

**2.11.1 The institution has a sound financial base and demonstrated financial stability to support the mission of the institution and the scope of its programs and services.**

The member institution provides the following financial statements: (1) an institutional audit (or *Standard Review Report* issued in accordance with *Statements on Standards for Accounting and Review Services* issued by the AICPA for those institutions audited as part of a system-wide or statewide audit) and written institutional management letter for the most recent fiscal year prepared by an independent certified public accountant and/or an appropriate governmental auditing agency employing the appropriate audit (or *Standard Review Report*) guide; (2) a statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent year; and (3) an annual budget that is preceded by sound planning, is subject to sound fiscal procedures, and is approved by the governing board. **(Financial resources and stability)**

The institution provides the following financial statements: (1) an institutional audit (or *Standard Review Report* issued in accordance with *Statements on Standards for Accounting and Review Services* issued by the AICPA for those institutions audited as part of a system wide or statewide audit) and written institutional management letter for the most recent fiscal year prepared by an independent certified public accountant and/or an appropriate governmental auditing agency employing the appropriate audit (or *Standard Review Report*) guide; (2) a statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent year; and (3) an annual budget that is preceded by sound planning, is subject to sound fiscal procedures, and is approved by the governing board. **(Financial resources and stability)**

**Off-Site Committee's Response**

The Compliance Certification Report did not contain item(2): a statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent year.

**Institution's Response**

The Off-site Committee found no issues with the financial stability of the College or issues with the College's ability to meet its mission and the scope of its programs and services. The Committee did report that there was no evidence of a statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent year.

Pursuant to the concern by the Off-site Committee, included herein is the address of, the unrestricted net assets, exclusive of plant and plant related debt for the four years 2011-

2014 provides evidence of compliance that Texas College has a sound financial base and has demonstrated financial stability over the same period of time in support of the mission of the institution and the scope of its programs and services. Table CR 2.11.1-G (that follows) provides evidence that the College has increased total investments each year, reduced student, grants and other receivables; while in the same four year period reduced accounts payable and debt (line of credit), resulting in and increase each year in unrestricted net assets, exclusive of plant and plant-related debt.

**Statement of Financial Position of Unrestricted Net Assets,**

**Exclusive of Plant Assets and Plant-Related Debt**

**Core Requirement**

**2.11.1 G**

	2011	2012	2013	2014
<b>ASSETS</b>				
Cash and cash equivalents	\$ 179,321	\$ 221,344	\$ 83,913	\$ 275,191
Cash held in escrow and receivable for land sale	\$ -	\$ -	\$ -	\$ -
Student, grants and other receivables	\$ 2,173,653	\$ 1,647,862	\$ 1,549,826	\$ 1,911,265
Inventories, supplies and prepaid expenses	\$ 13,788	\$ 41,033	\$ 27,273	\$ 26,126
Real estate held for sale	\$ -	\$ -	\$ -	\$ -
Funds restricted to investment in buildings and equipment	\$ -	\$ -	\$ -	\$ -
Notes receivable, college and government student loans	\$ -	\$ -	\$ -	\$ -
Investments	\$ 91,840	\$ 346,840	\$ 546,593	\$ 848,767
Deferred loan costs, net of accumulated amortization	\$ -	\$ -	\$ -	\$ -
<b>Total assets</b>	<b>\$ 2,458,602</b>	<b>\$ 2,257,079</b>	<b>\$ 2,207,605</b>	<b>\$ 3,061,349</b>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 632,761	\$ 442,564	\$ 152,274	\$ 197,674
Inter net asset class receivable/payable	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	\$ 34,967	\$ 60,459	\$ 61,768	\$ 21,192
Student and other deposits	\$ -	\$ -	\$ -	\$ -
Amounts held on behalf of others	\$ -	\$ -	\$ -	\$ -
U.S. government grants refundable	\$ -	\$ -	\$ -	\$ -
Debt	\$ 1,081,810	\$ 1,025,939	\$ 976,397	\$ -
<b>Total liabilities</b>	<b>1,749,538</b>	<b>1,528,962</b>	<b>1,190,439</b>	<b>218,866</b>

