

Galveston College Foundation
Financial Statements
For the year ended August 31, 2014
(with comparative totals for the year ended August 31, 2013)

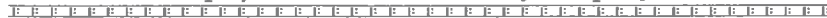
Galveston College Foundation

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a professional limited liability company



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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors
Galveston College Foundation
Galveston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Galveston College Foundation (a Texas nonprofit organization), which comprise the statement of financial position as of August 31, 2014, and the related statements of activities and cash flows for the year 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 the Galveston College Foundation as of August 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Galveston College Foundation's financial statements for the year ended August 31, 2013, and our report dated February 3, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters - Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of activities by fund is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related 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.

DRDA, PLLC

DRDA, PLLC
Galveston, Texas
December 15, 2014

FINANCIAL STATEMENTS

Galveston College Foundation
Statement of Financial Position
August 31, 2014
(with comparative totals as of August 31, 2013)

	Universal Access	Institutional Advancement	Capital Campaign	Galveston College Scholarships	Other Funds	2014 Totals	2013 Totals
ASSETS							
Current Assets:							
Cash	\$ 6,905	\$ 3,000	\$ -	\$ -	\$ -	\$ 9,905	\$ 3,747
Investments (at market value)	3,578,494	781,364	430,000	861,742	557,836	6,209,436	5,293,263
Pledges receivable	-	-	1,570,000	12,294	687	1,582,981	-
Accounts receivable	7,402	-	-	-	-	7,402	-
Total Current Assets and Total Assets	<u>\$ 3,592,801</u>	<u>\$ 784,364</u>	<u>\$ 2,000,000</u>	<u>\$ 874,036</u>	<u>\$ 558,523</u>	<u>\$ 7,809,724</u>	<u>\$ 5,297,010</u>
LIABILITIES AND NET ASSETS							
Current Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 1,365	\$ 1,365	\$ -
Total Current Liabilities and Total Liabilities	-	-	-	-	1,365	1,365	-
Net Assets:							
Unrestricted	-	-	-	-	257,243	257,243	771,218
Unrestricted-Board Designated	179,640	23,432	-	53,000	299,915	555,987	-
Temporarily restricted	313,161	60,932	2,000,000	821,036	-	3,195,129	1,069,480
Permanently restricted	3,100,000	700,000	-	-	-	3,800,000	3,456,312
Total Net Assets	<u>3,592,801</u>	<u>784,364</u>	<u>2,000,000</u>	<u>874,036</u>	<u>557,158</u>	<u>7,808,359</u>	<u>5,297,010</u>
Total Liabilities and Net Assets	<u>\$ 3,592,801</u>	<u>\$ 784,364</u>	<u>\$ 2,000,000</u>	<u>\$ 874,036</u>	<u>\$ 558,523</u>	<u>\$ 7,809,724</u>	<u>\$ 5,297,010</u>

See accompanying notes.

Galveston College Foundation
Statement of Activities
For The Year Ended August 31, 2014
(with comparative totals for the year ended August 31, 2013)

	2014		2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, Support, and Other:				
Contributions and grants	\$ 5,874	\$ 162,933	\$ -	\$ 168,807
Passthrough donation	-	2,000,000	-	2,000,000
Donated facilities, services, and equipment	28,734	-	-	28,734
Interest and dividends	126,147	11,237	11,237	148,621
Realized gain (loss)				
on sale of investments, net	232,755	(5,213)	(5,213)	222,329
Unrealized gain (loss)				
on investments, net	228,498	18,817	18,817	266,132
Net assets released from restrictions:				
Restrictions satisfied by payments	37,500	(37,500)	-	-
Total Revenues, Support, and Other	<u>659,508</u>	<u>2,150,274</u>	<u>24,841</u>	<u>2,834,623</u>
Expenses:				
Program expenses:				
GC scholarships	70,584	-	-	70,584
UA scholarships	137,307	-	-	137,307
Donated services	22,868	-	-	22,868
Other	14,037	-	-	14,037
Management and general expenses:				
Advertising	-	-	-	1,792
Community involvement	14,370	-	-	14,370
Donated facilities, and equipment	5,866	-	-	5,866
Investment fees	40,940	-	-	40,940
Foreign taxes	219	-	-	219
Miscellaneous	5,333	-	-	5,333
Professional services	11,750	-	-	11,750
Total Expenses	<u>323,274</u>	<u>-</u>	<u>-</u>	<u>323,274</u>
Changes in Net Assets	336,234	2,150,274	24,841	2,511,349
Net Assets at Beginning of Year	771,218	1,069,480	3,456,312	5,297,010
Restatement of Beginning Balance	<u>(294,222)</u>	<u>(24,625)</u>	<u>318,847</u>	<u>-</u>
Net Assets at End of Year	<u>\$ 813,230</u>	<u>\$ 3,195,129</u>	<u>\$ 3,800,000</u>	<u>\$ 7,808,359</u>
				<u>\$ 5,297,010</u>

See accompanying notes.

