

**VICTORIA COUNTY
JUNIOR COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

AUGUST 31, 2012

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**ANNUAL FINANCIAL REPORT
AUGUST 31, 2012**

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS

ORGANIZATIONAL DATA
FOR THE FISCAL YEAR 2011-2012

Board of Trustees

Officers

| | |
|------------------|------------|
| Ronald B. Walker | Chair |
| Luis A. Guerra | Vice Chair |
| Dr. Josie Rivera | Secretary |

Members

| | | <u>Term Expires</u> |
|--------------------|-----------------|---------------------|
| Robby Burdge | Victoria, Texas | 2016 |
| Luis A. Guerra | Victoria, Texas | 2018 |
| Catherine McHaney | Victoria, Texas | 2016 |
| Thomas M. O'Connor | Victoria, Texas | 2014 |
| V. Bland Proctor | Victoria, Texas | 2014 |
| Dr. Josie Rivera | Victoria, Texas | 2018 |
| Ronald B. Walker | Victoria, Texas | 2014 |

Principal Administrative Officers

| | |
|--|---|
| Thomas Butler, Ed. D. | President |
| Keith Blundell, M.B.A., C.P.A., C.G.M.A. | Vice President of Administrative Services |
| Florinda Correa, Ed. D. | Vice President of Student Services |
| Patricia Vandervoort, Ed. D. | Vice President of Instruction |
| Jennifer Yancey, M.A.I.S. | Vice President of College Advancement and External Affairs |
| Tracey Bergstrom, M.B.A., C.P.A., C.G.M.A. | Director of Finance |

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FINANCIAL SECTION

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Victoria County Junior College District
Victoria, Texas

We have audited the accompanying financial statements of the Victoria County Junior College District, as of and for the year ended August 31, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Victoria County Junior College District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Victoria College Foundation, Inc. (the "Affiliated Organization"), which reflects total assets of \$9,047,059 and revenues of \$1,476,559. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Victoria College Foundation, Inc., are based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Victoria County Junior College District, as of August 31, 2012 and 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of the Victoria County Junior College District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Victoria County Junior College District's financial statements as a whole. The supplementary information and financial assistance section as denoted in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Victoria County Junior College District. The accompanying schedule of expenditures of State Awards is presented for purposes of additional analysis as required by the *State of Texas Single Audit Circular*, and is also not a required part of the basic financial statements of the Victoria County Junior College District. The supplementary information and financial assistance section, which includes the schedule of expenditures of federal awards and the schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to 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 basic 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 basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Pattillo, Brown & Hill, C.P.

October 19, 2012

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
Year Ended August 31, 2012**

In June 1999, the Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, which applies the new reporting standards to public colleges and universities. The Victoria County Junior College District (the "District" or "College") adopted these new standards in 2002.

The following analysis provides an overview of the District's financial activities. Both 2012 and 2011 are presented in the audited financial statements. Management's discussion and analysis is designed to focus on current activities, the resulting change, and currently known facts; therefore, please read this discussion and analysis in conjunction with the District's basic financial statements and additional information.

The annual report consists of three basic financial statements that provide information on the District as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis is limited to the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets for the primary government.

Analysis of Financial Position

For the fiscal year ended August 31, 2012, net assets decreased by \$600,538 (1.58%) from \$37,186,687 at August 31, 2011 to \$36,586,149 at August 31, 2012. Operating revenues decreased by 9.80% or \$1,624,303. Operating expenses increased by \$190,964 (0.47%). Non-operating revenues (state appropriations, taxes, Title IV, gifts, and investment related income) decreased by \$307,400 (0.01%), while non-operating expenses (interest on capital related debt) decreased by 23.20% or \$184,425. The overall decrease in net assets is attributable to use of \$580,000 in fund balance for deferred maintenance.

Tuition and fee revenues increased 13.17%, or \$1,060,055, over prior year. Deferred tuition and fee revenues at the end of fiscal year 2011 were recognized during fiscal year 2012, resulting in this significant increase in tuition and fee revenues though credit enrollment and credit contact hours decreased by .9% and 1.2%, respectively, during fiscal year 2012. Tuition and fee rates per semester credit hour are shown below:

| Fiscal Year | In-District Tuition | Non-Resident Tuition | Out of District Fee | General Fee | Technology Fee |
|----------------|------------------------|-------------------------|---------------------------|----------------|-------------------|
| 2012 | \$ 43 | \$ 100 | \$ 47 | \$ 22 | \$ 15 |
| 2011 | \$ 34 | \$ 100 | \$ 45 | \$ 22 | \$ 15 |
| 2010 | \$ 34 | \$ 100 | \$ 45 | \$ 20 | \$ 15 |

During the fiscal year ended August 31, 2012, the District's base State funding was reduced by 6.5% or \$409,484. The State reduced all community college appropriations during fiscal year 2012. The State's funding for employee health insurance decreased by \$618,151, or 42.3%. The State did not fully fund its portion of employee retirement. See Note 24 of the Notes to the Financial Statements and the section labeled "Contingency" below for information regarding employee retirement funding provided by the State.

The Victoria College Board of Trustees voted to set the tax rate at \$0.1606 per \$100 valuation. The tax rate increased from prior year tax rate by 4.90%. Property tax revenues increased 7.65% (\$595,038) due to the increase in tax rate coupled with an increase in assessed property value of 3.80%.

Interest and related investment income decreased by \$328,597, or 76.83%. The decrease in this non-operating revenue category is due to recognition of gains on the sales of various endowment investments in the prior year. Endowment assets were transferred to the Victoria College Foundation, Inc. during fiscal year 2011. Due to the transfer of endowment assets in prior fiscal year, there are no gains (or losses) to recognize during fiscal year 2012. Poor market conditions continued during fiscal year 2012 resulting in fairly flat interest rate returns.

Short-term liabilities increased by \$636,446, or 7.97%. The increase is due primarily to an increase in Deferred Revenue related to federal, state, and local gifts and grants. More information related to deferred revenue can be found in Note 2 of the Notes to the Financial Statements.

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
Year Ended August 31, 2012**

Table 1 - Condensed Comparative Financial Information

| Financial Statement Category | FY 2012 | FY 2011 | FY 2010 |
|---|----------------------|----------------------|----------------------|
| Assets | | | |
| Cash and Investments | \$ 9,323,692 | \$ 11,624,567 | \$ 12,758,256 |
| Other Assets | 6,202,829 | 4,984,450 | 5,255,251 |
| Capital Assets | <u>44,873,394</u> | <u>44,030,809</u> | <u>44,051,728</u> |
| Total Assets | 60,399,915 | 60,639,826 | 62,065,235 |
| Liabilities | | | |
| Current Liabilities | 8,617,190 | 7,980,744 | 7,334,980 |
| Long-term Liabilities | <u>15,196,576</u> | <u>15,472,395</u> | <u>16,830,000</u> |
| Total Liabilities | 23,813,766 | 23,453,139 | 24,164,980 |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 29,325,685 | 27,083,414 | 25,831,728 |
| Unrestricted | 6,087,427 | 7,540,325 | 6,281,439 |
| Restricted | <u>1,173,037</u> | <u>2,562,948</u> | <u>5,787,088</u> |
| Total Net Assets | <u>\$ 36,586,149</u> | <u>\$ 37,186,687</u> | <u>\$ 37,900,255</u> |
| Operating Revenues | | | |
| Tuition and Fees (net of discounts) | 9,631,402 | 8,571,347 | 8,047,030 |
| Local, State and Federal Grants and Contracts | 3,333,638 | 6,236,028 | 3,688,661 |
| Auxiliary Enterprise | 3,810,826 | 4,010,280 | 4,220,013 |
| Other | <u>1,056,288</u> | <u>638,802</u> | <u>622,889</u> |
| Total Operating Revenues | 17,832,154 | 19,456,457 | 16,578,593 |
| Operating Expenses | | | |
| Instruction | 12,765,707 | 15,143,721 | 12,992,730 |
| Public Service | 233,150 | 90,318 | 30,237 |
| Academic Support | 2,579,496 | 2,338,991 | 2,352,102 |
| Student Support | 2,439,030 | 2,816,925 | 2,900,136 |
| Institutional Support | 5,207,318 | 4,006,881 | 3,373,468 |
| Operation and Maintenance of Plant | 3,934,548 | 2,998,333 | 3,298,347 |
| Scholarships and Fellowships | 13,946,538 | 13,802,754 | 11,054,217 |
| Auxiliary Enterprises | 3,548,458 | 3,626,919 | 3,398,618 |
| Depreciation | <u>1,827,272</u> | <u>1,465,711</u> | <u>1,413,636</u> |
| Total Operating Expenses | <u>46,481,517</u> | <u>46,290,553</u> | <u>40,813,491</u> |
| Operating Income (Loss) | <u>(28,649,363)</u> | <u>(26,834,096)</u> | <u>(24,234,898)</u> |
| Non-Operating Revenues (Expenses) | | | |
| State Appropriations | 7,414,789 | 8,503,704 | 8,604,742 |
| Taxes | 8,375,917 | 7,780,879 | 7,620,356 |
| Title IV | 12,601,061 | 12,336,719 | 9,734,191 |
| Gifts | 384,219 | 715,176 | 426,437 |
| Equity transfer in | 580,000 | - | - |
| Interest on Capital Related Debt | (610,345) | (794,770) | (889,964) |
| Investment Related Income | 99,096 | 427,693 | 354,147 |
| Other income | <u>1,689</u> | <u>-</u> | <u>-</u> |
| Total Non-Operating Revenues (Expenses) | <u>28,846,426</u> | <u>28,969,401</u> | <u>25,849,909</u> |
| Income Before Other Revenues, (Expenses), Gains, (Losses) | 197,063 | 2,135,305 | 1,615,011 |
| Other Revenues, (Expenses), Gains, (Losses) | <u>(121,961)</u> | <u>(2,848,873)</u> | <u>48,779</u> |
| Increase (Decrease) in Net Assets | 75,102 | (713,568) | 1,663,790 |
| Beginning Net Assets, as Adjusted | 37,186,687 | 37,900,255 | 36,236,465 |
| Adjustments to Net Assets | <u>(675,640)</u> | <u>-</u> | <u>-</u> |
| Ending Net Assets | <u>\$ 36,586,149</u> | <u>\$ 37,186,687</u> | <u>\$ 37,900,255</u> |

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
Year Ended August 31, 2012**

Capital Assets and Long Term Debt Administration

Capital Assets

The District's investment in capital assets as of August 31, 2012 was \$44,873,394 (net of accumulated depreciation). This amount represents a net increase (including additions, dispositions, and depreciation expense) of \$842,585 over fiscal year 2011. During the fiscal year, construction in progress increased by \$2,174,223. Additional information regarding the District's capital assets can be found in Note 6 to the financial statements.

The following table summarizes the District's capital assets, net of accumulated depreciation, as of August 31, 2012, 2011, and 2010.

| | <u>Balance at</u> 8/31/2012 | <u>Balance at</u> 8/31/2011 | <u>Balance at</u> 8/31/2010 | <u>\$ Change</u> 2012-2011 | <u>\$ Change</u> 2011-2010 |
|---|--------------------------------|--------------------------------|--------------------------------|-------------------------------|-------------------------------|
| Land | \$ 460,387 | \$ 460,387 | \$ 325,537 | \$ - | \$ 134,850 |
| Construction in Progress | 2,648,322 | 474,099 | 3,681,693 | 2,174,223 | (3,207,594) |
| Library Volumes and Periodicals | 945,265 | 968,859 | 1,023,531 | (23,594) | (54,672) |
| Buildings | 46,572,187 | 46,488,947 | 46,024,031 | 83,240 | 464,916 |
| Site Improvements | 6,512,779 | 6,505,197 | 6,383,314 | 7,582 | 121,883 |
| Telecommunications and Peripheral Equipment | 1,465,470 | 1,396,936 | 1,159,269 | 68,534 | 237,667 |
| Machinery, Equipment, Furniture and Vehicles | 5,231,458 | 4,941,654 | 1,310,687 | 289,804 | 3,630,967 |
| Totals at Historical Costs | 63,835,868 | 61,236,079 | 59,908,062 | 2,599,789 | 1,328,017 |
| Total Accumulated Depreciation | 18,962,474 | 17,205,270 | 15,856,334 | 1,757,204 | 1,348,936 |
| Net Capital Assets | <u>\$ 44,873,394</u> | <u>\$ 44,030,809</u> | <u>\$ 44,051,728</u> | <u>\$ 842,585</u> | <u>\$ (20,919)</u> |
| | | | | <u>% Change</u> 2012-2011 | <u>% Change</u> 2011-2010 |
| Land | | | | 0.0% | 41.4% |
| Construction in Progress | | | | 458.6% | -87.1% |
| Library Volumes and Periodicals | | | | -2.4% | -5.3% |
| Buildings | | | | 0.2% | 1.0% |
| Site Improvements | | | | 0.1% | 1.9% |
| Telecommunications and Peripheral Equipment | | | | 4.9% | 20.5% |
| Machinery, Equipment, Furniture and Vehicles | | | | 5.9% | 277.0% |
| Totals at Historical Costs | | | | 4.2% | 2.2% |
| Total Accumulated Depreciation | | | | 10.2% | 8.5% |
| Net Capital Assets | | | | 1.9% | 0.0% |

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
Year Ended August 31, 2012**

Long-Term Debt

Long-term debt decreased by \$1,590,000 during the fiscal year. The District issued \$8,480,000 in Series 2012 Limited Tax Refunding Bonds during fiscal year 2012. Additional information regarding the District's long-term debt can be found in Notes 7, 8 and 9 to the financial statements.

