

Financial Statements and Report of Independent  
Certified Public Accountants

**Delaware State University Student Housing  
Foundation - Phases I and II**

June 30, 2011 and 2010

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Trustees  
Delaware State University Student Housing Foundation:

We have audited the accompanying statements of financial position of the Delaware State University Student Housing Foundation - Phases I and II (the "Project"), a subsidiary of the Delaware State University Student Housing Foundation, as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware State University Student Housing Foundation - Phases I and II as of June 30, 2011 and 2010, and the changes in its net assets, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



New York, New York  
May 15, 2012

Delaware State University Student Housing Foundation - Phases I and II

**STATEMENTS OF FINANCIAL POSITION**

As of June 30, 2011 and 2010

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,628,559	\$ 450,113
Tenant security deposits	129,925	127,024
Tenant accounts receivable, net	56,804	101,071
Prepaid expenses	13,535	12,315
Due from affiliate	695,383	1,533,892
Assets held in trust	1,473,917	1,239,282
Total current assets	<u>3,998,123</u>	<u>3,463,697</u>
<b>NONCURRENT ASSETS</b>		
Assets held in trust	1,080,246	1,301,667
Capital assets, net	10,787,636	11,246,486
Bond issuance costs, net	430,716	449,563
Total noncurrent assets	<u>12,298,598</u>	<u>12,997,716</u>
Total assets	<u>\$ 16,296,721</u>	<u>\$ 16,461,413</u>
<b>LIABILITIES AND NET DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of bonds payable	\$ 390,000	\$ 380,000
Accounts payable and accrued expenses	125,223	125,609
Accrued employee compensation	51,010	26,017
Accrued interest	394,897	400,977
Tenant security deposits liability	146,599	126,550
Deferred income	245,901	231,943
Total current liabilities	<u>1,353,630</u>	<u>1,291,096</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds payable, net	<u>15,661,449</u>	<u>16,039,241</u>
Total liabilities	<u>17,015,079</u>	<u>17,330,337</u>
<b>CONTINGENCIES</b>		
<b>NET DEFICIT</b>		
Unrestricted	<u>(718,358)</u>	<u>(868,924)</u>
Total liabilities and net deficit	<u>\$ 16,296,721</u>	<u>\$ 16,461,413</u>

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

Delaware State University Student Housing Foundation - Phases I and II

**STATEMENTS OF ACTIVITIES**

For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>OPERATING ACTIVITIES</b>		
<b>REVENUES</b>		
Tenant revenue	\$ 3,230,928	\$ 3,086,809
Other	36,497	38,885
Total revenues	<u>3,267,425</u>	<u>3,125,694</u>
<b>EXPENSES</b>		
Housing	2,475,387	2,385,205
General and administrative	183,925	171,773
Depreciation	466,841	467,254
Total expenses	<u>3,126,153</u>	<u>3,024,232</u>
Excess of operating revenues over expenses	141,272	101,462
<b>NONOPERATING ACTIVITIES</b>		
Realized and unrealized (loss) gain on investments	(30,917)	69,191
Investment income	40,211	21,988
<b>CHANGES IN UNRESTRICTED NET DEFICIT</b>	150,566	192,641
<b>NET DEFICIT - UNRESTRICTED, beginning of year</b>	<u>(868,924)</u>	<u>(1,061,565)</u>
<b>NET DEFICIT - UNRESTRICTED, end of year</b>	<u>\$ (718,358)</u>	<u>\$ (868,924)</u>

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

Delaware State University Student Housing Foundation - Phases I and II

**STATEMENTS OF CASH FLOWS**

For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in unrestricted net deficit	\$ 150,566	\$ 192,641
Adjustments to reconcile change in unrestricted net deficit to net cash provided by (used in) operating activities:		
Depreciation	466,841	467,254
Amortization of bond issuance costs	18,847	18,847
Accretion of bond discount	12,208	12,208
Bad debt expense	114,122	25,210
Net realized and unrealized loss (gain) on investments	30,917	(69,191)
Changes in assets and liabilities:		
Tenant security deposits	(2,901)	(821)
Tenant accounts receivable	(69,855)	24,114
Prepaid expenses	(1,220)	(266)
Due from affiliate	838,509	(1,146,912)
Accounts payable and accrued expenses	(386)	(39,578)
Accrued employee compensation	24,993	12,877
Accrued interest	(6,080)	(5,550)
Tenant security deposits liability	20,049	7,063
Deferred income	13,958	9,867
Net cash provided by (used in) operating activities	<u>1,610,568</u>	<u>(492,237)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	(7,991)	(8,256)
Net cash used in investing activities	<u>(7,991)</u>	<u>(8,256)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Assets held in trust	(44,131)	(19,393)
Payments of long-term debt	(380,000)	(370,000)
Net cash (used in) provided by financing activities	<u>(424,131)</u>	<u>(389,393)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,178,446	(889,886)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>450,113</u>	<u>1,339,999</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 1,628,559</u>	<u>\$ 450,113</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 802,002</u>	<u>\$ 814,162</u>

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

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

Delaware State University Student Housing Foundation - Phases I and II (the Project) consists of Phases I and II of a three-phase student housing apartment facility known as University Courtyard Apartments. The Project consists of 416 beds and is owned by Delaware State University Student Housing Foundation (the Foundation), which is 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 of the Delaware State University (the University). The Foundation is considered to be a discretely presented component unit of the University, which is reported in the University's Comprehensive Annual Financial Report.