Galveston College Foundation
Statement of Cash Flows
For The Year Ended August 31, 2014
(with comparative totals for the year ended August 31, 2013)

	2014	2013
Cash flows from operating activities:		
Changes in net assets	\$ 2,511,349	\$ 38,035
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Realized (gain) loss on sale of investments, net	(145,284)	(17,997)
Unrealized (gain) loss on investments, net	(328,026)	20,315
(Increase) decrease in pledges receivable	(1,590,383)	-
(Decrease) increase in accrued expenses	-	(37,952)
Net cash provided by operating activities	447,656	2,401
Cash flows from investing activities:		
Purchases of investments	(13,012,878)	(2,504,690)
Proceeds from investment sales and calls	12,570,015	2,505,993
Net cash provided by (used in) investing activities	(442,863)	1,303
Net increase in cash	4,793	3,704
Cash, beginning of year	3,747	43
Cash, end of year	\$ 8,540	\$ 3,747
Supplemental disclosure of cash flows information:		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

See accompanying notes.

Galveston College Foundation
Notes to Financial Statements
August 31, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Galveston College Foundation is a not for profit organization (other than a private foundation) chartered under the laws of the State of Texas. The original application for the federal not for profit 501 (c)(3) designation was filed July 5, 1996, with the Internal Revenue Service, and the Foundation has been granted that designation. The Foundation, therefore, is not subject to income tax.

The Foundation has been formed to generate philanthropic support for Galveston College, Galveston, Texas, with a primary emphasis on Universal Access. The Universal Access program is to provide scholarships to graduates of Galveston, Texas high schools, thereby encouraging universal access to higher education. In addition to Universal Access, the Foundation solicits, invests and manages donations and grants to the College for educational support activities conducted by the college.

The Foundation is managed by a Board of Directors of no less than three and no more than twenty-one. The President of Galveston College and the Executive Director of Galveston College Foundation serve as ex-officio members of the Board. The remainder of the Board is elected by a majority of the quorum of the Directors then serving.

Effective January 1, 2009, the Foundation modified its reporting period from a calendar year end to a fiscal year ending August 31.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement preparation follows the recommendation of the Financial Accounting Standards Board in its issuance of FASB ASC 958-205 (formerly SFAS No. 117), *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, and the Uniform Prudent Investor Act (the Act) of the Texas Trust Code, classifies net assets, revenues, gains and losses based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, that is, the donor imposed stipulated purposes has been accomplished and or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Temporarily Restricted Net Assets

Temporarily restricted net are subject to donor-imposed stipulations that may or will be met, either by actions of the organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed stipulations requiring that they be maintained in perpetuity with only the interest and dividend income to be used for the Foundation's activities due to donor imposed restrictions.

**Galveston College Foundation
Notes to Financial Statements
August 31, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

Cash includes monies held in checking accounts at financial institutions.

Investments

Investments in marketable securities with readily determinable fair values and investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses on trading securities are included in the statement of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Independent investment departments at local financial institutions manage the investment assets.

It is the policy of the Board to liquidate donated securities when they are contributed and to transfer the proceeds to an Investment Manager to be included in the management of the Foundation's portfolio.

Allocation of Investments and Investment Income

All investments of the Foundation are pooled for investment purposes. The allocation of investment balances by fund is primarily comprised of the net asset composition by fund. The allocation of investment income is based on the percentage of prior year net asset composition for Universal Access, Galveston College and Other Funds.

Revenues

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Unconditional promises to give are recorded when received. Unconditional promises to give that are due in the next year are recorded at their net realizable value. Unconditional promises to give that are due in subsequent years are recorded at the fair value. At August 31, 2014, pledges receivable totaled \$1,582,981.

Donated Facilities, Services, and Equipment

The Foundation recognizes the value of contributed facilities, services, and equipment in accordance with FASB ASC 958-605 (formerly SFAS No. 116), *Accounting for Contributions Received and Contributions Made*, whereby contributions of non-cash assets are recorded at their estimated fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received as unrestricted revenue. During 2014, the Foundation received \$28,734 in donated facilities, services, and equipment.

Unrestricted Expenditures

Unrestricted donations may be spent for scholarships, learning enhancement activities, Galveston College strategic initiatives, community outreach, or Foundation operating expenses. Expenditures may not exceed the interest earned by the account. In addition, the maximum expenditure is five percent (5%) of the total asset balance in the fund at the end of the previous fiscal year, less any recorded liabilities and allocations authorized but not yet disbursed.

Advertising

All advertising is expensed as incurred.