The table below summarizes the District's long-term debt outstanding at August 31, 2012, 2011, and 2010.

| | <u>Balance at</u> 8/31/2012 | <u>Balance at</u> 8/31/2011 | <u>Balance at</u> 8/31/2010 | <u>\$ Change</u> 2012-2011 | <u>\$ Change</u> 2011-2010 |
|--|--------------------------------|--------------------------------|--------------------------------|-------------------------------|-------------------------------|
| 1999 Revenue Construction Bonds | \$ - | \$ - | \$ 3,410,000 | \$ - | \$ (3,410,000) |
| 2006 Tax Bonds Payable | 3,575,000 | 12,655,000 | 13,230,000 | (9,080,000) | (575,000) |
| 2008 Maintenance Tax Notes | 550,000 | 1,075,000 | 1,580,000 | (525,000) | (505,000) |
| 2010 Combined Fee Revenue Refunding Bonds | 2,730,000 | 3,080,000 | - | (350,000) | 3,080,000 |
| 2012 Limited Tax Refunding Bonds | <u>8,365,000</u> | <u>-</u> | <u>-</u> | <u>8,365,000</u> | <u>-</u> |
| Total Long-Term Debt | <u>\$ 15,220,000</u> | <u>\$ 16,810,000</u> | <u>\$ 18,220,000</u> | <u>\$ (1,590,000)</u> | <u>\$ (1,410,000)</u> |
| | | | | <u>% Change</u> 2012-2011 | <u>% Change</u> 2011-2010 |
| 1999 Revenue Construction Bonds | | | | N/A | -100.0% |
| 2006 Tax Bonds Payable | | | | -71.8% | -4.3% |
| 2008 Maintenance Tax Notes | | | | -48.8% | -32.0% |
| 2010 Combined Fee Revenue Refunding Bonds | | | | -11.4% | 100.0% |
| 2012 Limited Tax Refunding Bonds | | | | 100.0% | N/A |
| Total Long-Term Debt | | | | -9.5% | -7.7% |

The District's revenue bond rating is A+/Stable and its general obligation bond rating is AA/Stable as rated by the bond rating agency Standard & Poor's. There are no known debt limitations that could affect the financing of facilities or services.

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
Year Ended August 31, 2012**

Enrollment Highlights

Credit student enrollment and contact hours increased by 5.2% and 2.8%, respectively, for the fall term. Headcount was 4,513 for the fall 2011-2012 term compared to 4,290 for the fall 2010-2011 term. Overall credit student enrollment and contact hours decreased by 0.9% and 1.2%, respectively due to a drop in summer enrollment from 2,289 in fiscal year 2010-2011 to 1,596 in fiscal year 2011-2012. Non-credit enrollment decreased from 1,230 in the fall 2010-2011 term to 696 in the fall 2011-2012 term, a decrease of 43.4%. The reduction in non-credit enrollment is due, in part, to the conclusion of a Skills Development Grant from the Texas Workforce Commission (TWC). Grants obtained through the TWC allow the District to offer specialized training to industry partners within its service area, thereby increasing the skill level of incumbent and new workers. The District will continue to seek funding from the TWC in order to offer courses that enhance the quality of workers in its service area.

| | | | | | | | |
|------------------------|----------------------------|------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Credit Students | 2011-2012 | Fall | Spring | Summer | | Annual * | |
| | Enrollment | 4,513 | 4,161 | 1,596 | | 5,939 | |
| | Contact Hours | 796,832 | 773,776 | 212,704 | | 1,783,312 | |
| | 2010-2011 | Fall | Spring | Summer | | Annual * | |
| | Enrollment | 4,290 | 4,116 | 2,289 | | 5,991 | |
| | Contact Hours | 775,152 | 776,960 | 252,880 | | 1,804,992 | |
| | 2009-2010 | Fall | Spring | Summer | | Annual * | |
| | Enrollment | 4,062 | 4,037 | 2,041 | | 5,667 | |
| | Contact Hours | 727,312 | 728,064 | 254,592 | | 1,605,552 | |
| | Non-Credit Students | 2011-2012 | Fall | Spring | Summer 1 | Summer 2 | Annual * |
| | | Enrollment | 696 | 750 | 684 | 1,209 | 3,736 |
| | | Contact Hours | 30,631 | 38,286 | 30,715 | 31,139 | 130,771 |
| 2010-2011 | | Fall | Spring | Summer 1 | Summer 2 | Annual * | |
| Enrollment | | 1,230 | 1,499 | 1,290 | 1,785 | 4,378 | |
| Contact Hours | | 47,570 | 63,662 | 43,590 | 54,037 | 208,859 | |
| 2009-2010 | | Fall | Spring | Summer 1 | Summer 2 | Annual * | |
| Enrollment | | 885 | 763 | 798 | 1,763 | 2,959 | |
| Contact Hours | | 32,052 | 40,854 | 25,293 | 61,969 | 160,168 | |

* Unduplicated
Certificates and Degrees Conferred:

| Fiscal Year | Associate of Arts | Associate of Science | Associate of Applied Sciences | Work Force Certificates | Total Degrees and Certificates |
|--------------------|--------------------------|-----------------------------|--------------------------------------|--------------------------------|---------------------------------------|
| 2011-2012 | 45 | 69 | 214 | 205 | 533 |
| 2010-2011 | 41 | 92 | 166 | 257 | 556 |
| 2009-2010 | 39 | 83 | 167 | 262 | 551 |

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
Year Ended August 31, 2012**

Contingency

Texas Constitution article 16, section 67(b)(3) provides that the State of Texas must contribute "not less than six percent nor more than ten percent of the aggregate compensation paid to individuals participating in the system", referring to the State's Teacher Retirement System (TRS) including the related faculty Optional Retirement Program (ORP).

During the 2011 legislative session, the Texas legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State's contribution to TRS/ORP on behalf of community colleges to only six percent of each district's unrestricted General Revenue appropriation for each year of the biennium state budget.

There is no pending litigation concerning this issue to construe the constitutional funding requirements; or to hold that the State biennium appropriations satisfy those requirements; or to attempt to collect any shortfall contributions from any community college district.

The District has calculated that as of August 31, 2012, the contribution that has not been paid to TRS on behalf of District employees is \$301,653.

Strategic and Operational Planning

Many objectives in Victoria College's (VC's) 2009-2012 Strategic Plan were successfully completed during the year. Three committees, focusing on the priority goals of Student Success, Meeting Community Needs, and Institutional Excellence, are working to develop the next three-year plan with action items designed to continue to address the priority goals. The plan will be adopted by the Board of Trustees in January 2013.

Campus Master Plan

In fall 2011, the Board of Trustees approved the 2011-2020 college Master Plan. The District seeks to continue creating a campus that demonstrates VC's commitment to student success. Such a campus is welcoming, student centered, and fosters a collegial environment for engaged learning. The campus will continue to be scalable for growth, yet flexible to meet new educational and community needs. The campus will clearly demonstrate VC's commitment to stewardship of resources, permanence of mission, and the college's status as the premier institution of higher education for the Crossroads region. Several facility initiatives were identified for focus in the near future. These included a comprehensive facilities plan for student life, a workforce training and conference center, an enrollment services facility, business continuity, additional parking, a public service training center, renovations to the library and Museum of the Coastal Bend, and a new recital hall.

Resource Management & Development

Victoria College remains committed to maintaining the affordability of higher education and works diligently to develop and enhance its resources in order to balance the needs of its students with the needs of its entire constituency of taxpayers, community members, and business and industry. As State financial support continues to decrease and the cost of doing business continues to increase, achieving this balance becomes progressively more difficult. To offset the loss in state funding, the college increased the property tax rate slightly, from \$0.1531 to \$0.1606, per \$100 valuation and increased the tuition rate per semester credit hour from \$34 to \$43 for the fiscal year 2012. For upcoming fiscal year 2013, the property tax rate and college's tuition and fee rates were held steady at fiscal year 2012 levels.

Victoria College strategically and aggressively seeks external support through donations and grants to help offset the cost of new program development, to provide student financial support, and to provide necessary funds for expansion and growth. The District strives to secure the resources necessary to facilitate college enrollment and successful completion of postsecondary education and training for service area students without their having an accumulation of excessive financial burden. Generous community support and a strategic focus on investment management allowed the VC Foundation to award over \$338 thousand in student scholarships and inject nearly \$122 thousand to enhance College programs, facilities, and initiatives.

Several grants, totaling nearly \$1.5 million, were awarded to Victoria College during the year to support students' financial needs and programs. Nearly \$800 thousand of the total was awarded by the Texas Workforce Commission Skills Development Fund to provide training for 380 new hires for a new community industry partner, Caterpillar.

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
Year Ended August 31, 2012**

College Recognition & Accomplishments

Victoria College's Respiratory Care Program was recognized with the Distinguished Registered Respiratory Care Therapist Credentialing Success Award by the Commission on Accreditation for Respiratory Care. The award honors the program for credentialing success, success in reporting outcomes, attrition and positive job placement. VC's program is among 32 programs out of approximately 440 in the nation to receive this recognition. Additionally, VC's program is the only one at a community college out of four programs recognized in the state of Texas.

Victoria College's Physical Therapist Assistant program, which began in 2009, completed the final stage of the accreditation process and received official accreditation from the Commission on Accreditation in Physical Therapy Education of the American Physical Therapy Association. The process has included curriculum development, a self-assessment, and two site visits by the accrediting agency. The PTA program's accreditation candidacy application was submitted in 2010. The first class of Physical Therapist Assistants graduated the program in spring 2012.

For the first time in VC's history, the Zeta Gamma chapter earned the respected Five-star status among Phi Theta Kappa chapters. Zeta Gamma, recognized at the international PTK Annual Convention in Nashville, TN, also received the Distinguished Chapter Officer Team award and the Honors in Action Award. The Five-star status was earned due to Zeta Gamma's high participation and activity at the local, regional and international level. According to PTK.org, such participation includes organizing a chapter, developing projects, involvement in international PTK activities and events, and more. Achieving a Five-star level put the chapter in the top third of all Texas chapters and the top quarter of all international chapters. In addition, VC's chapter was one of 26 chapters, internationally, to earn the Distinguished Chapter Officer Team Award based on the officers' outstanding achievements and teamwork.

Victoria College was honored by the Texas Workforce Commission (TWC) with a 2011 Partnership Award in recognition of its ongoing stewardship of Skills Development Fund (SDF) grants awarded by the Commission. VC has been the recipient of numerous Skills Development Fund grants over the past decade. Working closely with local industry, VC helped identify skills gaps and tailored programs designed to increase or expand the skills of workers in the Golden Crescent Workforce Development Area. Included among the diverse industries with which VC has partnered on SDF projects are: the petro and industrial chemical industries, plastics and advanced manufacturing businesses, and oil and gas exploration companies. TWC's 2011 Partnership Award highlights the important role community colleges play in providing a skilled workforce. In serving the needs of employers, Victoria College has been instrumental in assisting workers to obtain the specific skills they need to meet the demands of the regional economy. Customized training also ensures that workers whose skills no longer align with those needed for today's jobs are updated and improved. Skills Development Fund projects have provided the resources for VC to expand its capacity to serve area industry through the development of curriculum and purchase of state-of-the-art training equipment in such areas as pump fundamentals, emergency medical care, fire safety, and lean manufacturing, to name a few.

Victoria College was named a finalist for the 2011 Star Award from the Texas Higher Education Coordinating Board for its TRiO Student Support Services Program and specifically, the KEY Center. Eleven finalists, including VC, were recognized during the Texas Higher Education Leadership Conference. VC's TRiO Student Support Services Program, which includes the KEY Center, is 100 percent federally funded by the U.S. Department of Education to promote participation and success at the college level for students from underrepresented and/or disadvantaged groups. These support services apply to all students who attend VC and focus on the expansion and improvement of services that make getting a college education more accessible. Additionally, the KEY Center offers support to low-income, first-generation, or disabled individuals to help ensure completion of their college education.

New Facilities & Community Support

Victoria County voters approved a \$22 million general obligation bond to support VC's master plan, which includes construction of an Emerging Technology Center. The bond election passed with a 66% approval rate. In addition to supporting the training needs of current and future students and employers, VC's Emerging Technology Center will provide additional space for corporate and industrial training programs. It will also allow VC to develop new, in-demand certificate and degree programs that support regional economic development while freeing up space on VC's main campus for growing academic programs.

