

**DELAWARE STATE UNIVERSITY
STUDENT HOUSING FOUNDATION**

**Financial Statements and
Report of Independent Public Accountants**

June 30, 2014 and 2013



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2014 AND 2013

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors
Delaware State University Student Housing Foundation

Report on the Financial Statements

We have audited the accompanying statements of financial position of Delaware State University Student Housing Foundation (the Foundation), as of June 30, 2014, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Foundation as of and for the year ended June 30, 2013, were audited by another auditor who expressed an unmodified opinion on those statements on September 30, 2013.

Hunt Valley, MD
September 30, 2014

SB & Company, LLC

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

**Statements of Financial Position
As of June 30, 2014 and 2013**

ASSETS	<u>2014</u>	<u>2013</u>
Current Assets		
Cash	\$ 133,565	\$ 121,844
Tenant accounts receivable, net	111,185	156,470
Prepaid expenses	16,170	16,672
Tenant security deposits	193,735	165,517
Due from affiliate	<u>3,671,710</u>	<u>3,443,393</u>
Total current assets	<u>4,126,365</u>	<u>3,903,896</u>
Noncurrent Assets		
Assets held in trust	2,608,940	2,564,707
Capital assets, net	9,909,947	10,023,288
Bond issuance costs, net	<u>374,176</u>	<u>393,022</u>
Total noncurrent assets	<u>12,893,063</u>	<u>12,981,017</u>
Total Assets	<u>\$ 17,019,428</u>	<u>\$ 16,884,913</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current portion of bonds payable	\$ 435,000	\$ 420,000
Accounts payable and accrued expenses	55,223	72,455
Accrued employee compensation	29,117	33,774
Accrued interest	372,180	380,580
Tenant security deposits	170,562	160,237
Deferred income	<u>217,720</u>	<u>274,865</u>
Total current liabilities	<u>1,279,802</u>	<u>1,341,911</u>
Noncurrent Liabilities		
Bonds payable, net	<u>14,438,074</u>	<u>14,860,865</u>
Total liabilities	<u>15,717,876</u>	<u>16,202,776</u>
Net Assets		
Unrestricted	<u>1,301,552</u>	<u>682,137</u>
Total Liabilities and Net Assets	<u>\$ 17,019,428</u>	<u>\$ 16,884,913</u>

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

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Statements of Activities and Change in Net Assets For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Revenue		
Tenant revenue	\$ 3,289,594	\$ 3,524,134
Auxiliary enterprises and other	<u>31,675</u>	<u>30,946</u>
Total revenue	<u>3,321,269</u>	<u>3,555,080</u>
Expenses		
Housing	2,199,415	2,098,056
General and administrative	184,989	165,796
Depreciation	<u>355,083</u>	<u>359,730</u>
Total expenses	<u>2,739,487</u>	<u>2,623,582</u>
Operating income	581,782	931,498
Non-operating activities:		
Realized and unrealized gain (loss) on investments	20,630	(62,765)
Investment income	<u>17,003</u>	<u>14,083</u>
Total non-operating revenue (expense)	<u>37,633</u>	<u>(48,682)</u>
Change in Unrestricted Net Assets	619,415	882,816
Net Assets (Deficit) - Unrestricted , beginning of year	<u>682,137</u>	<u>(200,679)</u>
Net Assets - Unrestricted, end of year	<u>\$ 1,301,552</u>	<u>\$ 682,137</u>