Economic Dependency

The Foundation is economically dependent on Galveston College for yearly support through donated facilities, payment of utilities and insurance, and staffing of the Executive Director and support staff. The value and cost of these services, which approximates \$28,734, are included in the statement of activities as donated facilities, services, and equipment.

**Galveston College Foundation
Notes to Financial Statements
August 31, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data

The financial statements include certain prior year summarized comparative information for the year ended August 31, 2013, in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be used in conjunction with the Organization's 2013 financial statements from which the summarized information was derived.

Restatement of Beginning Balances

Certain items in the financial statements and in the notes to financial statements for 2013 have been reclassified to conform to the current year presentation. Such reclassifications have no effect on the total changes in net assets.

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 disclosures 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 may differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements are being issued, which is December 15, 2014.

NOTE B – PLEDGES RECEIVABLE

The Foundation has accepted an unconditional promises to give for the capital campaign. This promise to give is reported as pledges receivable in the statements of financial position and recognized as temporarily restricted contributions in the statements of activities. The pledge receivable is reported at fair value, which is estimated using an income approach based on assumptions developed by the Foundation about the future distributions it will receive from the pledge. Changes in the fair value of the pledge receivable are reflected in the temporarily restricted class of net assets.

NOTE C – INVESTMENTS

The Foundation owns marketable securities, which are intended to provide investment income to be used for the Foundation's programs. A portion of these investments is permanently restricted by donor stipulation, and the remainder is a combination of temporarily restricted and unrestricted amounts. Restricted investments are maintained for the purposes stipulated by donors. All investment income and losses on permanently restricted assets is considered unrestricted or temporarily restricted in these financial statements based on the allocation method discussed in Note A.

A summary of investments at August 31, 2014 is as follows:

	Cost	Estimated Market Value
Cash equivalents	\$ 558,658	\$ 558,658
Common stocks	3,792,193	4,094,122
Fixed income bonds	1,530,559	1,556,656
	<u>\$ 5,881,410</u>	<u>\$ 6,209,436</u>

**Galveston College Foundation
Notes to Financial Statements
August 31, 2014**

NOTE C – INVESTMENTS (Continued)

The cost and estimated market value of debt securities at August 31, 2014 by contractual maturity, are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost	Estimated Market Value
Due after one year through five years	\$ 1,530,559	\$ 1,556,656
	\$ 1,530,559	\$ 1,556,656

NOTE D – NET ASSETS

The categories of net assets at August 31, 2014 are comprised of the following:

Unrestricted	\$ 257,243	
Unrestricted-Board designated	555,987	\$ 813,230
Temporarily restricted:		
Universal Access scholarships	313,161	
Galveston College scholarships	821,036	
Capital campaign	2,000,000	
Institutional advancement	60,932	3,195,129
Permanently restricted:		
Universal Access scholarships	3,100,000	
Institutional advancement	700,000	3,800,000
Total net assets		\$ 7,808,359

Endowment Fund

Permanently restricted net assets at August 31, 2014 consist of an endowment fund established to support Universal Access and Galveston College scholarship programs. Contributions to the endowment fund are subject to donor restrictions that stipulate the original principal of the gift is to be held and invested by the Foundation indefinitely and income from the funds is to be expended for the Universal Access and Galveston College scholarship programs. The Foundation adopted investment and spending policies based on the requirements of the State Uniform Prudent Management of Institutional Funds Act (the Act). As a result of the Foundation's interpretation of the Act, and in accordance with donor restrictions, contributions to the endowment funds are classified as permanently restricted net assets. The historic dollar value of those contributions must be maintained inviolate. Income from the fund is classified as unrestricted or temporarily restricted net assets based on the allocation method discussed in Note A.

The donor-restricted endowment fund is primarily invested in corporate or foreign bonds and government agency obligations pursuant to the Foundation's investment and spending objectives of subjecting the fund to low investment risk and providing its Universal Access and Galveston College scholarships programs with income. The Foundation generally expends the endowment fund's investment income for the donor-designated purpose in the same reporting period the income is received.

**Galveston College Foundation
Notes to Financial Statements
August 31, 2014**

NOTE E – FAIR VALUE MEASUREMENT

The Foundation has adopted, without any impact on its financial statements, the provisions of FASB ASC 820-10 (formerly SFAS No. 157), *Fair Value Measurements*, for its financial assets and liabilities with respect to which it recognized or disclosed at fair value on a recurring basis. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs, and requires additional disclosures about fair value measurements. FASB ASC 820-10 applies to fair value measurement already required or permitted by existing standards.