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS**

**Management's Discussion and Analysis
Year Ended August 31, 2012**

New Facilities & Community Support (continued)

The 80,000 square-foot facility will include welding labs, specialized training labs for industrial applications, and rapid response labs that can be configured to meet emerging needs. Additionally, the center will include computer labs for instruction, traditional classrooms and flexible-use rooms for large-scale corporate training events. Thirteen acres near State Hwy. 59 and Loop 463 will house the Emerging Technology Center. The Victoria Sales Tax Development Corporation and Victoria City Council approved the property transfer to VC.

Customized Training

Victoria College's Workforce and Continuing Education Department developed customized training programs for many business and industry partners. One such partner was Key Energy Services (Key). New employee-drivers for Key's fluid management division were trained by VC instructors and, upon successful completion, earned a Commercial Driver's License. The college is also strategically located near Key's operations and facilities located from George West to El Campo—a region important to many of Key's Gulf Coast customers.

Quality Enhancement and Accreditation

As part of its reaffirmation process and compliance certificate approval, VC is developing a plan to improve student success by helping students become more actively engaged in their education. Increasing active learning in the classroom will help students improve their critical thinking and communication skills. Active learning is the topic of VC's Quality Enhancement Plan, or QEP, which is a required component of the college's reaffirmation of accreditation by the Southern Association of Colleges and Schools Commission on Colleges, commonly referred to as SACS. The plan is designed to enhance the learning experience for the student, thereby leading to greater student success. SACS approval of the QEP and VC's reaffirmation of accreditation will take place in June 2014.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances and demonstrate the District's accountability for the money it receives. Questions concerning any information provided in the report or requests for additional financial information should be addressed to the Victoria County Junior College District, 2200 East Red River, Victoria, Texas 77901.

BASIC FINANCIAL STATEMENTS

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Statement of Net Assets
August 31, 2012

| | Current Year | Prior Year |
|---|---------------|---------------|
| ASSETS | | |
| Current Assets | | |
| Cash & cash equivalents | \$ 8,626,105 | \$ 9,046,797 |
| Restricted cash and cash equivalents | 695,073 | 2,575,258 |
| Short-term investments | 2,225 | 2,223 |
| Restricted short-term investments | 289 | 289 |
| Due from component unit | - | 19,617 |
| Accounts receivable (net) | 3,689,127 | 3,710,128 |
| Restricted accounts receivable | 385,427 | 454,885 |
| Inventories | 837,477 | 799,820 |
| Prepaid expenses | 16,931 | - |
| Total Current Assets | 14,252,654 | 16,609,017 |
| Noncurrent Assets | | |
| Unamortized bond issuance costs | 1,273,867 | - |
| Construction in progress | 2,648,322 | 474,099 |
| Investments in real estate | 460,387 | 460,387 |
| Capital assets (net) (See note 6) | 41,764,685 | 43,096,323 |
| Total Noncurrent Assets | 46,147,261 | 44,030,809 |
| Total Assets | 60,399,915 | 60,639,826 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | 1,070,138 | 630,500 |
| Accrued liabilities | 546,879 | 559,551 |
| Funds held for others | 330,223 | 387,786 |
| Due to component unit | 35,923 | - |
| Deferred revenues | 5,009,027 | 4,927,907 |
| Bonds payable - current portion | 1,625,000 | 1,475,000 |
| Total Current Liabilities | 8,617,190 | 7,980,744 |
| Noncurrent Liabilities | | |
| Bond premium | 1,601,576 | 137,395 |
| Bonds payable | 13,595,000 | 15,335,000 |
| Total Noncurrent Liabilities | 15,196,576 | 15,472,395 |
| Total Liabilities | 23,813,766 | 23,453,139 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 29,325,685 | 27,083,414 |
| Restricted for | | |
| Expendable | | |
| Student aid | 168,270 | 192,321 |
| Unexpended bond proceeds | - | 2,112,862 |
| Construction in progress | 700,000 | - |
| Debt service | 304,767 | 257,765 |
| Unrestricted | 6,087,427 | 7,540,325 |
| Total Net Assets (Schedule D) | \$ 36,586,149 | \$ 37,186,687 |

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

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Affiliated Organization
Statement of Financial Position
August 31, 2012

| | Current Year | Prior Year |
|--|--------------|--------------|
| ASSETS | | |
| Current Assets | | |
| Cash & cash equivalents | \$ 844,553 | \$ 806,845 |
| Tuition assistance receivable | 1,942 | 2,910 |
| Pledges receivable | | |
| Temporarily restricted | 2,842 | 12,271 |
| Permanently restricted | 20,000 | - |
| Due from Victoria College | 35,923 | - |
| Other current assets | 450 | 245 |
| Total Current Assets | 905,710 | 822,271 |
| Other Assets | | |
| Endowment Investments - money market funds | 322,571 | 204,799 |
| Endowment Investments - equity securities | 6,808,134 | 6,751,666 |
| Total Endowment Investments | 7,130,705 | 6,956,465 |
| Endowment Investments - temporarily restricted | 1,010,644 | 410,336 |
| Total Other Assets | 8,141,349 | 7,366,801 |
| Total Assets | \$ 9,047,059 | \$ 8,189,072 |
| LIABILITIES | | |
| Current Liabilities | | |
| Due to Victoria College | \$ - | \$ 19,617 |
| Total Current Liabilities | - | 19,617 |
| Total Liabilities | - | 19,617 |
| NET ASSETS | | |
| Unrestricted net assets | 73,576 | 123,899 |
| Temporarily restricted net assets | 1,822,778 | 1,089,091 |
| Permanently restricted net assets | 7,150,705 | 6,956,465 |
| Total Net Assets | 9,047,059 | 8,169,455 |
| Total Liabilities and Net Assets | \$ 9,047,059 | \$ 8,189,072 |

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

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Statement of Revenues, Expenses and
Changes in Net Assets
For The Year Ended August 31, 2012

| | <u>Current Year</u> | <u>Prior Year</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Tuition and fees (net of discounts of \$4,758,129 & \$4,558,893, respectively) | \$ 9,631,402 | \$ 8,571,347 |
| Federal grants and contracts | 1,512,266 | 3,292,993 |
| State grants and contracts | 1,419,665 | 2,629,097 |
| Non-governmental grants and contracts | 401,707 | 313,938 |
| Sales and services of educational activities | 795,249 | 367,762 |
| Auxiliary enterprises (net of discounts of \$2,206,473 & \$2,153,544, respectively) | 3,810,826 | 4,010,280 |
| General operating revenues | <u>261,039</u> | <u>271,040</u> |
| Total Operating Revenues (Schedule A) | <u>17,832,154</u> | <u>19,456,457</u> |
| OPERATING EXPENSES | | |
| Instruction | 12,765,707 | 15,143,721 |
| Public service | 233,150 | 90,318 |
| Academic support | 2,579,496 | 2,338,991 |
| Student services | 2,439,030 | 2,816,925 |
| Institutional support | 5,207,318 | 4,006,881 |
| Operation and maintenance of plant | 3,934,548 | 2,998,333 |
| Scholarships and fellowships | 13,946,538 | 13,802,754 |
| Auxiliary enterprises | 3,548,458 | 3,626,919 |
| Depreciation | <u>1,827,272</u> | <u>1,465,711</u> |
| Total Operating Expenses (Schedule B) | <u>46,481,517</u> | <u>46,290,553</u> |
| Operating (Loss) | <u>(28,649,363)</u> | <u>(26,834,096)</u> |
| Non-Operating Revenues (Expenses) | | |
| State allocations | 7,414,789 | 8,503,704 |
| Title IV | 12,601,061 | 12,336,719 |
| Maintenance ad valorem taxes | | |
| Taxes for maintenance and operations | 6,588,399 | 6,006,111 |
| Taxes for general obligation bonds | 1,787,518 | 1,774,768 |
| Gifts | 384,219 | 715,176 |
| Equity transfer in | 580,000 | - |
| Investment income (net of investment expenses) | 99,096 | 427,693 |
| Other income | 1,689 | - |
| Interest on capital related debt | <u>(610,345)</u> | <u>(794,770)</u> |
| Total Non-Operating Revenues (Expenses) (Schedule C) | <u>28,846,426</u> | <u>28,969,401</u> |
| Income Before Other Revenues, (Expenses), Gains and (Losses) | <u>197,063</u> | <u>2,135,305</u> |
| Other Revenues, (Expenses), Gains, (Losses) | | |
| Loss on disposal of capital assets | (5,889) | (15,230) |
| Bond issuance costs | (168,435) | (130,610) |
| Donation of capital assets | 52,363 | 604,077 |
| Transfers of endowments | - | (3,307,110) |
| Total Other Revenues, (Expenses), Gains, (Losses) | <u>(121,961)</u> | <u>(2,848,873)</u> |
| Increase in Net Assets | <u>75,102</u> | <u>(713,568)</u> |
| NET ASSETS | | |
| Net Assets - Beginning of Year | 37,186,687 | 37,900,255 |
| Adjustment to Net Assets | <u>(675,640)</u> | <u>-</u> |
| Net Assets - End of Year | <u>\$ 36,586,149</u> | <u>\$ 37,186,687</u> |

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

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Affiliated Organization
Statement of Activities
For The Year Ended August 31, 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Current Year</u> | <u>Total Prior Year</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------------------|-----------------------------|
| Support and revenues | | | | | |
| Grants and contributions | \$ 43,133 | \$ 287,461 | \$ 294,534 | \$ 625,128 | \$ 695,305 |
| In-kind donations | 115,430 | - | - | 115,430 | 116,074 |
| Interest and dividends | 162 | 203,819 | - | 203,981 | 167,737 |
| Rental income | - | - | - | - | 35,750 |
| Net increase in fair value of investments | - | 396,272 | 138,998 | 535,270 | 733,411 |
| Total unrestricted support and revenues | <u>158,725</u> | <u>887,552</u> | <u>433,532</u> | <u>1,479,809</u> | <u>1,748,277</u> |
| Net assets released from restrictions | 389,907 | (150,615) | (239,292) | - | - |
| Net assets returned to donors | - | (3,250) | - | (3,250) | (15,570) |
| Net assets transferred from Victoria College | - | - | - | - | 3,007,022 |
| Total unrestricted support and revenues And reclassifications | <u>548,632</u> | <u>733,687</u> | <u>194,240</u> | <u>1,476,559</u> | <u>4,739,729</u> |
| Expenses | | | | | |
| Program | 460,172 | - | - | 460,172 | 764,830 |
| Management and general | 13,972 | - | - | 13,972 | 20,293 |
| Fundraising | 124,811 | - | - | 124,811 | 119,339 |
| Total unrestricted expenses | <u>598,955</u> | <u>-</u> | <u>-</u> | <u>598,955</u> | <u>904,462</u> |
| Increase in net assets | <u>(50,323)</u> | <u>733,687</u> | <u>194,240</u> | <u>877,604</u> | <u>3,835,267</u> |
| NET ASSETS | | | | | |
| Net Assets - Beginning of Year | <u>123,899</u> | <u>1,089,091</u> | <u>6,956,465</u> | <u>8,169,455</u> | <u>4,334,188</u> |
| Net Assets - End of Year | <u>\$ 73,576</u> | <u>\$ 1,822,778</u> | <u>\$ 7,150,705</u> | <u>\$ 9,047,059</u> | <u>\$ 8,169,455</u> |

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

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Statement of Cash Flows
For The Year Ended August 31, 2012

| | <u>Current Year</u> | <u>Prior Year</u> |
|--|---------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from students and other customers | \$ 14,318,597 | \$ 13,646,853 |
| Receipts from grants and contracts | 3,424,097 | 6,327,109 |
| Other receipts | 316,580 | 329,629 |
| Payments to suppliers for goods or services | (7,331,106) | (6,750,122) |
| Payments to or on behalf of employees | (22,161,664) | (22,842,406) |
| Payments of scholarships and fellowships | (13,946,538) | (13,802,754) |
| Net cash provided (used) by operating activities | <u>(25,380,034)</u> | <u>(23,091,691)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Receipts from state allocations | 6,572,230 | 7,042,994 |
| Receipts from federal (Title IV) allocations | 12,601,061 | 12,336,719 |
| Receipts from ad valorem tax revenues | 6,588,399 | 6,006,111 |
| Gifts and grants (other than capital) | 384,219 | 715,176 |
| Student organization and other agency transactions | (57,564) | 15,581 |
| Transfers to Victoria College Foundation, Inc. | - | (3,307,110) |
| Net cash provided by non-capital financing activities | <u>26,088,345</u> | <u>22,809,471</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Receipts from ad valorem tax revenues | 1,787,518 | 1,774,768 |
| Contribution of capital assets | 52,363 | 604,077 |
| Purchases of capital assets | (2,675,746) | (1,460,022) |
| Proceeds from disposal of capital assets | 5,889 | 15,230 |
| Loss on disposal of capital assets | (5,889) | (15,230) |
| Proceeds from refunding bonds | 8,480,000 | 3,455,000 |
| Defeased debt | (8,480,000) | (3,410,000) |
| Bond issuance costs | (168,435) | (130,610) |
| Bond premium | 1,464,181 | 137,395 |
| Payments on capital debt - principal | (1,590,000) | (1,455,000) |
| Payments on capital debt - interest | (610,345) | (794,770) |
| Net cash provided (used) by capital and related financing activities | <u>(1,740,464)</u> | <u>(1,279,162)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale and maturity of investments | (1,273,867) | 3,028,772 |
| Other income | 1,689 | - |
| Investment earnings | 99,094 | 469,021 |
| Equity transfer in | 580,000 | - |
| Prior period adjustment | (675,640) | - |
| Net cash provided (used) by investing activities | <u>(1,268,724)</u> | <u>3,497,793</u> |
| Increase (decrease) in cash and cash equivalents | (2,300,877) | 1,936,411 |
| Cash and cash equivalents - September 1 | <u>11,622,055</u> | <u>9,685,644</u> |
| Cash and cash equivalents - August 31 | <u>\$ 9,321,178</u> | <u>\$ 11,622,055</u> |
| Cash & cash equivalents | \$ 8,626,105 | \$ 9,046,797 |
| Restricted cash and cash equivalents | <u>695,073</u> | <u>2,575,258</u> |
| Total cash and cash equivalents | <u>\$ 9,321,178</u> | <u>\$ 11,622,055</u> |