The Project 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. The Project was created and operates for the purpose of providing housing facilities primarily for the students and faculty of the University.

2. Basis of Presentation

The accompanying financial statements of the Project have been prepared under the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Project's financial statements present the assets, liabilities, net assets, changes in net assets and cash flows of the Project, which constitute only Phases I and II of a three-phase apartment complex.

3. Cash and Cash Equivalents

The Project defines cash and cash equivalents as those assets with a maturity date of three months or less at the time of purchase.

4. Tenant Accounts Receivable and Allowance for Doubtful Accounts

Tenant accounts receivable represent amounts due from students for dormitory rent. The Project's allowance for doubtful accounts is based upon management's judgments, including such factors as previous collection history and characteristics of the receivables. The Project writes-off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. At June 30, 2011 and 2010, the allowance was \$273,192 and \$159,070, respectively.

5. 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 reported on the Project's statements of financial position.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. 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.

7. 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.

8. Bond Issuance Costs

Costs incurred with the issuance of the Project's bond are amortized over the life of the bond. Accumulated amortization for such issuance costs at June 30, 2011 and 2010 was \$134,694 and \$115,847, respectively.

9. Deferred Income

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

10. Unrestricted Net Deficit

None of the Project's net deficit is subject to donor-imposed restrictions. Accordingly, all resources are accounted for as unrestricted, in accordance with accounting principles generally accepted in the United States of America.

The Project had a net deficit of \$718,358 and \$868,924 for the years ended June 30, 2011 and 2010, respectively. This deficit resulted principally from start-up costs.

The Project and the University are continuously monitoring the expenses of the apartments, resulting in a significant reduction in the deficit since the University assumed responsibility for the management of these facilities. The Project continues to complete regularly scheduled facility maintenance to avoid major repair costs.

11. Tenant Revenue

Tenant revenue is derived from on-campus students who are generally contracted under annual dormitory lease arrangements. Tenant revenue is recognized ratably, in accordance with the University's operating cycle.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Income Taxes

Under provisions of the Internal Revenue Code, Section 501(c)(3), and the applicable income tax regulations of Delaware, the Project is exempt from taxes on income other than unrelated business income, if any.

The Project recognizes or derecognizes a tax position based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The Project does not believe its financial statements include any material uncertain tax positions.

13. Concentration of Credit Risk

The Project’s financial instruments, which are exposed to concentrations of credit risk, consist primarily of cash and cash equivalents and assets held in trust. These funds are held in various high-quality financial institutions. The Project maintains its cash and cash equivalents in financial institutions, which at times exceed federally insured limits. The Project believes that concentrations of credit risk are limited to its cash and cash equivalents and assets held in trust.

14. Operations

The accompanying statements of activities distinguish between operating and nonoperating activities. Operating activities primarily include all revenues and expenses that are an integral part of the Project’s direct activities. Amounts not included in the measure of operations consist of investment return and other activities, if any, considered by management to be of a nonoperating nature.

15. 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. The most significant management estimates and assumptions relate to the determination of allowances for doubtful accounts, and useful lives of fixed assets. Actual results could differ from these estimates.

NOTE B - ASSETS HELD IN TRUST

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

The 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 coverages.

Delaware State University Student Housing Foundation - Phases I and II

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011 and 2010

NOTE B - ASSETS HELD IN TRUST - Continued

At June 30, 2011 and 2010, funds held by the trustee for the Project consisted of:

	<u>Series 2004A</u>	
	<u>2011</u>	<u>2010</u>
Principal account	\$ 390,000	\$ 380,000
Debt service reserve	1,374,353	1,365,060
Capitalized interest	394,897	400,976
Operating reserve	298,192	298,192
Pledged Revenue	-	-
Issuing exchange account	24,494	24,494
Renewal/replacement	<u>72,227</u>	<u>72,227</u>
	2,554,163	2,540,949
Less current portion	<u>(1,473,917)</u>	<u>(1,239,282)</u>
Total noncurrent	<u>\$ 1,080,246</u>	<u>\$ 1,301,667</u>

Cost and fair values consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Unrealized gain</u>
Cash and cash equivalents	\$ 1,473,917	\$ 1,473,917	\$ -
Government and agencies	<u>1,080,246</u>	<u>1,100,000</u>	<u>(19,754)</u>
Total	<u>\$ 2,554,163</u>	<u>\$ 2,573,917</u>	<u>\$ (19,754)</u>

  