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

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Statements of Cash Flows For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in unrestricted net assets	\$ 619,415	\$ 882,816
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	355,083	359,730
Amortization of bond issuance costs	18,846	18,847
Accretion of bond discount	12,209	12,208
Bad debt expense	-	(33,198)
Net realized and unrealized (gain) loss on investments	(20,630)	62,765
Effect of changes in non- cash operating assets and liabilities:		
Tenant accounts receivable, net	45,285	(56,162)
Prepaid expenses	502	(905)
Tenant security deposits	(28,218)	(27,243)
Due from affiliate	(228,317)	(761,295)
Accounts payable and accrued expenses	(17,232)	(29,909)
Accrued employee compensation	(4,657)	2,832
Accrued interest	(8,400)	(7,492)
Tenant security deposits	10,325	(7,622)
Deferred income	(57,145)	38,456
Net cash from operating activities	<u>697,066</u>	<u>453,828</u>
Cash Flows from Investing Activities		
Purchase of capital assets	<u>(241,742)</u>	<u>-</u>
Cash Flows from Financing Activities		
Payments of bonds payable	(420,000)	(405,000)
Change in assets held in trust	<u>(23,603)</u>	<u>(26,988)</u>
Net cash from financing activities	<u>(443,603)</u>	<u>(431,988)</u>
Net increase in Cash and Cash Equivalents	11,721	21,840
Cash and Cash Equivalents, beginning of year	<u>121,844</u>	<u>100,004</u>
Cash and Cash Equivalents, End of Year	<u>\$ 133,565</u>	<u>\$ 121,844</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 756,567</u>	<u>\$ 773,367</u>

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

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Notes to Financial Statements June 30, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Delaware State University Student Housing Foundation (the Foundation) was organized as a non-profit corporation under the laws of the State of Delaware for the purpose of acquiring, developing, constructing, and operating student housing facilities primarily for students and faculty at the Delaware State University (the University). The property is located in Dover, Delaware and originally consisted of three phases, collectively known as Phases I, II (416 beds) and III (628 beds) Projects. The Foundation is considered to be a discretely presented component unit of the University, which is reported in the University's financial statements.

The Foundation is a non-profit corporation formed under the laws of the State of Delaware and exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code

Basis of Presentation

The accompanying financial statements have been prepared under the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Tenant Accounts Receivable and Allowance for Doubtful Accounts

Tenant accounts receivable represent amounts due primarily from students for dormitory rent. The Foundation's allowance for doubtful accounts is provided based upon management's judgments, including such factors as previous collection history and characteristics of the receivables. The Foundation writes-off receivables when they become uncollectible. As of June 30, 2014 and 2013, the allowance was \$388,033, and \$341,402, respectively.

Affiliate Transactions

In an arrangement with the University, the University provides day-to-day management and accounting services, which also include additional services such as: security, operational support, utilities, telecommunications and shared dining facilities. The exchange of such services results in affiliate transactions, which are recorded as incurred on the Foundation's statements of financial position.

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Notes to Financial Statements June 30, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets Held in Trust

Assets held in trust are under the control of outside bond trustees and represent reserves for the payment of principal and interest due on the bonds. These funds are invested, and investment income and gains and losses are recorded in the accompanying statements of activities.

Capital Assets

Buildings, furniture, fixtures and equipment are recorded at cost or, if received by gift, at fair value on the date of donation and, are depreciated over the estimated useful life of the respective asset. Depreciation is computed using the straight-line method. Estimated useful lives used for depreciation purposes are forty years for buildings, ten to forty years for improvements, and seven years for equipment.

Bond Issuance Costs

Costs incurred with the issuance of the Foundation's bonds are amortized over the lives of the bonds. As such, accumulated amortization for such issuance costs at June 30, 2014 and 2013 was \$191,233 and \$172,387, respectively. Amortization expense was \$18,846 and \$18,847, for the years ended June 30, 2014 and 2013, respectively.

Deferred Income

Deferred income consists primarily of funds that are received prior to the beginning of the rental term. As such, it is the Foundation's policy to recognize these balances over the course of the period that the service is rendered.

Unrestricted Net Assets

Unrestricted net assets are assets and contributions that are not restricted by donors or for which restrictions have expired.

Tenant Revenue

Tenant revenue is principally derived from on-campus students who are generally contracted under annual dormitory lease arrangements. Tenant revenue is recognized ratably on a monthly basis, in accordance with the University's operating cycle. Certain tenant revenue is pledged as collateral for the 2004A Bonds (Note 4).

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Notes to Financial Statements June 30, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

Accounting principles generally accepted in the United States establishes guidelines for recognizing, measuring, and disclosing tax return positions in financial statements. Management has evaluated the tax positions of the Foundation and determined that the application of these accounting principles had no material impact on its financial statements. Accordingly, no adjustments for unrecognized tax benefits or related interest or penalties were required as of June 30, 2014 and 2013.