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Statement of Cash Flows
For The Year Ended August 31, 2012
(Continued)

| | Current Year | Prior Year |
|--|-----------------|-----------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating (loss) | \$ (28,649,363) | \$ (26,834,096) |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities: | | |
| Depreciation expense | 1,827,272 | 1,465,711 |
| State group insurance | 842,559 | 1,460,710 |
| Changes in assets and liabilities: | | |
| Receivables (net) | 90,459 | 91,081 |
| Due from component unit | 55,541 | 58,589 |
| Inventories | (37,657) | (82,541) |
| Prepaid expenses | (16,931) | 203,672 |
| Accounts payable | 439,638 | (155,683) |
| Accrued liabilities | (12,672) | 3,402 |
| Deferred revenue | 81,120 | 697,464 |
| Net cash provided (used) by operating activities | \$ (25,380,034) | \$ (23,091,691) |

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

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Notes to the Financial Statements
August 31, 2012

1. **Reporting Entity**

Victoria County Junior College District (the "District") was created by a vote of the electorate of Victoria County, Texas, at an election held on December 2, 1947, in accordance with the laws of the State of Texas to serve the educational needs of Victoria County and the surrounding communities. The Board of Trustees (the "Board"), a seven-member group, is the level of government which has governing responsibilities over all activities related to public junior colleges within the jurisdiction of the District. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters, including taxing authority. The District is considered to be a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*. While the District receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity. Furthermore, all activities and organizations over which the Board exercises oversight responsibility have been included in the basic financial statements.

2. **Summary of Significant Accounting Policies**

Report Guidelines

The significant accounting policies followed by the District in preparing these financial statements are in accordance with the Texas Higher Education Coordinating Board's *Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The District applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The District has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The District is reported as a special-purpose government engaged in business type activities.

Tuition Discounting

Texas Public Education Grants – Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.033). When the award is used by the student for tuition and fees, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Act Program Funds – Certain Title IV HEA Program funds are received by the District to pass through to the student. These funds are initially received by the District and recorded as restricted revenue. When the award is used by the student for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Other Tuition Discounts – The District awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

2. Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The financial statements of the District have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. Encumbrances outstanding at year-end that are provided for in the subsequent year's budget are reported as designations of net assets since they do not constitute expenditures or liabilities. All encumbrances outstanding for the year ended August 31, 2012 were canceled.

Budgetary Data

Each community college in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1st. The District's Board of Trustees adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget and subsequent amendments must be filed with the Texas Higher Education Coordination Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1st.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

In accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. [The governing board has designated public funds investment pools comprised of \$2,514 and \$2,512 at August 31, 2012, and 2011, respectively, to be short-term investments.] Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories

Inventories consist of consumable office supplies, physical plant supplies, food service supplies, and bookstore stock. Inventories are valued at cost under the "first-in, first-out" method for supplies and at retail method for bookstore stock and are charged to expense as consumed.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Repairs and maintenance of \$100,000 or more or that extend a building's useful life are also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred.

2. **Summary of Significant Accounting Policies** (Continued)

Capital Assets (Continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets applying the half-year convention. The following lives are used:

| | |
|--|----------|
| Buildings | 50 years |
| Buildings and Site Improvements | 20 years |
| Library Books | 15 years |
| Furniture, Machinery, Vehicles and Other Equipment | 10 years |
| Telecommunications and Peripheral Equipment | 5 years |

Deferred Revenues

Tuition and fees of \$4,167,290 and \$4,507,954, federal, state and local grants of \$805,386 and \$378,676 and auxiliary enterprise activity of \$36,351 and \$41,277 have been reported as deferred revenues at August 31, 2012 and 2011, respectively.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires the District's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating and Non-Operating Revenue and Expense Policy

The District distinguishes operating revenues and expenses from non-operating items. The District reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During its fiscal year ended August 31, 2012, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past year.

3. **Authorized Investments**

The Board of Trustees of the District has adopted a written investment policy regarding the investments of its funds as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). The investments of the District are in compliance with the Board of Trustees' Investment Policy and the Public Funds Investment Act. Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

4. **Deposits and Investments**

At August 31, 2012, the carrying amount of the District's deposits was \$9,247,182 and total bank balances equaled \$10,083,888. Bank balances of \$250,000 are covered by federal depository insurance and \$9,833,888 was covered by collateral pledged in the District's name. The collateral was held in the safekeeping departments of unrelated banks, which act as the pledging bank's agent.

4. **Deposits and Investments** (Continued)

Beginning September 1, 1997, the District adopted Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This GASB requires that investments be reported at fair value on the balance sheet. The District utilizes quoted market price as its indicator of fair value.

At August 31, 2012, the District had no outstanding commitments to sell securities. Cash and cash equivalents reported on Exhibit 1, Statement of Net Assets, are comprised of the items reported below:

| | | |
|-------------------------|---------------------|----------------------|
| Cash on hand | \$ 73,996 | \$ 59,803 |
| Demand Deposits | 9,247,182 | 11,562,252 |
| Total Cash and Deposits | <u>\$ 9,321,178</u> | <u>\$ 11,622,055</u> |

The amortized cost and estimated market values of investment securities at August 31, 2012 and 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The amortized cost and estimated fair values of investment securities at August 31 are summarized as follows:

| Type | 2012 | | 2011 | |
|---------------------------------|-----------------|----------------------|-----------------|----------------------|
| | Cost | Estimated Fair Value | Cost | Estimated Fair Value |
| Uncategorized Investments | | | | |
| Tex Pool | \$ 2,514 | \$ 2,514 | \$ 2,512 | \$ 2,512 |
| Total Uncategorized Investments | <u>\$ 2,514</u> | <u>\$ 2,514</u> | <u>\$ 2,512</u> | <u>\$ 2,512</u> |

| Type of Security | Market Value 8/31/2012 | Market Value 8/31/2011 |
|--|---------------------------|---------------------------|
| Tex Pool | \$ 2,514 | \$ 2,512 |
| Total Investments | <u>\$ 2,514</u> | <u>\$ 2,512</u> |
| Total Cash and Deposits | \$ 9,321,178 | \$ 11,622,055 |
| Total Investments | 2,514 | 2,512 |
| Total Deposits and Investments | <u>\$ 9,323,692</u> | <u>\$ 11,624,567</u> |
| Cash and Temporary Investments (Exhibit 1) | \$ 9,321,178 | \$ 11,622,055 |
| Investments (Exhibit 1) | 2,514 | 2,512 |
| Total Deposits and Investments | <u>\$ 9,323,692</u> | <u>\$ 11,624,567</u> |

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures. The District has the following risks related to deposits and investments:

Interest Rate Risk – In accordance with state law and District investment policy, the District does not purchase any investments with maturities greater than 10 years.

Credit Risk – In accordance with state law and the District's investment policy, investments in mutual funds and investment pools must be rated at least AAA, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A. All Tex Pool investments of the District are rated AAA.

Concentration of Credit Risk – The District does not place a limit on the amount the District may invest in any one issuer.

4. **Deposits and Investments** (Continued)

There are no realized or unrealized gains or losses on investments for the year ended August 31, 2012.

During the year ended August 31, 2011, the District transferred all endowment investments to the Victoria College Foundation, Inc. At the time of transfer, the District realized gains of \$270,694 from the sale of investments. The calculation of realized gains is independent of the calculation of the net increase in fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

5. **Derivatives**

The District was not invested in derivative instruments for the fiscal year ended August 31, 2012.

6. **Capital Assets Activity**

Capital asset activity for the year ended August 31, 2012, was as follows:

| | Primary Institution | | | | Balance 8/31/2012 |
|---|----------------------|-------------------------|------------|-------------------|----------------------|
| | Balance 8/31/2011 | Changes During the Year | | | |
| | | Additions | Deletions | Reclassifications | |
| <u>Not Depreciated:</u> | | | | | |
| Land | \$ 460,387 | \$ - | \$ - | \$ - | \$ 460,387 |
| Construction in Progress | 474,099 | 2,230,045 | - | (55,822) | 2,648,322 |
| Subtotal | 934,486 | 2,230,045 | - | (55,822) | 3,108,709 |
| <u>Other Capital Assets:</u> | | | | | |
| Library Volumes and Periodicals | 968,859 | 52,363 | (75,957) | 48,241 | 993,506 |
| Buildings | 46,488,947 | 35,000 | - | 7,581 | 46,531,528 |
| Site Improvements | 6,505,197 | - | - | - | 6,505,197 |
| Telecommunications and Peripheral Equipment | 1,396,936 | 68,533 | - | - | 1,465,469 |
| Machinery, Equipment, Furniture and Vehicles | 4,941,654 | 289,805 | - | - | 5,231,459 |
| Subtotal | 60,301,593 | 445,701 | (75,957) | 55,822 | 60,727,159 |
| <u>Accumulated Depreciations:</u> | | | | | |
| Library Volumes and Periodicals | 412,101 | 61,274 | (70,068) | - | 403,307 |
| Buildings | 11,759,127 | 856,929 | - | - | 12,616,056 |
| Site Improvements | 3,338,010 | 254,765 | - | - | 3,592,775 |
| Telecommunications and Peripheral Equipment | 896,731 | 173,435 | - | - | 1,070,166 |
| Machinery, Equipment, Furniture and Vehicles | 799,301 | 480,869 | - | - | 1,280,170 |
| Subtotal | 17,205,270 | 1,827,272 | (70,068) | - | 18,962,474 |
| Net Other Capital Assets | 43,096,323 | (1,381,571) | (5,889) | 55,822 | 41,764,685 |
| Net Capital Assets | \$44,030,809 | \$ 848,474 | \$ (5,889) | \$ - | \$44,873,394 |

6. **Capital Assets Activity** (Continued)

Capital asset activity for the year ended August 31, 2011, was as follows:

| | Primary Institution | | | | Balance 8/31/2011 |
|-----------------------------------|----------------------|-------------------------|--------------------|--------------------|----------------------|
| | Balance 8/31/2011 | Changes During the Year | | | |
| | | Additions | Deletions | Reclassifications | |
| Not Depreciated: | | | | | |
| Land | \$ 325,537 | \$ 134,850 | \$ - | \$ - | \$ 460,387 |
| Construction in Progress | 3,681,693 | 468,482 | - | (3,676,076) | 474,099 |
| Subtotal | <u>4,007,230</u> | <u>603,332</u> | <u>-</u> | <u>(3,676,076)</u> | <u>934,486</u> |
| Other Capital Assets: | | | | | |
| Library Volumes and | | | | | |
| Periodicals | 1,023,531 | 50,807 | (105,479) | - | 968,859 |
| Buildings | 46,024,031 | 418,420 | - | 46,496 | 46,488,947 |
| Site Improvements | 6,383,314 | - | - | 121,883 | 6,505,197 |
| Telecommunications and | | | | | |
| Peripheral Equipment | 1,159,269 | 237,667 | - | - | 1,396,936 |
| Machinery, Equipment, | | | | | |
| Furniture and Vehicles | 1,310,687 | 149,797 | (26,527) | 3,507,697 | 4,941,654 |
| Subtotal | <u>55,900,832</u> | <u>856,691</u> | <u>(132,006)</u> | <u>3,676,076</u> | <u>60,301,593</u> |
| Accumulated Depreciations: | | | | | |
| Library Volumes and | | | | | |
| Periodicals | 439,450 | 62,899 | (90,248) | - | 412,101 |
| Buildings | 10,911,555 | 847,572 | - | - | 11,759,127 |
| Site Improvements | 3,074,958 | 263,052 | - | - | 3,338,010 |
| Telecommunications and | | | | | |
| Peripheral Equipment | 756,849 | 139,882 | - | - | 896,731 |
| Machinery, Equipment, | | | | | |
| Furniture and Vehicles | 673,522 | 152,306 | (26,527) | - | 799,301 |
| Subtotal | <u>15,856,334</u> | <u>1,465,711</u> | <u>(116,775)</u> | <u>-</u> | <u>17,205,270</u> |
| Net Other Capital Assets | <u>40,044,498</u> | <u>(609,020)</u> | <u>(15,231)</u> | <u>3,676,076</u> | <u>43,096,323</u> |
| Net Capital Assets | <u>\$ 44,051,728</u> | <u>\$ (5,688)</u> | <u>\$ (15,231)</u> | <u>\$ -</u> | <u>\$ 44,030,809</u> |