Net assets				
Unrestricted , exclusive of plant and plant-related debt	<u>709,064</u>	<u>728,117</u>	<u>1,017,166</u>	<u>2,842,483</u>
<b>Total liabilities and net assets</b>	<b>\$ 2,458,602</b>	<b>\$ 2,257,079</b>	<b>\$ 2,207,605</b>	<b>\$ 3,061,349</b>

<b>Core Requirement 2.11.1 (2)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<i>Restatement of Net Assets without plant and plant-related debt</i>				
<i>Unrestricted Net Assets</i>	<i>\$ 8,386,845</i>	<i>\$ 9,680,467</i>	<i>\$ 10,117,892</i>	<i>\$ 12,046,157</i>
less property, plant, and equipment (and assets limited to plant)	(8,692,606)	(9,732,186)	(9,711,201)	(10,367,012)
add plant-related debt	1,014,825	779,836	610,475	1,163,338
<b>URNA not including plant and debt</b>	<b>709,064</b>	<b>728,117</b>	<b>1,017,166</b>	<b>2,842,483</b>
Net Tuition	\$ 6,087,004	\$ 6,591,780	\$ 7,442,051	\$ 8,235,269
Gifts	734,589	1,504,341	313,052	728,841
Auxiliaries	2,150,910	2,218,524	1,598,945	2,235,211
Investment Income	93,020	84,766	100,411	95,413
Government Grants	75,286	68,862	14,432	18,068
Community Outreach	-	-	-	-
Net Assets Released from Restrictions	3,792,517	2,665,951	2,229,397	1,931,157
Total Revenues	12,933,326	13,134,224	11,698,288	13,243,959
Instructional	2,502,134	2,323,547	2,363,247	2,271,034
Academic Support	1,133,933	922,530	943,758	1,050,743
Student Services	2,461,848	2,474,022	1,981,736	1,663,178
Institutional Support	4,307,590	4,152,252	4,350,889	4,888,452
Auxiliary and Community Service	1,975,994	1,957,149	1,781,313	1,669,653
<i>Add - Additions to property and CIP net of debt</i>	<i>1,863,347</i>	<i>1,792,550</i>	<i>572,420</i>	-
Add - Reduction in Debt related to capital and CIP	-	-	-	-
Less Depreciation	(521,677)	(586,374)	(593,405)	(636,665)
Total Expenses	13,723,169	13,035,676	11,399,958	10,906,395

<b>Change in Unrestricted Net Assets exclusive of plant</b>	<b>(789,843)</b>	<b>98,548</b>	<b>298,330</b>	<b>2,337,564</b>
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**IMPORTANT CAVEAT:**

Unrestricted assets limited to plant, held in categories other than plant, must be excluded from URNA w/o plant. Examples of URNA limited to plant might be debt proceeds held not yet spent limited to construction projects, debt reserves established by bond covenants, etc. Any funds limited to plant-use, even if held in unrestricted cash, should not be included in unrestricted net assets exclusive of plant. Think of it this way, the funds are not available for day-to-day use by the institution.

**Documentation:**

Audit Report: Financial Statements as of June 30, 2014 and 2013 Together with Independent Auditor's Report

Audit Report: Financial Statements as of  
June 30, 2014 and 2013 Together with  
Independent Auditor's Report

# TEXAS COLLEGE

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## FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND 2013 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

# TEXAS COLLEGE

## FINANCIAL STATEMENTS AS OF JUNE 30, 2014 AND 2013 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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## INDEPENDENT AUDITOR'S REPORT

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To the Board of Trustees of  
**TEXAS COLLEGE:**

We have audited the accompanying financial statements of **TEXAS COLLEGE**, "the College", (a Texas non-profit corporation), which comprise the statements of financial position as of June 30, 2014 and 2013, 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.

### **Auditor's 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 and *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits 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.



## INDEPENDENT AUDITOR'S REPORT (Continued)

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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 **TEXAS COLLEGE** as of June 30, 2014 and 2013, and the changes in 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 Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 8, 2014 and August 9, 2013, for the years ended June 30, 2014 and 2013, respectively, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the College's internal control over financial reporting and compliance.