	<u>2010</u>		
	<u>Fair value</u>	<u>Cost</u>	<u>Unrealized loss</u>
Cash and cash equivalents	\$ 1,239,282	\$ 1,239,282	\$ -
Government and agencies	<u>1,301,667</u>	<u>1,348,908</u>	<u>(47,241)</u>
Total	<u>\$ 2,540,949</u>	<u>\$ 2,588,190</u>	<u>\$ (47,241)</u>

Delaware State University Student Housing Foundation - Phases I and II

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011 and 2010

NOTE B - ASSETS HELD IN TRUST - Continued

Maturities of long-term investments held in trust follow:

	<u>June 30, 2011</u>	
	<u>Fair value</u>	<u>Cost</u>
1 - 5 years	\$ 600,384	\$ 600,000
Greater than 5 years	<u>479,862</u>	<u>500,000</u>
Total	<u>\$ 1,080,246</u>	<u>\$ 1,100,000</u>

The Project defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. Fair value measurements are applied based on the unit of account from the reporting entity's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Project uses a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined 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 above 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, 2011 and 2010. These assets were valued using the market approach with Level 1 inputs.

Delaware State University Student Housing Foundation - Phases I and II

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011 and 2010

NOTE C - CAPITAL ASSETS, NET

Capital asset activity of the Project follows:

	<u>2011</u>	<u>2010</u>
Capital assets		
Buildings and improvements	\$ 13,986,946	\$ 13,978,955
Equipment	<u>1,112,800</u>	<u>1,112,800</u>
Total capital assets	<u>15,099,746</u>	<u>15,091,755</u>
Less accumulated depreciation		
Buildings and improvements	3,277,083	2,926,842
Equipment	<u>1,035,027</u>	<u>918,427</u>
Total accumulated depreciation	<u>4,312,110</u>	<u>3,845,269</u>
Total capital assets, net	<u>\$ 10,787,636</u>	<u>\$ 11,246,486</u>

NOTE D - BONDS PAYABLE, NET

The Project's long-term debt consisted of the following:

	<u>2011</u>	<u>2010</u>
Taxable 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, secured by deed and assignment of rents.	\$ 16,335,000	\$ 16,715,000
Less current portion	(390,000)	(380,000)
Less bond discount (net of accumulated amortization of \$82,692 and \$70,484 as of June 30, 2011 and 2010, respectively)	<u>(283,551)</u>	<u>(295,759)</u>
Total bonds payable, net	<u>\$ 15,661,449</u>	<u>\$ 16,039,241</u>

Pursuant to the trust indenture dated January 1, 2004, proceeds from the sale of the 2004A Bonds are 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 - Phases I and II

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011 and 2010

NOTE D - BONDS PAYABLE, NET - Continued

The liability of the Project under the loan agreement is limited to the value of the building and any improvements, pledged revenues and amounts deposited with the trustee. The Project is required to maintain a debt service coverage ratio of at least 1.20:1, which was met as of June 30, 2011 and 2010.

Maturities of long-term debt follow:

<u>Year ending June 30,</u>	
2012	\$ 390,000
2013	405,000
2014	420,000
2015	435,000
2016	455,000
Thereafter	<u>14,230,000</u>
	<u>\$ 16,335,000</u>

Fair Value

The fair value of long-term debt is estimated based on currently published rates for debt obligations with similar characteristics. At June 30, 2011 and 2010, the carrying amounts and estimated fair values of bonds outstanding and subordinated debt were as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Carrying amount</u>	<u>Estimated fair value</u>	<u>Carrying amount</u>	<u>Estimated fair value</u>
Series 2004A	<u>\$ 16,335,000</u>	<u>\$ 13,765,535</u>	<u>\$ 16,715,000</u>	<u>\$ 13,933,440</u>

NOTE E - RELATED PARTY TRANSACTIONS

On February 1, 2002, the Project (lessee) and the University (lessor) entered into an amendment of the original ground lease dated September 1, 2000. 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 Project's ground lease agreement also requires the utilization of the Project by students and faculty of Delaware State University for a minimum of 38 years. At the end of the lease date, the property reverts to the ownership of the University. There are no payments under this lease for the next five years.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011 and 2010

NOTE F - CONTINGENCIES

In the normal course of its activities, the Project 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 Project is of the opinion that the outcome thereof will not have a material effect on the financial statements.

NOTE G - PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS

The Project's 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 and Project each made a contribution of 17.2% of the employees' salary for 2011. The employees contribute 3.00% of salary in excess of \$6,000. The pension cost of \$29,282 for 2011 and \$20,261 for 2010 for the Project's contribution is 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 0.02% 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
  
- 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, Delaware 19904-2402, or call 1-800-722-7300.

NOTE H - SUBSEQUENT EVENTS

The Project evaluated its June 30, 2011 financial statements for subsequent events through May 15, 2012, the date the financial statements were available to be issued. The Project is not aware of any subsequent events which would require recognition or disclosure in the financial statements.