7. **Current and Long-Term Liabilities**

Current liabilities activity for the year ended August 31, 2012, was as follows:

| | Balance 8/31/2011 | Additions | Reductions | Balance 8/31/2012 |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|
| Accounts payable | \$ 630,500 | \$ 21,213,970 | \$ 20,774,332 | \$ 1,070,138 |
| Accrued liabilities | 559,551 | 8,776,403 | 8,789,075 | 546,879 |
| Funds held for others | 387,786 | - | 57,564 | 330,222 |
| Due to component unit | - | 35,924 | - | 35,924 |
| Deferred revenues | 4,927,907 | 5,009,027 | 4,927,907 | 5,009,027 |
| Bonds | | | | |
| General obligation bonds | 600,000 | 630,000 | 600,000 | 630,000 |
| Revenue bonds | 350,000 | 360,000 | 350,000 | 360,000 |
| Limited tax refunding bonds | - | 85,000 | - | 85,000 |
| Notes | | | | |
| Maintenance tax notes | 525,000 | 550,000 | 525,000 | 550,000 |
| | <u>\$ 7,980,744</u> | <u>\$ 36,660,324</u> | <u>\$ 36,023,878</u> | <u>\$ 8,617,190</u> |

7. **Current and Long-Term Liabilities** (Continued)

Current liabilities activity for the year ended August 31, 2011, was as follows:

| | Balance 8/31/2010 | Additions | Reductions | Balance 8/31/2011 |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| Accounts payable | \$ 786,183 | \$ 23,473,842 | \$ 23,629,525 | \$ 630,500 |
| Accrued liabilities | 556,149 | 7,154,466 | 7,151,064 | 559,551 |
| Funds held for others | 372,205 | 15,581 | - | 387,786 |
| Deferred revenues | 4,230,443 | 4,927,907 | 4,230,443 | 4,927,907 |
| Bonds | | | | |
| General obligation bonds | 575,000 | 600,000 | 575,000 | 600,000 |
| Revenue bonds | 310,000 | - | 310,000 | - |
| Revenue refunding bonds | - | 725,000 | 375,000 | 350,000 |
| Notes | | | | |
| Maintenance tax notes | 505,000 | 525,000 | 505,000 | 525,000 |
| | <u>\$ 7,334,980</u> | <u>\$ 37,421,796</u> | <u>\$ 36,776,032</u> | <u>\$ 7,980,744</u> |

Long-term liabilities activity for the year ended August 31, 2012, was as follows:

| | Balance 8/31/2011 | Additions | Reductions | Balance 8/31/2012 |
|--------------------------|----------------------|---------------------|----------------------|----------------------|
| Bonds | | | | |
| General obligation bonds | \$ 12,055,000 | \$ - | \$ 9,110,000 | \$ 2,945,000 |
| Revenue bonds | 2,730,000 | - | 360,000 | 2,370,000 |
| Revenue refunding bonds | - | 8,480,000 | 200,000 | 8,280,000 |
| Notes | | | | |
| Maintenance tax notes | 550,000 | - | 550,000 | - |
| | <u>\$ 15,335,000</u> | <u>\$ 8,480,000</u> | <u>\$ 10,220,000</u> | <u>\$ 13,595,000</u> |

Long-term liabilities activity for the year ended August 31, 2011, was as follows:

| | Balance 8/31/2010 | Additions | Reductions | Balance 8/31/2011 |
|--------------------------|----------------------|---------------------|---------------------|----------------------|
| Bonds | | | | |
| General obligation bonds | \$ 12,655,000 | \$ - | \$ 600,000 | \$ 12,055,000 |
| Revenue bonds | 3,100,000 | - | 3,100,000 | - |
| Revenue refunding bonds | - | 3,455,000 | 725,000 | 2,730,000 |
| Notes | | | | |
| Maintenance tax notes | 1,075,000 | - | 525,000 | 550,000 |
| | <u>\$ 16,830,000</u> | <u>\$ 3,455,000</u> | <u>\$ 4,950,000</u> | <u>\$ 15,335,000</u> |

8. Debt and Lease Obligations

Debt service requirements at August 31, 2012 were as follows:

| For the Year Ended August 31, | General Obligation Bonds 2006 Limited Tax Bonds | | | General Obligation Bonds 2012 Limited Tax Refunding Bonds | | |
|----------------------------------|--|-------------------|---------------------|--|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2013 | \$ 630,000 | \$ 170,918 | \$ 800,918 | \$ 85,000 | \$ 271,050 | \$ 356,050 |
| 2014 | 655,000 | 141,938 | 796,938 | 90,000 | 269,350 | 359,350 |
| 2015 | 685,000 | 112,462 | 797,462 | 90,000 | 267,550 | 357,550 |
| 2016 | 720,000 | 79,925 | 799,925 | 95,000 | 265,750 | 360,750 |
| 2017 | 755,000 | 43,925 | 798,925 | 95,000 | 263,850 | 358,850 |
| 2018-2022 | 130,000 | 6,175 | 136,175 | 3,655,000 | 1,146,750 | 4,801,750 |
| 2023-2026 | - | - | - | 4,255,000 | 378,700 | 4,633,700 |
| Totals | <u>\$ 3,575,000</u> | <u>\$ 555,343</u> | <u>\$ 4,130,343</u> | <u>\$ 8,365,000</u> | <u>\$ 2,863,000</u> | <u>\$ 11,228,000</u> |

| For the Year Ended August 31, | Revenue Bonds 2010 Combined Fee Revenue Refunding | | | Total Bonds | | |
|----------------------------------|--|-------------------|---------------------|----------------------|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2013 | \$ 360,000 | \$ 80,950 | \$ 440,950 | \$ 1,075,000 | \$ 522,918 | \$ 1,597,918 |
| 2014 | 370,000 | 73,750 | 443,750 | 1,115,000 | 485,038 | 1,600,038 |
| 2015 | 375,000 | 66,350 | 441,350 | 1,150,000 | 446,362 | 1,596,362 |
| 2016 | 390,000 | 55,100 | 445,100 | 1,205,000 | 400,775 | 1,605,775 |
| 2017 | 400,000 | 43,400 | 443,400 | 1,250,000 | 351,175 | 1,601,175 |
| 2018-2022 | 835,000 | 50,400 | 885,400 | 4,620,000 | 1,203,325 | 5,823,325 |
| 2023-2026 | - | - | - | 4,255,000 | 378,700 | 4,633,700 |
| Totals | <u>\$ 2,730,000</u> | <u>\$ 369,950</u> | <u>\$ 3,099,950</u> | <u>\$ 14,670,000</u> | <u>\$ 3,788,293</u> | <u>\$ 18,458,293</u> |

| For the Year Ended August 31, | Maintenance Tax Notes 2008 Maintenance Tax Notes | | |
|----------------------------------|---|------------------|-------------------|
| | Principal | Interest | Total |
| 2013 | <u>\$ 550,000</u> | <u>\$ 14,575</u> | <u>\$ 564,575</u> |
| Totals | <u>\$ 550,000</u> | <u>\$ 14,575</u> | <u>\$ 564,575</u> |

The District currently has no capital lease obligations.

9. **Bonds Payable**

General information related to bonds payable is summarized below:

- Limited Tax Bonds, Series 2006
- Issued to construct Health Sciences Center, Remodel existing Allied Health Building and associated improvements
- Issued August 1, 2006
- Amount authorized and issued - \$14,500,000
- Source of revenue for debt service – ad valorem taxes

- Limited Tax Refunding Bonds, Series 2012
- Issued to refund a portion of Limited Tax Bonds, Series 2006 that were issued to construct Health Sciences Center, Remodel existing Allied Health Building and associated improvements
- Issued May 9, 2012
- Amount authorized and issued - \$8,480,000
- Source of revenue for debt service – ad valorem taxes

- Combined Fee Revenue Refunding Bonds, Series 2010
- Issued to refund Combined Fee Revenue Bonds, Series 1999 that were issued to construct General Services and Technology Buildings and associated improvements
- Issued November 23, 2010
- Amount authorized and issued - \$3,455,000
- Source of revenue for debt service – Tuition, general fee and general fund interest

- Maintenance Tax Notes, Series 2008
- Issued to purchase Enterprise Resource System
- Issued April 15, 2008
- Amount authorized and issued - \$2,500,000
- Source of revenue for debt service – maintenance and operations ad valorem tax

Bonds payable are due in annual installments varying from \$80,000 to \$1,120,000 with interest rates from 2.00% to 5.00% with the final installment due in 2026. Maintenance tax notes mature in 2013, with a final installment of \$550,000 at 2.65% interest.

Debt Service for the 2010 Combined Fee Revenue Refunding Bonds was \$437,950 for the year ended August 31, 2012. Revenues totaling \$2,042,098 were available to meet this obligation.

10. **Short Term Debt**

The District used no short-term debt for the year ended August 31, 2012.

11. **Rental Agreement and Operating Lease Commitments**

Operating Lease Commitments

The District's negotiated a non-cancellable operating lease contract for copiers beginning November 14, 2008 and ending November 13, 2011. The existing lease was extended for a thirteen month period ending December 1, 2012.

The future minimum lease payments are as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|------------------|
| 2013 | \$ 25,105 |
| | <u>\$ 25,105</u> |

Rental expense paid for the years ended August 31, 2012 and 2011 for operating leases totaled \$195,304 and \$189,847, respectively.

12. Employees' Retirement Plan

The State of Texas (State) has joint contributory retirement plans for almost all of its employees. One of the primary plans in which the District participates is administered by the Teacher Retirement System of Texas (TRS).

Teacher Retirement System of Texas

Plan Description. The District contributes to the TRS, a cost sharing, multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provision of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan. TRS issues a publically available financial report with required supplementary information which can be obtained from www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The State funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and State contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A State statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2012, 2011, and 2010, respectively. The percentage of participant salaries currently contributed by the State are 6.0% for fiscal year 2012, 6.644% for fiscal year 2011, 6.644% January 2010 through August 2010, and 6.40 September 2009 through December 2009 for fiscal year 2010. In certain instances, the District is required to make all or a portion of the State's contribution for fiscal years 2012, 2011, and 2010.

Optional Retirement Plan

Plan Description. The State has also established an optional retirement program (ORP) for institutions of higher education. Participation in ORP is in lieu of participation in the TRS. ORP provides for the purchase of individual annuity contracts and operates under the provision of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas State legislature. The percentage of participant salaries currently contributed by the State for each participant are 6.0% for fiscal year 2012, and 6.4% for fiscal years 2011 and 2010. Employee contributions percentage was 6.4% for fiscal years 2012, 2011, and 2010. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, neither the State nor the District has any additional or unfunded liability for this program.

The retirement expense related to TRS and ORP contributions paid by the State for the District was \$674,138, \$735,419, and \$722,643 for the fiscal years ended August 31, 2012, 2011, and 2010, respectively. This amount represents the portion of expended appropriations made by the State legislature on behalf of the District. On-behalf payments of these benefits were recognized as restricted revenues and restricted expenses during the period.

The total payroll for all District employees was \$15,628,102, \$15,451,236, and \$15,046,861 for the fiscal years ended August 31, 2012, 2011, and 2010, respectively. The total payroll of employees covered by the State for TRS was \$7,688,294, \$7,787,911, and \$9,681,975 and the total payroll of employees covered by the State for ORP was \$3,547,351, \$3,406,102, and \$3,526,310 for the fiscal years ended August 31, 2012, 2011, and 2010, respectively.

13. Deferred Compensation Program

The District does not have employees participating in the deferred compensation program that was instituted pursuant to authority granted in Government code 609.001.

14. **Compensable Absences**

Full-time employees of the District accrue sick leave based on the length of their contract. Sick leave may be accumulated up to eighty days, but no employee will receive compensation for sick leave upon termination of employment with the District. Since the District has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made. Administrative, clerical, and maintenance personnel receive vacation time based on length of employment. Vacation must be taken by August 31; carry-over of 60 hours of vacation time is permitted. In the opinion of the administration, the liability for compensable absences is not material to the basic financial statements of the District.

15. **Pending Lawsuits**

On occasion, the District may become party to litigation and claims arising in the normal course of operations. The District is currently not involved in any litigation.