One key component of the implementation of FASB ASC 820-10 includes the development of a three-tiered fair value hierarchy. The basis of the tiers is dependent upon the various “inputs” used to determine the fair value of the Foundation’s investments. These inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical assets.
- Level 2 – other significant observable inputs (including quoted prices of similar securities, interest rates, prepayment speeds, credit risk, etc.).
- Level 3 – significant unobservable inputs (which may include the Foundation’s own assumptions in determining the fair value of investments).

Current Assets and Liabilities

The carrying amounts of current assets and liabilities are a reasonable estimate of the fair values of the accounts due to the short maturity of these instruments and no anticipated credit concerns.

The pledge receivable is reported on a recurring basis at the fair value of the pledge. The pledge receivable is reported at fair value, which approximates the estimate using an income approach based on assumptions developed by the Foundation about the future distributions it will receive from the pledge. Changes in the fair value of the pledge receivable are reflected in the temporarily restricted class of net assets. The Foundation remeasures the fair value of its pledge receivable annually and adjusts the measurement inputs based on market conditions and other relevant data.

Investments

The fair value of securities held in cash and cash equivalent and in common stock are considered to be level 1 inputs as the fair values of the investments are derived from quoted prices in active markets for identical assets. All other investments are identified as level 2 inputs as the fair values of the investments are estimated based on a matrix pricing system established by the Foundation’s investment management company.

Fair values of assets measured on a recurring basis at August 31, 2014 are as follows:

<u>Description</u>	<u>Estimated Fair Value</u>	<u>Active Markets for Identical Assets (Level1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Other Unobservable Inputs (Level 3)</u>
Investments	\$ 6,209,436	\$ 6,209,436	\$ -	\$ -
Pledge receivable	\$ 1,570,000	-	\$ 1,570,000	-

NOTE F – MARKET RISK

As discussed in Note A, investments held in trust accounts are carried at market value at August 31, 2014. The cost of investments may exceed market value at the date of sale. Any unrealized gain or loss in the market value of the investments subsequent to year end is not recognized in these financial statements as management believes these to be temporary market fluctuations.

SUPPLEMENTAL INFORMATION

Galveston College Foundation
Schedule of Activities by Fund
For The Year Ended August 31, 2014
(with comparative totals for the year ended August 31, 2013)

	2014					2013
	Universal Access	Institutional Advancement	Capital Campaign	Galveston College Scholarships	Other Funds	Totals
Revenues, Support, and Other:						
Contributions and grants	\$ 86,019	-	-	\$ 76,914	\$ 5,874	\$ 168,807
Other revenue	-	-	-	-	-	74
Other revenue: pass-through donations	-	-	2,000,000	-	-	2,000,000
Donated facilities, services, and equipment	-	-	-	-	28,734	28,734
Interest and dividends	97,729	22,474	-	20,950	7,468	148,621
Realized gain on sale of investments, net	104,479	(8,836)	-	82,103	44,583	222,329
Unrealized gain (loss) on investments, net	148,021	37,633	-	67,336	13,142	266,132
Net assets released from restrictions:						
Restrictions satisfied by payments	36,851	(37,500)	-	-	649	-
Total Revenues, Support, and Other	473,099	13,771	2,000,000	247,303	100,450	2,834,623
Expenses:						
Program expenses:						
GC scholarships	-	-	-	70,584	-	70,584
UA scholarships	137,307	-	-	-	-	137,307
Donated services	-	-	-	-	22,868	22,868
Other	-	-	-	14,037	-	14,037
Management and general expenses:						
Advertising	-	-	-	-	-	1,792
Community involvement	-	-	-	-	14,370	10,897
Donated facilities, services, and equipment	-	-	-	-	5,866	43,724
Investment fees	27,216	-	-	10,117	3,607	40,940
Foreign taxes	45	-	-	128	46	131
Miscellaneous	3,045	-	-	-	2,288	3,066
Other expense: pass-through donations	-	-	-	-	-	44,674
Professional services	-	-	-	-	11,750	11,000
Total Expenses	167,613	-	-	94,866	37,927	323,274
						402,071

Galveston College Foundation
Schedule of Activities by Fund
For The Year Ended August 31, 2014
(with comparative totals for the year ended August 31, 2013)

	2014				2013	
	Universal Access	Institutional Advancement	Capital Campaign	Galveston College Scholarships	Other Funds	Totals
Changes in Net Assets	305,486	13,771	2,000,000	152,437	39,655	2,511,349
Net Assets at Beginning of Year	3,961,686	-	-	797,048	538,276	5,297,010
Restatement of Beginning Balance	(674,371)	770,593	-	(75,449)	(20,773)	-
Net Assets at End of Year	<u>\$ 3,592,801</u>	<u>\$ 784,364</u>	<u>\$ 2,000,000</u>	<u>\$ 874,036</u>	<u>\$ 557,158</u>	<u>\$ 7,808,359</u>
						<u>\$ 5,297,010</u>