August 8, 2014

*The Wesley Peachtree Group*

Certified Public Accountants

**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2014 AND 2013**

	2014				2013			
	Unrestricted	Restricted		Total	Unrestricted	Restricted		Total
		Temporarily	Permanently			Temporarily	Permanently	
<b>ASSETS:</b>								
Cash and certificates of deposit	\$ 275,191	\$ 23,471	\$ -	\$ 298,662	\$ 83,913	\$ 23,471	\$ -	\$ 107,384
Accounts and loans receivable, less allowance for doubtful accounts	1,911,265	-	-	1,911,265	1,549,673	-	-	1,549,673
Pledges receivable	-	-	-	-	152	-	-	152
Prepaid expenses	26,126	-	-	26,126	27,273	-	-	27,273
Investments, at market value	848,767	-	1,863,165	2,711,932	546,593	-	1,863,527	2,410,120
Property, plant and equipment, at cost, net of accumulated depreciation	10,367,012	-	-	10,367,012	9,711,201	-	-	9,711,201
<b>Total assets</b>	<b>\$ 13,428,361</b>	<b>\$ 23,471</b>	<b>\$ 1,863,165</b>	<b>\$ 15,314,997</b>	<b>\$ 11,918,805</b>	<b>\$ 23,471</b>	<b>\$ 1,863,527</b>	<b>\$ 13,805,803</b>
<b>LIABILITIES AND NET ASSETS:</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 197,674	\$ -	\$ -	\$ 197,674	\$ 152,273	\$ -	\$ -	\$ 152,273
Accrued expenses	21,192	-	-	21,192	61,768	-	-	61,768
Bank lines of credit	-	-	-	-	976,397	-	-	976,397
Capital lease obligation	209,001	-	-	209,001	267,121	-	-	267,121
Notes payable	954,337	-	-	954,337	343,354	-	-	343,354
<b>Total liabilities</b>	<b>1,382,204</b>	<b>-</b>	<b>-</b>	<b>1,382,204</b>	<b>1,800,913</b>	<b>-</b>	<b>-</b>	<b>1,800,913</b>
<b>Net Assets:</b>								
Unrestricted	12,046,157	-	-	12,046,157	10,117,892	-	-	10,117,892
Temporarily restricted	-	23,471	-	23,471	-	23,471	-	23,471
Permanently restricted	-	-	1,863,165	1,863,165	-	-	1,863,527	1,863,527
<b>Total net assets</b>	<b>12,046,157</b>	<b>23,471</b>	<b>1,863,165</b>	<b>13,932,793</b>	<b>10,117,892</b>	<b>23,471</b>	<b>1,863,527</b>	<b>12,004,890</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,428,361</b>	<b>\$ 23,471</b>	<b>\$ 1,863,165</b>	<b>\$ 15,314,997</b>	<b>\$ 11,918,805</b>	<b>\$ 23,471</b>	<b>\$ 1,863,527</b>	<b>\$ 13,805,803</b>