16. **Disaggregation of Receivables and Payables Balances**

Receivables

Receivables at August 31, 2012, were as follows:

| | <u>Receivable</u> | <u>Allowance for Uncollectibles</u> | <u>Net Receivable</u> |
|--|---------------------|---|---------------------------|
| Student accounts receivable | \$ 3,315,486 | \$ (462,979) | \$ 2,852,507 |
| Taxes | 503,265 | (503,265) | - |
| Receivable from Title IV students | 294,590 | (220,942) | 73,648 |
| Third-party contractor receivable | 245,439 | - | 245,439 |
| Installment contracts receivable | 236,238 | (223,096) | 13,142 |
| Vendor receivable | 503,229 | - | 503,229 |
| Non-student returned checks receivable | 942 | - | 942 |
| Payroll advances receivable | 220 | - | 220 |
| Accounts receivable (net) | <u>\$ 5,099,409</u> | <u>\$ (1,410,282)</u> | <u>\$ 3,689,127</u> |

Receivables at August 31, 2011, were as follows:

| | <u>Receivable</u> | <u>Allowance for Uncollectibles</u> | <u>Net Receivable</u> |
|--|---------------------|---|---------------------------|
| Student accounts receivable | \$ 3,480,563 | \$ (329,014) | \$ 3,151,549 |
| Taxes | 501,904 | (501,904) | - |
| Receivable from Title IV students | 309,760 | (154,880) | 154,880 |
| Third-party contractor receivable | 211,780 | - | 211,780 |
| Installment contracts receivable | 251,830 | (238,516) | 13,314 |
| Vendor receivable | 178,228 | - | 178,228 |
| Non-student returned checks receivable | 157 | - | 157 |
| Payroll advances receivable | 220 | - | 220 |
| Accounts receivable (net) | <u>\$ 4,934,442</u> | <u>\$ (1,224,314)</u> | <u>\$ 3,710,128</u> |

16. **Disaggregation of Receivables and Payables Balances** (Continued)

Payables

Payables at August 31, 2012 and 2011 were as follows:

| | <u>2012</u> | <u>2011</u> |
|---------------------------|---------------------|---------------------|
| Accounts payable | \$ 1,070,138 | \$ 630,500 |
| Accrued liabilities: | | |
| Accrued payroll | 179,605 | 166,692 |
| Employee benefits payable | 265,288 | 276,060 |
| Sales tax payable | 101,986 | 116,799 |
| Total accrued liabilities | <u>546,879</u> | <u>559,551</u> |
| Total payables | <u>\$ 1,617,017</u> | <u>\$ 1,190,051</u> |

17. **Funds Held in Trust by Others**

No funds are held in trust by others on behalf of the District.

18. **Contract and Grant Award**

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended but not collected are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended but not collected are reported as accounts receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the District has not yet performed services are not included in the financial statements. Contract and grant award funds already committed, e.g. multi-year awards, or funds awarded during fiscal year August 31, 2012, and 2011, for which monies have not been received nor funds expended totaled \$3,294,099 and \$3,259,945, respectively. Of these amounts \$2,694,471 and \$2,704,722 were from Federal Contracts and Grant Awards; \$577,154 and \$466,368 were from State Contracts and Grant Awards; and \$22,472 and \$31,918 were from Local Contract and Grant Awards at August 31, 2012 and 2011, respectively.

19. **Self-Insured Plans**

The District has a self-insured arrangement for coverage of workers' compensation. Workers' compensation plans are on a pay-as-you-go basis, in which no assets are set aside. Estimated future payments for incurred claims are charged to current operations.

20. **Post Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the state.

Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums.

20. **Post Retirement Health Care and Life Insurance Benefits** (Continued)

The state's contribution per full-time employee with individual coverage was \$440 per month for the year ended August 31, 2012 (\$413 per month for fiscal year 2011) and totaled \$549,628 for the year ended August 31, 2012 (\$497,286 for the year ended August 31, 2011). The state's contribution per full-time employee with individual and children coverage was \$608 per month for the year ended August 31, 2012 (\$571 per month for fiscal year 2011) and totaled \$298,250 for the year ended August 31, 2012 (\$301,827 for the year ended August 31, 2011). The state's contribution for a full-time employee with individual and spouse coverage was \$691 per month for the year ended August 31, 2012 (\$649 per month for fiscal year 2011) and totaled \$122,373 for the year ended August 31, 2012 (\$145,155 for the year ended August 31, 2011).

The state's contribution for a full-time employee with family coverage was \$859 per month for the year ended August 31, 2012 (\$807 per month for fiscal year 2011) and totaled \$329,065 for the year ended August 31, 2012 (\$297,216 for the year ended August 31, 2011).

The cost of providing those benefits for 117 retirees in the year ended August 31, 2012 was \$684,024 (retiree benefits for 112 retirees cost \$623,040 in fiscal year 2011). For 194 active employees, the cost of providing benefits was \$1,299,316 for the year ended August 31, 2012 (active employee benefits for 196 employees cost \$1,241,484 for the year ended August 31, 2011).

21. **Ad Valorem Tax**

The District's ad valorem property tax is levied each October 1st on the assessed value listed as of the prior January 1st for all real and business personal property located in the District.

As of August 31:

| | <u>2012</u> | <u>2011</u> | |
|---|-------------------------|-------------------------|--------------------|
| Assessed Valuation of the District: | \$ 5,874,484,961 | \$ 5,661,485,375 | |
| Less: Exemptions | <u>(534,697,757)</u> | <u>(517,016,218)</u> | |
| Net Assessed Valuation of the District | <u>\$ 5,339,787,204</u> | <u>\$ 5,144,469,157</u> | |
| | <u>2012</u> | | |
| | <u>Current</u> | <u>Debt</u> | <u>Total</u> |
| | <u>Operations</u> | <u>Service</u> | |
| Authorized Tax Rate per \$100 valuation | <u>\$ 0.500000</u> | <u>\$ 0.500000</u> | <u>\$ 1.000000</u> |
| Assessed Tax Rate per \$100 valuation | <u>\$ 0.137000</u> | <u>\$ 0.023600</u> | <u>\$ 0.160600</u> |
| | <u>2011</u> | | |
| | <u>Current</u> | <u>Debt</u> | <u>Total</u> |
| | <u>Operations</u> | <u>Service</u> | |
| Authorized Tax Rate per \$100 valuation | <u>\$ 0.500000</u> | <u>\$ 0.500000</u> | <u>\$ 1.000000</u> |
| Assessed Tax Rate per \$100 valuation | <u>\$ 0.129000</u> | <u>\$ 0.024100</u> | <u>\$ 0.153100</u> |

21. **Ad Valorem Tax** (Continued)

Taxes levied for the year ended August 31, 2012 and 2011 were \$8,217,980 and \$7,647,722, respectively. Penalties and interest are not assessed. Taxes are due on receipt of the tax bill and are considered delinquent if not paid before February 1 of the succeeding year and subject to lien as of July 1 of that year.

| <u>Taxes Collected</u> | 2012 | | |
|----------------------------------|---------------------------|---------------------|---------------------|
| | <u>Current Operations</u> | <u>Debt Service</u> | <u>Total</u> |
| Current taxes collected | \$ 5,372,853 | \$ 1,574,547 | \$ 6,947,400 |
| Delinquent taxes collected | 1,139,252 | 198,643 | 1,337,895 |
| Penalties and interest collected | 73,174 | 14,174 | 87,348 |
| Less discounts and commissions | 3,120 | 154 | 3,274 |
| Total collections | <u>\$ 6,588,399</u> | <u>\$ 1,787,518</u> | <u>\$ 8,375,917</u> |

| <u>Taxes Collected</u> | 2011 | | |
|----------------------------------|---------------------------|---------------------|---------------------|
| | <u>Current Operations</u> | <u>Debt Service</u> | <u>Total</u> |
| Current taxes collected | \$ 5,010,495 | \$ 1,585,110 | \$ 6,595,605 |
| Delinquent taxes collected | 926,245 | 175,597 | 1,101,842 |
| Penalties and interest collected | 77,059 | 15,738 | 92,797 |
| Less discounts and commissions | (7,688) | (1,677) | (9,365) |
| Total collections | <u>\$ 6,006,111</u> | <u>\$ 1,774,768</u> | <u>\$ 7,780,879</u> |

Tax collections for the years ended August 31, 2012 and 2011 were 98.28% and 98.05%, respectively, of current tax levy. Uncollected taxes are fully reserved at August 31. The use of tax proceeds is restricted to maintenance and operations and/or general obligation debt service.

22. **Income Taxes**

The District is exempt from income taxes under internal Revenue Code Section 115, Income of States, Municipalities, Etc. although unrelated business income may be subject to income tax under internal Revenue code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The District had no unrelated business income tax liability for the years ended August 31, 2012, and 2011.

23. **Discrete Component Unit**

Victoria College Foundation, Inc. (the "Foundation") was established as a separate nonprofit organization in 1978, to raise funds to provide student scholarships and assistance in the development and growth of the District. Under Governmental Accounting Standards Board (GASB) Statement 39 *Determining Whether Certain Organizations are Component Units*, an organization should report as a discretely presented component unit those organizations that raise and hold economic resources for the direct benefit of a government unit.

Accordingly, the Foundation financial statements are included in the District's annual report as a discrete component unit (see table of contents). Complete financial statements of the Victoria College Foundation, Inc. can be obtained from the administrative office of the Foundation and/or the District.

24. **Contingencies**

Texas Constitution article 16, section 67(b)(3) provides that the State of Texas must contribute “not less than six percent nor more than ten percent of the aggregate compensation paid to individuals participating in the system”, referring to the State’s Teacher Retirement System (TRS) including the related faculty Optional Retirement Program (ORP).

During the 2011 legislative session, the Texas legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State’s contribution to TRS/ORP on behalf of community colleges to only six percent of each district’s unrestricted General Revenue appropriation for each year of the biennium state budget.

There is no pending litigation concerning this issue to construe the constitutional funding requirements; or to hold that the State biennium appropriations satisfy those requirements; or to attempt to collect any shortfall contributions from any community college district.

The District has calculated that as of August 31, 2012, the contribution that has not been paid to TRS on behalf of District employees is \$301,653.

25. **Adjustment to Net Assets**

In the preparation of the financial statements, certain adjustments to net assets have been recorded within the financial statements and are listed as follows:

| | |
|---|---------------------|
| Reclassification of prior year expendable student aid | \$ (95,640) |
| Equity transfer in from unrestricted funds | <u>(580,000)</u> |
| Total adjustments to net assets: | <u>\$ (675,640)</u> |

26. **Subsequent Events**

In the opinion of the District’s administration, no events have occurred subsequent to the statement of net assets date that would materially affect the financials.

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Operating Revenues
For the Year Ended August 31, 2012

| | Unrestricted | Restricted | Total Educational Activities | Auxiliary Enterprises | Current Year | Prior Year |
|--|----------------------|---------------------|------------------------------------|--------------------------|-------------------------------------|-------------------------------------|
| Tuition: | | | | | | |
| State funded credit courses | | | | | | |
| In-district resident tuition | \$ 2,870,571 | \$ - | \$ 2,870,571 | \$ - | \$ 2,870,571 | \$ 2,474,573 |
| Out-of-district resident tuition | 2,181,606 | - | 2,181,606 | - | 2,181,606 | 1,898,184 |
| Non-resident tuition | 105,987 | - | 105,987 | - | 105,987 | 107,442 |
| TPEG set aside (set aside)* | 334,573 | - | 334,573 | - | 334,573 | 212,737 |
| State funded continuing education | 907,121 | - | 907,121 | - | 907,121 | 594,549 |
| Non-state funded continuing education | 302,742 | - | 302,742 | - | 302,742 | 129,758 |
| Total Tuition | <u>6,702,600</u> | <u>-</u> | <u>6,702,600</u> | <u>-</u> | <u>6,702,600</u> | <u>5,417,243</u> |
| Fees: | | | | | | |
| General fee | 2,834,380 | - | 2,834,380 | - | 2,834,380 | 2,860,675 |
| Technology fee | 1,932,536 | - | 1,932,536 | - | 1,932,536 | 1,950,648 |
| Out-of-district fees | 2,548,333 | - | 2,548,333 | - | 2,548,333 | 2,478,150 |
| Laboratory fee | 183,696 | - | 183,696 | - | 183,696 | 177,085 |
| Course fees | 187,986 | - | 187,986 | - | 187,986 | 246,439 |
| Total Fees | <u>7,686,931</u> | <u>-</u> | <u>7,686,931</u> | <u>-</u> | <u>7,686,931</u> | <u>7,712,997</u> |
| Scholarship Allowances and Discounts: | | | | | | |
| Remissions and exemptions - state | (330,552) | - | (330,552) | - | (330,552) | (218,619) |
| Title IV federal grants | (4,062,419) | - | (4,062,419) | - | (4,062,419) | (3,964,937) |
| Other federal grants | (1,458) | - | (1,458) | - | (1,458) | (2,183) |
| TPEG awards | (32,730) | - | (32,730) | - | (32,730) | (29,190) |
| Other state grants | (53,662) | - | (53,662) | - | (53,662) | (79,653) |
| Other local scholarships | (277,308) | - | (277,308) | - | (277,308) | (264,311) |
| Total Scholarship Allowances | <u>(4,758,129)</u> | <u>-</u> | <u>(4,758,129)</u> | <u>-</u> | <u>(4,758,129)</u> | <u>(4,558,893)</u> |
| Total Net Tuition and Fees | <u>9,631,402</u> | <u>-</u> | <u>9,631,402</u> | <u>-</u> | <u>9,631,402</u> | <u>8,571,347</u> |
| Additional Operating Revenues: | | | | | | |
| Federal grants and contracts | 18,361 | 1,493,905 | 1,512,266 | - | 1,512,266 | 3,292,993 |
| State grants and contracts | 9,698 | 1,409,967 | 1,419,665 | - | 1,419,665 | 2,629,097 |
| Nongovernmental grants and contracts | - | 401,707 | 401,707 | - | 401,707 | 313,938 |
| Sales and services of educational activities | 795,249 | - | 795,249 | - | 795,249 | 367,762 |
| General operating revenues | 261,039 | - | 261,039 | - | 261,039 | 271,040 |
| Total Additional Operating Revenues | <u>1,084,347</u> | <u>3,305,579</u> | <u>4,389,926</u> | <u>-</u> | <u>4,389,926</u> | <u>6,874,830</u> |
| Auxiliary Enterprises: | | | | | | |
| Bookstore | - | - | - | 5,590,925 | 5,590,925 | 5,719,603 |
| Title IV federal grants | - | - | - | (2,085,617) | (2,085,617) | (2,040,965) |
| Other federal grants | - | - | - | (3,196) | (3,196) | (4,784) |
| TPEG awards | - | - | - | (70,989) | (70,989) | (63,311) |
| Other local scholarships | - | - | - | (46,671) | (46,671) | (44,484) |
| Net Bookstore | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,384,452</u> | <u>3,384,452</u> | <u>3,566,059</u> |
| Food service | - | - | - | 381,590 | 381,590 | 418,175 |
| Facilities rentals | - | - | - | 44,784 | 44,784 | 26,046 |
| Total Net Auxiliary Enterprises | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,810,826</u> | <u>3,810,826</u> | <u>4,010,280</u> |
| Total Operating Revenues | <u>\$ 10,715,749</u> | <u>\$ 3,305,579</u> | <u>\$ 14,021,328</u> | <u>\$ 3,810,826</u> | <u>\$ 17,832,154</u> (Exhibit 2) | <u>\$ 19,456,457</u> (Exhibit 2) |

