received.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Foundation is a nonprofit corporation whose revenue is derived from contributions and is not subject to federal or state income taxes under Section 501(c) (3) of the Internal Revenue Code, though it would be subject to tax on income unrelated to its exempt purposes. The tax years ending 2011, 2012, and 2013 are still open to audit for both federal and state purposes. The foundation is classified as an organization that is not a private foundation.

Subsequent Events

The Foundation has evaluated subsequent events through November 5, 2013, the date which the financial statements were available to be issued.

VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS

Notes to the Financial Statements, Continued
August 31, 2013 and 2012

Note 2 **Fair Value Measurements**

Financial Accounting Standards Board Accounting Standards Codification 820-10-50, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or Level 3 inputs were available.

Level 1 – The fair value of equity and fixed income securities are determined by reference to quoted net asset value (NAV) of shares held by the Foundation at year end.

There have been no changes in the methodologies used at August 31, 2013 and 2012.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of August 31, 2013 and 2012:

Assets at Fair Value as of August 31, 2013		
	Level 1	Total
Investments		
Fixed Income	\$ 3,849,397	\$ 3,849,397
Mutual Funds	4,912,388	4,912,388
Total Investments	\$ 8,761,785	\$ 8,761,785
Assets at Fair Value as of August 31, 2012		
	Level 1	Total
Investments		
Fixed Income	\$ 2,996,950	\$ 2,996,950
Mutual Funds	4,821,828	4,821,828
Total Investments	\$ 7,818,778	\$ 7,818,778

**VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS**

**Notes to the Financial Statements, Continued
August 31, 2013 and 2012**

Note 3 Investment Income

Investment income from cash equivalents and investments is comprised of the following:

	August 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 230	\$ 279,188	\$ -	\$ 279,418
Investment fair value change	-	1,036,516	(539,672)	496,844
Total	\$ 230	\$ 1,315,704	\$ (539,672)	\$ 776,262

	August 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 162	\$ 203,819	\$ -	\$ 203,981
Investment fair value change	-	396,272	138,998	535,270
Total	\$ 162	\$ 600,091	\$ 138,998	\$ 739,251

Note 4 Donated Services, Materials, and Facilities

The Foundation's administrative and executive services are donated by the College. The College also provides an office, use of furniture, equipment, office supplies and all other items necessary for the daily operations of the Foundation.

At August 31, 2013 and 2012, the College has determined the fair value of donated services, materials and facilities to be \$162,325 and \$115,430, respectively. The donated services, materials and facilities are included in contributions and expenses in the statements of activities.

A grant in the amount of \$60,000 was awarded from the Victoria College Foundation, Inc. to the Victoria College during fiscal year 2012-2013. The grant was to partially support the salary of an Executive Director for the Victoria College Foundation. The funds for this grant were not from any individual, corporation or foundation. The funds were a portion of a 1% management fee that is assessed to the endowments held by the Foundation. The 1% is assessed to a three year rolling average of market values for each named endowment. This is the same process used to determine allocations for scholarships/programs. This percent amount varies annually, based on endowment earnings, and is approved by the Foundation Board of Directors.

Note 5 Functional Allocation of Expenses

The costs of providing the programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS

Notes to the Financial Statements, Continued
August 31, 2013 and 2012

Note 6 **Pledges Receivable**

Pledges receivable of \$3,699 and \$22,842 at August 31, 2013, and 2012, respectively, are all receivable in less than one year and are considered fully collectible. Pledges at August 31, 2013 and 2012, consist primarily of pledges made relating to furnishing and equipping the Health Science Center.

Note 7 **Concentrations of Credit and Market Risk**

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash equivalents and investments. As of January 1, 2013, the Federal Deposit Insurance Corporation (FDIC) insures all bank account balances up to \$250,000. In the prior year, the FDIC insured interest bearing accounts up to \$250,000 and non-interest bearing transactions accounts were fully insured. At August 31, 2013 and 2012, the Foundation's uninsured balances totaled approximately \$1,006,000 and \$394,000, respectively. The Foundation has not experienced any losses on its cash equivalents. Management believes the Foundation is not exposed to any significant credit risk on cash and cash equivalents. The opinion of management is that the Foundation's investments do not represent significant concentrations of market risk in as much as the Foundation's investment portfolio is designed to achieve diversification.

Note 8 **Endowment Funds**

The Foundation maintains two endowed funds. The Victoria College Foundation Endowment consists of ninety-eight endowments created by various individuals and organizations. The Foundation maintains detailed records regarding each separate endowment. Income, expenses, and gains or losses on investments are allocated to each endowment based on its percentage in relation to the whole.

The Victoria College Transfer Student Endowment contains contributions made by various individuals and organizations with the intent to provide funds to generate scholarships for students transferring to either the University of Texas or Texas A&M University after completion of their work at The Victoria College.

It is Foundation policy that no income may be transferred from an endowment for use as scholarships until the endowment balance reaches a minimum of \$15,000 and has been established for a full year.

The Foundation's intent is that the portfolio be managed with the intention of achieving competitively high rates of return to secure sufficient income and growth over time to meet the requirements of the Foundation, while adhering to a prudent level of risk. The investment policy is designed for long-term growth because the portfolio is held in perpetuity. The long-term asset allocation for the Victoria College Foundation Endowment is 50% equity and 50% fixed income while the allocation for the Victoria College Transfer Student Endowment is 35% equity and 65% fixed income (with a 10% variance allowed). There are minimum and maximum ranges around the targeted allocation.