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

# TEXAS COLLEGE

## STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013



	2014			2013				
	Unrestricted	Temporarily	Restricted Permanently	Total	Unrestricted	Temporarily	Restricted Permanently	Total
OPERATING REVENUES:								
Revenues, gains, and other support:								
Tuition and fees	\$ 8,967,012	\$ -	\$ -	\$ 8,967,012	\$ 8,287,536	\$ -	\$ -	\$ 8,287,536
Less: Scholarships and fellowships	(731,743)	-	-	(731,743)	(845,485)	-	-	(845,485)
Net Tuition and fees	8,235,269	-	-	8,235,269	7,442,051	-	-	7,442,051
Government grants	18,068	1,926,932	-	1,945,000	14,432	2,164,297	-	2,178,729
Private gifts and grants:								
United Negro College Fund	359,904	-	-	359,904	155,046	-	-	155,046
Others	368,937	-	-	368,937	158,006	65,100	144,955	368,061
Sales and services of auxiliary enterprises	2,235,211	-	-	2,235,211	1,598,945	-	-	1,598,945
Dividend and interest income	70,583	-	-	70,583	64,673	-	-	64,673
Other income	24,830	-	-	24,830	35,738	-	-	35,738
Net assets released from restrictions	1,931,157	(1,931,157)	-	-	2,229,397	(2,229,397)	-	-
Total operating revenues	13,243,959	(4,225)	-	13,239,734	11,698,288	-	144,955	11,843,243
OPERATING EXPENSES:								
Instruction	2,271,034	-	-	2,271,034	2,363,247	-	-	2,363,247
Academic support	1,050,743	-	-	1,050,743	943,758	-	-	943,758
Student services	1,663,178	-	-	1,663,178	1,981,736	-	-	1,981,736
Institutional support	4,888,452	-	-	4,888,452	4,350,889	-	-	4,350,889
Auxiliary enterprises	1,669,653	-	-	1,669,653	1,781,313	-	-	1,781,313
Total operating expenses	11,543,060	-	-	11,543,060	11,420,943	-	-	11,420,943
Net operating change in net assets	1,700,899	(4,225)	-	1,696,674	277,345	-	144,955	422,300
NONOPERATING REVENUES AND EXPENSES:								
Gain (Loss) on investments	231,229	-	-	231,229	160,442	-	-	160,442
Net nonoperating change in net assets	231,229	-	-	231,229	160,442	-	-	160,442
CHANGE IN NET ASSETS	1,932,128	(4,225)	-	1,927,903	437,787	-	144,955	582,742
NET ASSETS, at beginning of the year	10,117,892	23,471	1,863,527	12,004,890	9,680,467	23,471	1,718,210	11,422,148
Transfers of net assets	(3,863)	4,225	(362)	-	(362)	-	362	-
NET ASSETS, at end of the year	\$ 12,046,157	\$ 23,471	\$ 1,863,165	\$ 13,932,793	\$ 10,117,892	\$ 23,471	\$ 1,863,527	\$ 12,004,890

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



**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
<b>Change in Net Assets from Operating Activities</b>	\$ 1,696,674	\$ 422,300
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
Depreciation	636,665	593,405
Net realized and unrealized (gains) losses on investments	(231,229)	(160,442)
Permanently restricted private gifts	-	(144,955)
(Increase) Decrease in accounts and loans receivable (net)	(361,592)	85,103
Decrease in pledges receivable	152	12,934
Decrease in prepaid expenses	1,147	13,760
Increase (Decrease) in accounts payable, deposits, and accrued expenses	4,825	(288,981)
<i>Net cash provided by operating activities</i>	<u>1,746,642</u>	<u>533,124</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net realized and unrealized gains on investments	231,229	160,442
Permanently restricted private gifts	-	144,955
Purchases of investments	(70,583)	(184,629)
Purchases of property and equipment	(1,292,476)	(572,420)
<i>Net cash used in investing activities</i>	<u>(1,131,830)</u>	<u>(451,652)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from notes payable and lines of credit	1,027,930	1,356,651
Proceeds from capital lease obligation	179,564	-
Payments on notes payable and lines of credit	(1,393,343)	(1,332,115)
Payments on capital lease obligation	(237,685)	(243,439)
<i>Net cash used in financing activities</i>	<u>(423,534)</u>	<u>(218,903)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CERTIFICATES OF DEPOSIT</b>	<b>191,278</b>	<b>(137,431)</b>
<b>CASH AND CERTIFICATES OF DEPOSIT, at beginning of year</b>	<u>107,384</u>	<u>244,815</u>
<b>CASH AND CERTIFICATES OF DEPOSIT, at end of year</b>	<u><u>\$ 298,662</u></u>	<u><u>\$ 107,384</u></u>
<b><u>Supplemental Disclosures-</u></b>		
Cash paid for interest	\$ 71,293	\$ 118,607
Principal forgiveness on note payable	\$ -	\$ 30,000

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

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

### 1. DESCRIPTION OF THE ORGANIZATION:

**TEXAS COLLEGE, "the College"**, was founded in 1894 by a group of ministers of the Christian Methodist Episcopal Church (the "C.M.E. Church"). Texas College is a historically black institution of higher learning with a primary focus on liberal arts education. The College awards the baccalaureate degree in the arts and the sciences to students in one of three major divisions – Business and Social Sciences; Humanities and Education; and Natural and Computation Sciences. The College also awards one associate of arts

degree in early childhood education.