* In accordance with Education Code 56.003, \$334,573 and \$212,737 of tuition was set aside for Texas Public Education Grants (TPEG) for the years ended August 31, 2012 and 2011, respectively.

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Operating Expenses by Object
For the Year Ended August 31, 2012

| | Operating Expenses | | | | Current Year Total | Prior Year Total |
|--|-----------------------|---------------------|---------------------|----------------------|-------------------------------------|-------------------------------------|
| | Salaries and Wages | Benefits | | Other Expenses | | |
| | | State Benefits | Local Benefits | | | |
| Unrestricted - Educational Activities | | | | | | |
| Instruction | \$ 7,625,924 | \$ - | \$ 1,258,901 | \$ 1,290,373 | \$ 10,175,198 | \$ 9,537,099 |
| Public service | 31,054 | - | 2,504 | 199,538 | 233,096 | 90,263 |
| Academic support | 1,496,720 | - | 293,366 | 591,812 | 2,381,898 | 2,079,948 |
| Student services | 1,262,186 | - | 276,352 | 321,699 | 1,860,237 | 2,033,026 |
| Institutional support | 2,333,534 | - | 523,707 | 2,007,975 | 4,865,216 | 3,599,233 |
| Operation and maintenance of plant | 948,962 | - | 371,540 | 2,614,046 | 3,934,548 | 2,998,333 |
| Scholarships and fellowships | 162,168 | - | 49 | 315,034 | 477,251 | 488,329 |
| Total Unrestricted Educational Activities | <u>13,860,548</u> | <u>-</u> | <u>2,726,419</u> | <u>7,340,477</u> | <u>23,927,444</u> | <u>20,826,231</u> |
| Restricted - Educational Activities | | | | | | |
| Instruction | 1,092,967 | 798,917 | 251,769 | 446,856 | 2,590,509 | 5,606,622 |
| Public service | - | 54 | - | - | 54 | 55 |
| Academic support | - | 192,448 | - | 5,150 | 197,598 | 259,043 |
| Student services | 197,479 | 180,786 | 39,786 | 160,742 | 578,793 | 783,899 |
| Institutional support | - | 342,102 | - | - | 342,102 | 407,648 |
| Scholarships and fellowships | 92,639 | - | - | 13,376,648 | 13,469,287 | 13,314,425 |
| Total Restricted Educational Activities | <u>1,383,085</u> | <u>1,514,307</u> | <u>291,555</u> | <u>13,989,396</u> | <u>17,178,343</u> | <u>20,371,692</u> |
| Total Educational Activities | 15,243,633 | 1,514,307 | 3,017,974 | 21,329,873 | 41,105,787 | 41,197,923 |
| Auxiliary Enterprises | 384,469 | - | 116,802 | 3,047,187 | 3,548,458 | 3,626,919 |
| Depreciation Expense | | | | | | |
| Buildings and other real estate improvements | - | - | - | 1,111,694 | 1,111,694 | 1,110,624 |
| Equipment and furniture | - | - | - | 654,304 | 654,304 | 292,188 |
| Library volumes and periodicals | - | - | - | 61,274 | 61,274 | 62,899 |
| Total Operating Expenses | <u>\$ 15,628,102</u> | <u>\$ 1,514,307</u> | <u>\$ 3,134,776</u> | <u>\$ 26,204,332</u> | <u>\$ 46,481,517</u> (Exhibit 2) | <u>\$ 46,290,553</u> (Exhibit 2) |

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Non-Operating Revenues and Expenses
For the Year Ended August 31, 2012

| | Unrestricted | Restricted | Auxiliary Enterprises | Current Year | Prior Year |
|--------------------------------------|----------------------|----------------------|--------------------------|-------------------------------------|-------------------------------------|
| Non-Operating Revenues | | | | | |
| State Allocations: | | | | | |
| Education and general state support | \$ 5,898,092 | \$ - | \$ - | \$ 5,898,092 | \$ 6,307,576 |
| State group insurance | - | 842,559 | - | 842,559 | 1,460,710 |
| State retirement matching | - | 674,138 | - | 674,138 | 735,418 |
| Total State allocations | <u>5,898,092</u> | <u>1,516,697</u> | <u>-</u> | <u>7,414,789</u> | <u>8,503,704</u> |
| Ad valorem taxes: | | | | | |
| Taxes for maintenance and operations | 6,588,399 | - | - | 6,588,399 | 6,006,111 |
| Taxes for general obligation bonds | - | 1,787,518 | - | 1,787,518 | 1,774,768 |
| Title IV | - | 12,601,061 | - | 12,601,061 | 12,336,719 |
| Gifts | 376,119 | 8,100 | - | 384,219 | 715,176 |
| Equity transfer in | - | 580,000 | - | 580,000 | - |
| Other revenue | - | 1,689 | - | 1,689 | - |
| Investment income | 75,955 | 22,018 | 1,123 | 99,096 | 427,693 |
| Total Non-Operating Revenues | <u>12,938,565</u> | <u>16,517,083</u> | <u>1,123</u> | <u>29,456,771</u> | <u>29,764,171</u> |
| Non-Operating Expenses | | | | | |
| Interest on capital related debt | - | 610,345 | - | 610,345 | 794,770 |
| Total Non-Operating Expenses | <u>-</u> | <u>610,345</u> | <u>-</u> | <u>610,345</u> | <u>794,770</u> |
| Net Non-Operating Revenues | <u>\$ 12,938,565</u> | <u>\$ 15,906,738</u> | <u>\$ 1,123</u> | <u>\$ 28,846,426</u> (Exhibit 2) | <u>\$ 28,969,401</u> (Exhibit 2) |

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Net Assets by Source and Availability
For the Year Ended August 31, 2012

| | Detail by Source | | | | |
|---------------------------------------|---------------------|-----------------------|----------------|---|----------------------------------|
| | Unrestricted | Restricted | | Capital Assets Net of Depreciation and Related Debt | Current Year Total |
| | | Expendable | Non-Expendable | | |
| Current | | | | | |
| Unrestricted | \$ 1,880,053 | \$ - | \$ - | \$ - | \$ 1,880,053 |
| Restricted for: | | | | | |
| Nonexpendable: | | | | | |
| Student aid | - | - | - | - | - |
| Expendable: | | | | | |
| Student aid | - | 168,270 | - | - | 168,270 |
| Unexpended bond proceeds | - | - | - | - | - |
| Construction in progress | - | 700,000 | - | - | 700,000 |
| Auxiliary enterprises | 4,207,374 | - | - | - | 4,207,374 |
| Plant | | | | | |
| Debt Service | - | 304,767 | - | - | 304,767 |
| Investment in Plant | - | - | - | 29,325,685 | 29,325,685 |
| Total Net Assets, August 31, 2012 | <u>6,087,427</u> | <u>1,173,037</u> | <u>-</u> | <u>29,325,685</u> | <u>36,586,149</u> (Exhibit 1) |
| Total Net Assets, August 31, 2011 | <u>7,540,325</u> | <u>2,562,948</u> | <u>-</u> | <u>27,083,414</u> | <u>37,186,687</u> (Exhibit 1) |
| Adjustment to net assets | <u>(580,000)</u> | <u>(95,640)</u> | <u>-</u> | <u>-</u> | <u>(675,640)</u> (Exhibit 2) |
| Net Increase (Decrease) in Net Assets | <u>\$ (872,898)</u> | <u>\$ (1,294,271)</u> | <u>\$ -</u> | <u>\$ 2,242,271</u> | <u>\$ 75,102</u> (Exhibit 2) |

SCHEDULE D

| | Available for Current Operations | | Prior Year Total | Available for Current Operations | |
|---------------------------------------|----------------------------------|------------|-----------------------------|----------------------------------|----------------|
| | Yes | No | | Yes | No |
| Current | | | | | |
| Unrestricted | \$ 1,880,053 | \$ - | \$ 3,561,443 | \$ 3,561,443 | \$ - |
| Restricted for: | | | | | |
| Nonexpendable: | | | | | |
| Student aid | - | - | 192,321 | - | 192,321 |
| Expendable: | | | | | |
| Student aid | - | 168,270 | - | - | - |
| Unexpended bond proceeds | - | - | 2,112,862 | - | 2,112,862 |
| Construction in progress | - | 700,000 | - | - | - |
| Auxiliary enterprises | 4,207,374 | - | 3,978,882 | 3,978,882 | - |
| Plant | | | | | |
| Debt Service | - | 304,767 | 257,765 | - | 257,765 |
| Investment in Plant | - | 29,325,685 | 27,083,414 | - | 27,083,414 |
| Total Net Assets, August 31, 2012 | 6,087,427 | 30,498,722 | 37,186,687 (Exhibit 1) | 7,540,325 | 29,646,362 |
| Total Net Assets, August 31, 2011 | 7,540,325 | 29,646,362 | 37,900,255 (Exhibit 2) | 6,281,439 | 31,618,816 |
| Adjustment to net assets | (580,000) | (95,640) | - (Exhibit 2) | - | - |
| Net Increase (Decrease) in Net Assets | \$ (872,898) | \$ 948,000 | \$ (713,568) (Exhibit 2) | \$ 1,258,886 | \$ (1,972,454) |

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SCHEDULE E

VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
 VICTORIA, TEXAS
 Schedule of Expenditures of Federal Awards
 For the Year Ended August 31, 2012

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Pass-Through Disbursements and Expenditures |
|--|---------------------------|-------------------------------------|---|
| U.S. DEPARTMENT OF LABOR | | | |
| <i>Passed through Brazosport College:</i> | | | |
| Community Based Job Training Grants | 17.269 | CB-18197-09-60-A-48 | \$ 32,780 |
| Total Direct Programs | | | <u>32,780</u> |
| Total U.S. Department of Labor | | | <u>32,780</u> |
| NATIONAL ENDOWMENT FOR THE HUMANITIES | | | |
| <i>Passed through Humanities Texas:</i> | | | |
| Promotion of the Humanities - We the People | 45.168 | HTx Grant #2012-4223 | 5,150 |
| Total National Endowment for the Humanities | | | <u>5,150</u> |
| U.S. DEPARTMENT OF EDUCATION | | | |
| <i>Direct Programs:</i> | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | P007A117874 | 102,692 |
| Higher Education Institutional Aid | 84.031 | P031S090139 | 596,842 |
| Federal Work-Study Program | 84.033 | P033A117874 | 78,402 |
| TRIO - Student Support Services | 84.042 | P042A101246 | 247,407 |
| Federal Pell Grant Program | 84.063 | P063P112339 | 7,312,141 |
| Federal Pell Grant Program | 84.063 | P063Q112339 | 11,765 |
| Federal Pell Grant Program | 84.063 | P063Q102339 | 160 |
| Federal PLUS Loans | 84.268 | P268K122339 | 42,065 |
| Federal Direct Student Loans - Subsidized | 84.268 | - | 2,369,959 |
| Federal Direct Student Loans - Unsubsidized | 84.268 | - | 2,683,877 |
| Total Direct Programs | | | <u>13,445,310</u> |
| <i>Pass Through From Texas Education Agency:</i> | | | |
| Adult Education - Basic Grants to States | 84.002 | 124100017110424 | 242,286 |
| Adult Education - Basic Grants to States | 84.002 | 134100017110454 | 55,728 |
| Total Texas Education Agency | | | <u>298,014</u> |
| <i>Pass Through From Texas Higher Education Coordinating Board:</i> | | | |
| Career and Technical Education - Basic Grants to States | 84.048 | 124279 | 184,976 |
| Total Texas Higher Education Coordinating Board | | | <u>184,976</u> |
| Total U.S. Department of Education | | | <u>13,928,300</u> |
| U.S. DEPARTMENT OF HUMAN SERVICES | | | |
| <i>Pass Through Texas Education Agency:</i> | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | 123625017110399 | 23,215 |
| Total TANF | | | <u>23,215</u> |
| <i>Passed through Texas AgriLife Extension Services, Texas A&M University:</i> | | | |
| Diabetes Prevention and Control Programs | 93.988 | - | 15,969 |
| Total Texas A&M | | | <u>15,969</u> |
| <i>Passed through UTMB:</i> | | | |
| Area Health Education Centers Point of Service | | | |
| Maintenance and Enhancement Awards | 93.107 | 5 U77HP01066-08-00 | 86,240 |
| Geriatric Education Centers | 93.969 | 5UB4HP19213-02-00 | 17,781 |
| Geriatric Education Centers | 93.969 | 5UB4HP19213-03-00 | 3,892 |
| Total UTMB | | | <u>107,913</u> |
| Total U.S. Department of Health and Human Services | | | <u>147,097</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 14,113,327</u> |