If applicable, the Foundation would recognize accrued interest and penalties related to unrecognized tax benefits in the statement of activities and changes in net assets. Management is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits would significantly increase or decrease during the next twelve months. Each of the tax years in the four-year period ended June 30, 2014, remains subject to examination by Federal taxing authorities; however, certain state taxing authorities may lengthen this period to four years.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the Foundation.

Use of Estimates

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

Subsequent Events

The Foundation evaluated subsequent events and transactions through September 30, 2014, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Notes to Financial Statements June 30, 2014 and 2013

2. ASSETS HELD IN TRUST

Assets held in trust represent funds held by the Bond Trustee and consist of cash, money market accounts, and securities that are primarily issued by the U.S. Government. These investments are stated at fair value as determined by market quotations. Under the terms of the Trust Indenture, various funds such as Construction, Bond, Capitalized Interest and Debt Service are required to be established and maintained by the Foundation.

The respective bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum bond coverage.

As of June 30, 2014 and 2013, funds held by the Bond Trustee on behalf of the Foundation consisted of:

	<u>2014</u>	<u>2013</u>
Principal account	\$ 435,000	\$ 420,000
Debt service reserve	1,399,872	1,362,239
Capitalized interest	372,179	380,579
Operating reserve	298,195	298,195
Issuing exchange account	24,494	24,494
Renewal/replacement	79,200	79,200
	<u>\$ 2,608,940</u>	<u>\$ 2,564,707</u>

Fair value and cost consisted of the following as of June 30, 2014 and 2013:

	<u>2014</u>		
	Fair value	Cost	Unrealized loss
Cash and cash equivalents	\$ 1,427,171	\$ 1,427,171	\$ -
Government and agencies	<u>1,181,769</u>	<u>1,227,403</u>	<u>(45,634)</u>
Total	<u>\$ 2,608,940</u>	<u>\$ 2,654,574</u>	<u>\$ (45,634)</u>

	<u>2013</u>		
	Fair value	Cost	Unrealized loss
Cash and cash equivalents	\$ 1,403,568	\$ 1,403,568	\$ -
Government and agencies	<u>1,161,139</u>	<u>1,227,403</u>	<u>(66,264)</u>
Total	<u>\$ 2,564,707</u>	<u>\$ 2,630,971</u>	<u>\$ (66,264)</u>

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Notes to Financial Statements June 30, 2014 and 2013

2. ASSETS HELD IN TRUST (continued)

Maturities of long-term investments held in trust as of June 30, 2014, were as follows:

	<u>Fair value</u>	<u>Cost</u>
1 - 5 years	\$ <u>1,181,769</u>	\$ <u>1,227,403</u>

Accounting principles generally accepted in the United States establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under general accepted accounting principles are described as follows:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The assets held in trust, which were comprised of cash and cash equivalents and government and agency securities, were the only financial assets carried at fair value as of June 30, 2014 and 2013. These items were valued using quoted market prices in active markets for the investments; therefore, all investments are classified as Level 1.

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Notes to Financial Statements June 30, 2014 and 2013

3. CAPITAL ASSETS, NET

Capital asset activity of the Foundation was as follows:

Capital assets:	<u>2014</u>	<u>2013</u>
Buildings and improvements (Note 4)	\$ 14,228,688	\$ 13,986,946
Equipment	1,112,800	1,112,800
Total capital assets	15,341,488	15,099,746
Less accumulated deprecitaion:		
Buildings and improvements	(4,328,403)	(3,977,963)
Equipment	(1,103,138)	(1,098,495)
Total Accumulated depreciation	(5,431,541)	(5,076,458)
Total capital assets, net	\$ 9,909,947	\$ 10,023,288

4. BONDS PAYABLE, NET

The Foundation's bonds payable consisted of the following:

	<u>2014</u>	<u>2013</u>
Tax-exempt Series 2004A term bonds dated January 21, 2004; due at various intervals through July 1, 2034, payable in semi-annual installments of interest and annual installments of principal; various fixed coupon rates, ranging from 2.00% to 5.125%, as defined in the trust indenture, are secured by deed and assignment of rents.	\$ 15,120,000	\$ 15,540,000
Less current portion	(435,000)	(420,000)
Less bond discount (net of accumulated amortization of \$119,317 and \$107,108, respectively)	(246,926)	(259,135)
Total non-current bonds payable, net	\$ 14,438,074	\$ 14,860,865

Pursuant to the trust indenture dated January 1, 2004, proceeds from the sale of the 2004A Bonds were restricted to refunding the Series 2000A and 2002A Bonds, to fund a debt service reserve fund for the 2004A Bonds, to fund an operating reserve fund for the 2004A Bonds, and to pay a portion of the costs of issuance of the 2004A Bonds.

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Notes to Financial Statements June 30, 2014 and 2013

4. BONDS PAYABLE, NET (continued)

Maturities of long-term debt were as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>
2015	\$ 435,000
2016	455,000
2017	475,000
2018	495,000
2019	515,000
Thereafter	12,745,000
Total	<u><u>\$ 15,120,000</u></u>

5. RELATED PARTY TRANSACTIONS

On February 1, 2002, the Foundation (lessee) and the University (lessor) entered into an amendment of the original ground lease dated September 1, 2000, for Phases I and II of the respective dormitory project (Courtyard). Pursuant to the amended ground lease, the term expiration date was changed from August 31, 2035 to October 1, 2038. The liability of the lessee, with respect to its obligations under the ground lease, was affirmed as non-recourse, and the satisfaction of any of the lessee's obligations is limited to the lessee's interest in the property. The Phases I and II ground lease agreement also requires the utilization of the dormitory by students and faculty of the University for a minimum of 38 years. At the end of the lease date, the property reverts to the ownership of the University. No rental payments are due for the next five years under this agreement.

In an arrangement with the University, the University provides day-to-day management and accounting services, and additional services such as: security, operational support, utilities, telecommunications and shared dining facilities. Such service arrangements result in affiliate transactions with the University. As of June 30, 2014 and 2013, amounts due from the University totaled \$3,671,710 and \$3,443,393, respectively.

6. COMMITMENTS AND CONTINGENCIES

On the normal course of its activities, the Foundation is a party to various legal and administrative actions. After taking into consideration legal counsel's evaluation of pending actions and information relative to potential future claims based on past events, the Foundation is of the opinion that the outcome thereof will not have a material effect on the accompanying combined financial statements.

DELAWARE STATE UNIVERSITY STUDENT HOUSING FOUNDATION

Notes to Financial Statements June 30, 2014 and 2013

7. PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS

University Student Housing Foundation employees are covered under the State Employees' Pension Plan. The State Employees' Pension Plan is a cost-sharing, multiple-employer-defined benefit plan. The State contribution was 21.02% and 18.76% of the employees' salary for years ended June 30, 2014 and 2013, respectively. Employees hired prior to January 1, 2012 contribute 3% of salary in excess of \$6,000 and employees hired after that date contributes 5% of salary in excess of \$6,000. Pension expense of \$34,264 for 2014 and \$31,147 for 2013 included in the accompanying financial statements. An employee vests pension rights after five consecutive years of service. Certain significant plan provisions are as follows:

- Early retirement:
 - 15 years of service - age 55 (benefits are reduced by 0.2% each month under age 60)
 - 25 years of service - any age (reduce by 0.2% each month short of 30 years)
- Service Retirement:
 - 15 years of service - age 60
 - 30 years of service - any age
 - 5 years of service - age 62
 - 10 years of service- age 62 (if hired after January 1, 2012)
- Disability retirement:
 - 5 years of service and proof of disability

The State Employees' Pension Plan is part of the Delaware Public Employees' Retirement System, which is a blended component unit of the State of Delaware. More information can be obtained from the Delaware Public Employees' Retirement System Comprehensive Annual Report. To obtain this report, contact the Office of Pensions at McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402, or at www.delawarepensions.com.