The College is currently accredited by the Southern Association of Colleges and Schools ("SACS"). SACS requires an institution to maintain compliance with the *Principles on Accreditation* which includes standards for institutional mission, governance and administration, institutional effectiveness, the educational program, educational support services, student services, faculty, fiscal resources, and federal requirements.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS:

#### **Basis of Accounting–**

The financial statements of the College have been prepared on the accrual basis of accounting. The accounts of the College are maintained in accordance with the principles of fund accounting whereby resources are classified into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund. For external financial reporting purposes, the funds and accounts have been converted to conform to the basis of presentation described below.

#### **Basis of Presentation–**

The financial statements are presented based on the concept of "net assets". Net assets of the College and changes therein are classified and reported as follows:

- **Unrestricted net assets** – Net assets that are not subject to donor-imposed stipulations.

- **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or the passage of time. When the stipulations expire or have been met by action of the College, restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as net assets released from restrictions. The College's policy is to record net assets whose restrictions expire in the same reporting period as unrestricted net assets.

- **Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.



## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (Continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS: (Continued)

#### **Reclassifications—**

Certain revenues and expenses in the fiscal year 2013 have been reclassified to conform to the 2014 presentation in the accompanying financial statements.

#### **Nonoperating Activities—**

The nonoperating activity recorded in the accompanying *Statement of Activities* consists of capital activity such as investment gains and losses on endowed investments available for general or specific purposes.

#### **Cash and Certificates of Deposit—**

Certificates of deposit include certificates with original maturities of three months or less.

#### **Concentration of Credit Risk—**

The College had cash and investment balances in financial institutions which exceeded federal government insurance limits.

#### **Fair Value of Financial Instruments—**

The carrying amount of cash, certificates of deposit, and accounts receivable approximates fair value because of the short maturity of these financial instruments. The carrying value of capital activity such as investments is based upon values provided by an external investment manager or quoted market values.

A reasonable estimate of the fair value of the notes receivable from students under government loan programs and advances from Federal government for student loans

could not be made because the notes receivable are not saleable and can only be assigned to the U.S. Government or its designees.

The carrying amount of the note payable approximates fair value because the financial instrument bears interest at a rate which approximates current market rates for notes with similar maturities and credit quality.

#### **Investments—**

The College's investments are stated at market value. The cost assigned to investments acquired by gift is the market value at date of donation. All gains and losses arising from the sale, collection, or other disposition of investments and ordinary income derived from investments are accounted for in the net assets group owning such assets, except for income derived from investments of endowment and similar funds. That income is accounted for as temporarily restricted net assets if restricted, or if unrestricted, as unrestricted net assets.

#### **Use of Estimates—**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingencies and the reported revenues and expenses. Actual results could differ from those estimates. Significant estimates used in the preparation of the accompanying financial statements are disclosed in various sections of the notes to the financial statements.



## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (Continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS: (Continued)

#### **Land, Buildings and Equipment—**

Purchased land, buildings and equipment are stated at cost and donated plant and equipment are recorded at estimated fair value as of the date of contribution. Buildings and equipment are depreciated using the straight-line method over the estimated use-

ful lives of the respective assets (buildings and improvements – 30 to 40 years; and equipment, furnishings and vehicles – 3 to 15 years). A summary of land, buildings and equipment at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Land improvements	\$ 644,138	\$ 604,192
Buildings and improvements	11,249,687	10,304,249
Equipment, furnishings and vehicles	<u>9,566,326</u>	<u>9,259,234</u>
Total property and equipment	21,460,151	20,167,675
Less: Accumulated depreciation	<u>(11,093,139)</u>	<u>(10,456,474)</u>
Property and equipment, net	<u><u>\$ 10,367,012</u></u>	<u><u>\$ 9,711,201</u></u>

Depreciation expense was \$636,665 and \$593,405 for the years ended June 30, 2014 and 2013, respectively.