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2012

Note 1: Federal Assistance Reconciliation

Federal Assistance Reconciliation

| | |
|---|---------------|
| Direct federal grants and contracts revenue per Schedule A | \$ 1,493,905 |
| Add: indirect / administrative cost recoveries - per Schedule A | 18,361 |
| Direct federal revenue, non-operating - Schedule C | 12,601,061 |
| Total Federal Revenues per Schedule of Expenditures of Federal Awards | \$ 14,113,327 |

Note 2: Significant Accounting Policies Used in Preparing the Schedule

See Note 2 of the notes to the basic financial statements for the District's significant accounting policies. The expenditures included in the schedule are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds that have been expended by the District for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 3: Expenditures not Subject to Federal Single Audit

All expenditures are subject to Federal Single Audit.

Note 4: Student Loans Processed and Administrative Costs Recovered - Included in Schedule

| Federal Grantor/ CFDA Number/ Program Name | New Loans Processed | Administrative Costs Recovered | Total Loans Processed & Admin. Costs Recovered |
|--|------------------------|--------------------------------------|--|
| Department of Education 84.268 Federal Direct Student Loans (includes PLUS, subsidized and unsubsidized) | \$ 5,095,901 | \$ - | \$ 5,095,901 |

Note 5: Nonmonetary Federal Assistance Received

No nonmonetary federal assistance was received.

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SCHEDULE F

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Expenditures of State Awards
For the Year Ended August 31, 2012**

| <u>Grantor Agency/ Program Title</u> | <u>Grant Contract Number</u> | <u>Expenditures</u> |
|---|--------------------------------------|---------------------|
| TEXAS HIGHER EDUCATION COORDINATING BOARD | | |
| <i>Direct funding:</i> | | |
| College Work-study Program | n/a | \$ 14,237 |
| Texas Educational Opportunity Grant Program | n/a | 48,190 |
| Early High School - HB1479 | n/a | 8,424 |
| Texas Public Education Grant Program | n/a | 287,031 |
| Texas Grant Program | n/a | 204,120 |
| Certified Educational Aide Program | n/a | 10,645 |
| State of Texas Assessments of Academic Readiness | n/a | 1,950 |
| Professional Nursing Shortage Reduction | n/a | 149,983 |
| Higher Education Performance Incentive Scholarship | n/a | 16,000 |
| Law Enforcement Officer Standards & Education | n/a | 73 |
| Total Direct Funding | | <u>740,653</u> |
| <i>Passed through University of Texas Medical Branch at Galveston:</i> | | |
| Minority Health Research & Education Grant Program - Education Pipeline Grant | | <u>34,790</u> |
| Total passed through UTMB at Galveston | | <u>34,790</u> |
| Total Texas Higher Education Coordinating Board | | <u>775,443</u> |
| UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON | | |
| Pecan Valley Area Health Education Center - Health Prof Std Housing | n/a | 9,600 |
| Pecan Valley Area Health Education Center | UTMBG 399526 | 113,760 |
| | | <u>123,360</u> |
| DEPARTMENT OF STATE HEALTH SERVICES | | |
| <i>Passed through Victoria County via Community Mother and Child Health Center:</i> | | |
| Reducing Adult Potentially Preventable Hospitalizations | n/a | <u>13,019</u> |
| <i>Passed through Texas Education Agency:</i> | | |
| Temporary Assistance for Needy Families | 123625017110399 | 11,292 |
| GR - Adult Ed | 120100017110424 | 66,732 |
| Total Passed Through Texas Education Agency | | <u>78,024</u> |
| Total Department of State Health Services | | <u>91,043</u> |
| TEXAS WORKFORCE COMMISSION | | |
| Victoria College in Partnership with Caterpillar, Inc. and Caterpillar Logistics Services, Inc. | 1912SDF000 | 409,953 |
| Victoria College in Partnership with Berry Plastics Holding Corporation & Polymers and Colrants, Inc. | 1910SDF000 | 36,351 |
| Skills for Small Business Program | 1911SSD000 | 1,368 |
| Total Department of State Health Services | | <u>447,672</u> |
| TOTAL STATE FINANCIAL ASSISTANCE | | <u>\$ 1,437,518</u> |

Notes to the Schedule on the following page.

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Notes to Schedule of Expenditures of State Awards
For the Year Ended August 31, 2012

Note 1: State Assistance Reconciliation

| | |
|--|---------------------|
| State Assistance Reconciliation | |
| per Schedule of Expenditures of State Awards | \$ <u>1,437,518</u> |
| Add: Indirect costs - per Schedule A | 9,698 |
| Less: Early High School Graduation (HB1479) | (8,424) |
| Certified Ed Aide Program | (10,645) |
| Administrative cost recoveries | <u>(8,482)</u> |
| Total included in "Tuition and Fees" | <u>(17,853)</u> |
| Total State Revenues per Schedule A | <u>\$ 1,419,665</u> |

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The accompanying schedule is presented using the accrual basis of accounting. See Note 2 of the notes to the financial statements for the District's significant accounting policies. These expenditures are reported on the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.

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**OVERALL COMPLIANCE AND
INTERNAL CONTROLS SECTION**

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Victoria County Junior College District
Victoria, Texas

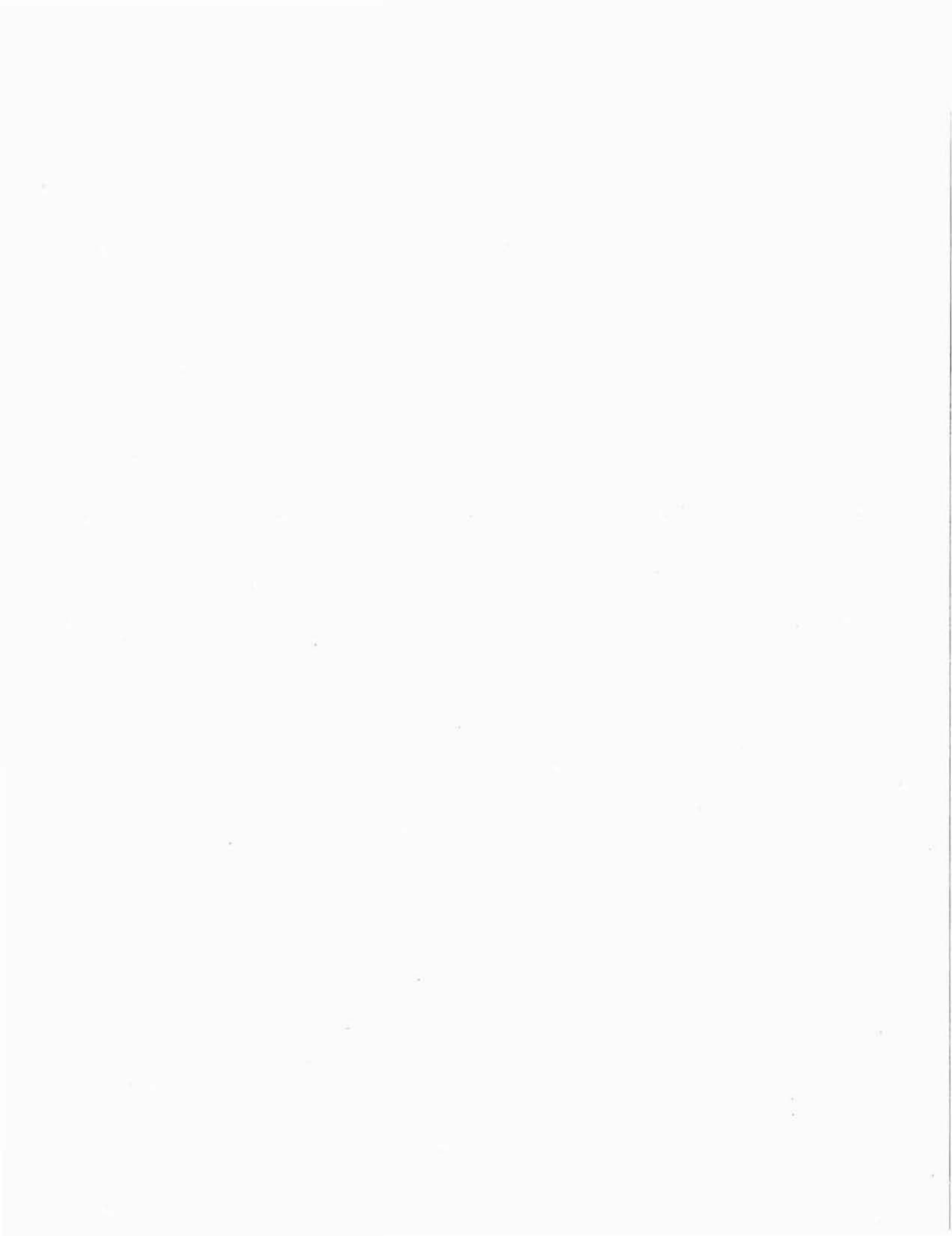
We have audited the financial statements of the Victoria County Junior College District, as of and for the year ended August 31, 2012 and 2011, which collectively comprise the Victoria County Junior College District's basic financial statements and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Victoria County Junior College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Victoria County Junior College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Victoria County Junior College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Victoria County Junior College District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Victoria County Junior College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Public Funds Investment Act

We have performed tests designed to verify the District's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2012, no instances of noncompliance were found. However, providing an opinion on compliance with the Public Funds Investment Act was not an objective of our audit, and accordingly, we do not express an opinion.

This report is intended solely for the information and use of the audit committee, the board of trustees, management, others within the entity, the Texas Higher Education Coordinating Board, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pattullo, Brown & Hill, C.P.A.

October 19, 2012



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS
**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees
Victoria County Junior College District
Victoria, Texas

Compliance

We have audited Victoria County Junior College District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Victoria County Junior College District's major federal programs for the year ended August 31, 2012. Victoria County Junior College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Victoria County Junior College District's management. Our responsibility is to express an opinion on Victoria County Junior College District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Victoria County Junior College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Victoria County Junior College District's compliance with those requirements.

In our opinion, Victoria County Junior College District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

Internal Control over Compliance

Management of Victoria County Junior College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Victoria County Junior College District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Victoria County Junior College District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, the board of trustees, management, others within the entity, the Texas Higher Education Coordinating Board, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, LLP

October 19, 2012

**VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2012**

I. Summary of Auditors' Results

| | |
|--|--|
| Type of auditors' report on financial statements: | Unqualified. |
| Internal control over financial reporting: Material weakness(es) identified? | No. |
| Significant deficiencies identified that are not considered to be material weakness(es)? | None reported. |
| Internal control over major programs: Material weakness(es) identified? | No. |
| Significant deficiencies identified that are not considered to be material weakness(es)? | None reported. |
| Noncompliance which is material to the basic financial statements | No. |
| Type of auditors' report on compliance with major programs | Unqualified. |
| Findings and questioned costs for federal awards as defined in Section 501(a), OMB Circular A-133 and the State of Texas Single Audit Circular | No. |
| Dollar threshold considered between Type A and Type B federal programs | \$300,000 |
| Dollar threshold considered between Type A and Type B state programs | \$300,000 |
| Low risk auditee statement | Yes |
| Major federal programs | The Student Financial Aid Cluster (CFDA #84.007, #84.033, #84.063, and #84.268) |
| Major state program | Texas Workforce Commission |

**II. Findings Relating to the Financial Statements which are Required to be Reported
in Accordance with Generally Accepted Government Auditing Standards**

The audit disclosed no finding required to be reported.

III. Findings and Questioned Costs for Federal Awards

None reported.

IV. Findings and Questioned Costs for State Awards

None reported.

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VICTORIA COUNTY JUNIOR COLLEGE DISTRICT
VICTORIA, TEXAS
Summary Schedule of Prior Audit Findings
For the Year Ended August 31, 2012

There were no findings in the prior year for either federal or state programs.

(Last page.)