The Foundation conducts the Tradition of Excellence annually in order to raise funds for scholarships, facilities, and faculty grants. Some contributors designate donations for certain endowments.

**VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS**

**Notes to the Financial Statements, Continued
August 31, 2013 and 2012**

Note 8 Endowment Funds, continued

Summarized financial data for the years ended August 31, 2013 and 2012 is as follows:

	2013		
	Temporary Restricted	Permanently Restricted	Total
Assets			
Foundation Endowment	\$ 2,204,388	\$ 6,526,542	\$ 8,730,930
Transfer Student Endowment	97,766	224,221	321,987
Total Assets	<u>\$ 2,302,154</u>	<u>\$ 6,750,763</u>	<u>\$ 9,052,917</u>
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Net Assets	<u>\$ 2,302,154</u>	<u>\$ 6,750,763</u>	<u>\$ 9,052,917</u>
Support and Revenues			
Contributions	\$ -	\$ 493,930	\$ 493,930
Interest and dividends	279,188	-	279,188
Net increase (decrease) in fair value of investments	1,036,516	(539,672)	496,844
Total Support and Revenues	1,315,704	(45,742)	1,269,962
Net Assets Released From Restrictions	(24,194)	(334,200)	(358,394)
Net Increase in Net Assets	1,291,510	(379,942)	911,568
Net Assets, Beginning of Year	1,010,644	7,130,705	8,141,349
Net Assets, End of Year	<u>\$ 2,302,154</u>	<u>\$ 6,750,763</u>	<u>\$ 9,052,917</u>
	2012		
	Temporary Restricted	Permanently Restricted	Total
Assets			
Foundation Endowment	\$ 960,509	\$ 6,864,178	\$ 7,824,687
Transfer Student Endowment	50,135	266,527	316,662
Total Assets	<u>\$ 1,010,644</u>	<u>\$ 7,130,705</u>	<u>\$ 8,141,349</u>
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Net Assets	<u>\$ 1,010,644</u>	<u>\$ 7,130,705</u>	<u>\$ 8,141,349</u>
Support and Revenues			
Contributions	\$ -	\$ 274,534	\$ 274,534
Interest and dividends	203,819	-	203,819
Net increase (decrease) in fair value of investments	396,272	138,998	535,270
Total Support and Revenues	600,091	413,532	1,013,623
Net Assets Released From Restrictions	217	(239,292)	(239,075)
Net Increase in Net Assets	600,308	174,240	774,548
Net Assets, Beginning of Year	410,336	6,956,465	7,366,801
Net Assets, End of Year	<u>\$ 1,010,644</u>	<u>\$ 7,130,705</u>	<u>\$ 8,141,349</u>

**VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS**

**Schedule of Functional Expenses
Year Ended August 31, 2013**

	Program	Management and General	Fundraising	Total
Scholarships	\$ 363,720	\$ -	\$ -	\$ 363,720
Grants	302,907	-	-	302,907
Bank charges	-	25,760	-	25,760
Contracted services	-	590	5,310	5,900
Rent	-	58	524	582
Salaries	-	12,920	116,276	129,196
Supplies	-	353	3,179	3,532
Printing	-	-	8,877	8,877
Public relations	-	-	4,231	4,231
Travel	-	-	4,800	4,800
Conferences	-	-	1,057	1,057
Institutional memberships	-	178	1,605	1,783
Reference materials	-	577	5,189	5,766
Postage	-	276	2,483	2,759
Copier rental	-	86	778	864
Technology services	-	75	681	756
Telephone	-	7	61	68
Media services	-	179	1,612	1,791
Insurance	-	439	7,549	7,988
Repairs and maintenance	-	1,913	-	1,913
Total Expenses	\$ 666,627	\$ 43,411	\$ 164,212	\$ 874,250

**VICTORIA COLLEGE FOUNDATION, INC.
VICTORIA, TEXAS**

**Schedule of Functional Expenses
Year Ended August 31, 2012**

	Program	Management and General	Fundraising	Total
Scholarships	\$ 338,770	\$ -	\$ -	\$ 338,770
Grants	121,402	-	-	121,402
Bank charges	-	1,621	-	1,621
Contracted services	-	590	5,310	5,900
Rent	-	58	524	582
Salaries	-	9,042	81,383	90,425
Supplies	-	74	660	734
Printing	-	-	9,486	9,486
Public relations	-	-	2,078	2,078
Travel	-	-	3,035	3,035
Professional development	-	-	-	-
Conferences	-	-	275	275
Institutional memberships	-	131	1,181	1,312
Reference materials	-	577	5,189	5,766
Postage	-	300	2,696	2,996
Copier rental	-	93	833	926
Technology services	-	126	1,134	1,260
Telephone	-	10	87	97
Media services	-	160	1,435	1,595
Insurance	-	655	9,505	10,160
Repairs and maintenance	-	535	-	535
Depreciation	-	-	-	-
Total Expenses	\$ 460,172	\$ 13,972	\$ 124,811	\$ 598,955