#### **Allowance for Doubtful Accounts—**

Accounts and loans receivable are reported net of allowances for doubtful accounts and include receivables from students for tuition and fees, loans extended to students under the Federal Perkins loan program and amounts due from federal and state governments and others. The determination of the allowances for doubtful accounts is based upon an analysis of the receivables and

reflects amounts which, in management's judgment, are adequate to provide for potential uncollectible accounts or losses after giving consideration to the growth and composition of the receivable balances, current economic conditions, and past collection and loss experience. The following allowances are recorded in the accompanying *Statements of Financial Position*.

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (Continued)



### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS: (Continued)

	2014	2013
Student accounts receivable	\$ 10,932,681	\$ 9,617,416
Due from government/others	41,465	100,920
Perkins loan program	124,260	124,260
	11,098,406	9,842,596
Less: Student accounts receivable allowance	(9,062,881)	(8,168,663)
Less: Student loans receivable allowance	(124,260)	(124,260)
<b>Net accounts and loans receivable</b>	<b>\$ 1,911,265</b>	<b>\$ 1,549,673</b>

#### **Fundraising Expenses—**

The College incurred fundraising expenses of \$107,069 and \$84,988 in 2014 and 2013, as determined by costs allocated to its institutional development and public relations offices.

instruction. Expenses reported as academic support, institutional support, student services, and auxiliary enterprises are incurred in support of this primary program service. For the years ended June 30, 2014 and 2013, the following expenses have been allocated among the programs and activities benefited:

#### **Functional Allocation of Expenses—**

The College's primary program service is

	2014	2013
Operation and maintenance of physical plant	\$ 1,168,720	\$ 1,387,403
Depreciation	636,665	593,405
<b>Total functional allocation of expenses</b>	<b>\$ 1,805,385</b>	<b>\$ 1,980,808</b>

#### **Income Taxes—**

The College is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") whereby

only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax.



## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (Continued)



### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS: (Continued)

#### Income Taxes— (continued)

Accounting principles generally accepted in the United States of America require the College's management to evaluate tax positions taken by the College and to recognize a tax liability (or asset) if the College has taken an uncertain tax position that will more-likely-than-not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken by the College for the years ended June 30, 2014 and 2013 and believes that there are no such positions as of June 30, 2014 or 2013. Accordingly, no liability has been accrued. There are no years under examination by any taxing authority.

#### Interest Expense—

Interest expense for the years ended June 30, 2014 and 2013 was \$74,687 and \$120,697, respectively.

#### Auxiliary Enterprises—

Auxiliary enterprises include intercollegiate athletics, residence halls, food services, bookstore and the post office. These activities have been grouped and categorized separately as an operation supplementary to the primary educational mission of the College.

### 3. PLEDGES RECEIVABLE:

Pledges receivable, representing unconditional promises to give to the College from various donors due within one year were \$0

and \$152 at June 30, 2014 and 2013, respectively.

### 4. INVESTMENTS:

Investments at June 30, 2014 and 2013 consisted of:

	2014		2013	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 446,942	\$ 446,942	\$ 357,786	\$ 357,787
Equities	931,441	1,308,328	948,407	1,170,184
Fixed Income	738,557	738,305	734,265	723,701
Alternatives	183,672	218,357	157,919	158,448
<i>Total Investments</i>	<u><u>\$ 2,300,612</u></u>	<u><u>\$ 2,711,932</u></u>	<u><u>\$ 2,198,377</u></u>	<u><u>\$ 2,410,120</u></u>

The College's investments are required to be classified based upon a fair value measure-

ment using a three-level valuation hierarchy as applicable:

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (Continued)



### 4. INVESTMENTS: (Continued)

Level 1 - Valuation based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations where all significant inputs

are observable and can be derived principally from or corroborated with observable market data.

Level 3 - Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

The College's investments are Level 1 valuations.

### 5. CAPITAL LEASE OBLIGATION:

In June 2010, the College entered into a capital lease obligation for new telephone and communication equipment. The lease term commenced June 28, 2010 and ended June 28, 2014. The lease conditions stipulate the equipment (having an original cost of \$803,485) can be purchased for FMV at the end of the lease term. The monthly lease payment is \$23,602, which includes both principal and interest, exclusive of executory costs.

In June 2014, the College extended the capital lease for an additional 36 months. The FMV at that time was \$179,565. The monthly lease payment is \$5,851, which includes both principal and interest exclusive of executory costs.

In September 2011, the College entered into a capital lease obligation for new office equipment costing \$64,275. The lease term commenced September 27, 2011 and ends September 27, 2017. The quarterly lease pay-

ment is \$3,540, which includes both principal and interest, exclusive of executory costs.

At June 30, 2014 and 2013, the capital lease obligations were \$209,001 and \$267,121, respectively.

The net present value of the remaining capital lease payments due at June 30, 2014, for the remaining term of the leases, net of executory costs, are as follows:

Fiscal Year Ending June 30,	
2015	\$ 67,208
2016	73,756
2017	68,037
2018	-
2019	-
	<u>\$ 209,001</u>



## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (Continued)

### 6. NOTES PAYABLE:

Notes payable consisted of the following at June 30, 2014 and 2013:

	2014	2013
Note payable to a financial institution in the amount of \$24,132 due in June 2016 bearing interest at 0% and payable in monthly installments of \$1,018 and secured by a 2014 Toyota Camry vehicle.	\$ 23,415	\$ -
Note payable to a financial institution in the amount of \$249,900 plus interest, due in January 2019, bearing interest at 4.95% and payable in monthly installments of \$4,718 and secured by real property.	231,344	-
Note payable to a financial institution, due in May 2017, bearing interest at 4.45% and payable in monthly installments of \$21,830 and secured by furniture and equipment. (Formerly a \$1,000,000 line of credit converted to a long term note).	699,578	-
Note payable to a vendor, which is unsecured, due on or before September 5, 2013 bearing interest at 12%. This note is the final settlement with the food service vendor for accounts owing under the food service contract.	-	166,086
Note payable to a vendor, which is unsecured, due in July 2017 bearing interest at 10% and payable annually. This note payable is forgivable, in \$30,000 annual installments, as long as the vendor's food service contract is in effect. On May 3, 2013, the College terminated the food service contract and entered into a settlement agreement. The agreement states in part that on or before October 2, 2013, the College shall pay the vendor \$164,168 plus interest at the rate of 12% annum.	-	164,168

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (Continued)

### 6. NOTES PAYABLE: (Continued)

	<u>2014</u>	<u>2013</u>
Note payable to a financial institution, due in August 2013 bearing interest at 5.65% and payable in monthly installments of \$6,610 and secured by tuition revenue receivables.	\$ -	\$ 13,100
	<u>\$ 954,337</u>	<u>\$ 343,354</u>

The maturity of notes payable at June 30, 2014 for the next five years is as follows:



<u>Fiscal Year Ending June 30,</u>	
2015	\$ 283,544
2016	300,823
2017	284,013
2018	53,521
2019	32,436
Thereafter	-
	<u>\$ 954,337</u>

### 7. BANK LINES OF CREDIT:

The College had a \$1,000,000 line of credit with a commercial bank due on or before May 20, 2014. The line of credit interest was 4.75%, payable monthly and was secured by investment assets that primarily consist of permanently endowed funds.

In May 2014, the line of credit was converted to a note payable as denoted in *Note 6*. The line of credit had \$0 and \$976,396 principal

outstanding at June 30, 2014 and 2013, respectively. In connection with the conversion of the \$1,000,000 line of credit, the bank granted a new line of credit with a borrowing limit of \$300,000. As of June 30, 2014, no advances had been drawn against the new line of credit. This line of credit is secured by the College's furniture and equipment.



## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (Continued)



### 8. COMMITMENTS AND CONTINGENCIES:

All Federal and State funds received by the College are subject to audit by the applicable governmental agencies and they can assess liabilities against the College. The governmental agencies can also limit or terminate the College's participation in the programs for failure to comply with grant regulations and administrative requirements. The College believes that it is in substantial compliance with the applicable grant regulations and administrative requirements. A substantial portion of the College's funding comes from the U.S. Department of Education through the student financial assistance programs and various institutional grants.

The College is in the process of liquidating its participation in the Federal Perkins Loan Program. The liquidation process involves the

College assigning student loans (which have been fully reserved as doubtful of collection in the accompanying financial statements) to the Federal government and arranging a final closeout audit. The remaining loans to be assigned are \$124,260 as of June 30, 2014 and 2013. If such loans are not ultimately accepted by the Federal government, the College will be liable to repay the Federal government for its approximate 90% interest in the loans.

The College is in litigation with two (2) plaintiffs regarding injuries sustained at work on two separate occasions. Also, they are seeking damages for loss of consortium and household services. The College believes the suits have no merit, relative to the liability and damages claimed.

### 9. PENSION PLAN:

The College sponsors a defined contribution plan for all full-time employees who become eligible after one year of service. Participants may contribute up to 5% of their annual

earnings and are matched by the College. The College contributed \$89,734 and \$83,205 to the plan during the years ended June 30, 2014 and 2013, respectively.

### 10. RELATED PARTY TRANSACTIONS:

The College receives substantial support from the Christian Methodist Episcopal Church whose presiding Bishop of the Eighth

Episcopal District is also Chairman of the Board of Trustees. Several other College trustees are also affiliated with the Church.

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (Continued)

### 11. NET ASSETS:

As of June 30, 2014 and 2013, temporarily and permanently restricted net assets were available as follows.

	2014	2013
<i>Temporarily restricted net assets-</i>		
For government and private sponsored programs	\$ <u>23,471</u>	\$ <u>23,471</u>
<i>Permanently restricted net assets-</i>		
Perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by SPMIFA	\$ <u>1,863,165</u>	\$ <u>1,863,527</u>

The Board of Trustees of the College has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In accordance with SPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the College and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the College.
- The investment policies of the College.

#### Strategies Employed for Achieving Investment Objectives-

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

#### Spending Policy and How the Investment Objectives Relate to Spending Policy-

The College has a policy of limiting the appropriation for current operating needs to income earned from interest, dividends and rent, not to exceed the budgeted spending rate.





## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013 (Continued)

### 11. NET ASSETS: (Continued)

#### **Spending Policy and How the Investment Objectives Relate to Spending Policy— (continued)**

In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow. This is consistent with the College's objective to maintain the purchasing power

of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

A reconciliation of the endowment funds are as follows:

	<b>2014</b>	<b>2013</b>
Beginning balance	\$ 1,863,527	\$ 1,718,210
Contributions received	-	144,955
Investment income (loss), net	301,812	225,115
Appropriations	(70,583)	(64,673)
Transfer of net assets	(362)	362
Reserved for growth and future appropriation recorded as unrestricted net assets	(231,229)	(160,442)
<b>Ending Balance</b>	<b>\$ 1,863,165</b>	<b>\$ 1,863,527</b>

#### **Transfers of Net Assets—**

During 2014 and 2013, the College determined that certain net assets were incorrectly classified based upon a better understanding of the underlying donor agreements. Accord-

ingly, the accompanying financial statements reflect transfers of net assets for proper classification.

### 12. SUBSEQUENT EVENTS:

Subsequent to year-end, the College entered into an agreement to issue bonds up to a maximum of \$19,000,000 under the U.S. Department of Education HBCU Capital Financing program. The proceeds of the bonds will be used for student dormitory construction. Approximately \$802,000 has been advanced, bearing interest at 2.986% and is due in semi-annual installment of

\$23,502 beginning May 2015 through May 2044. The bonds are secured by certain real property improvements and a pledge on unrestricted revenue.

The date through which subsequent events have been evaluated is August 8, 2014, the date at which the financial statements were available for issuance.