

Delgado Community College Foundation, Inc.

Financial Statements

Year ended June 30, 2003

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Report of Independent Auditors

Board of Directors
Delgado Community College Foundation, Inc.

We have audited the accompanying statement of financial position of Delgado Community College Foundation, Inc. as of June 30, 2003, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Delgado Community College Foundation's management. 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 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delgado Community College Foundation, Inc. at June 30, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2003 on our consideration of Delgado Community College Foundation's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.



November 3, 2003

Delgado Community College Foundation, Inc.

Statement of Financial Position

June 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Cash and cash equivalents	\$ -	\$ 17,134	\$ -	\$ 17,134
Pledges receivable	-	38,656	-	38,656
Investments - Student Life Center	-	328,911	-	328,911
Investments and endowment funds	-	918,155	34,172	944,327
Prepaid expenses	7,350	228,812	-	236,162
Due from other funds	-	18,137	-	18,137
Bond issuance costs, net	-	132,462	-	132,462
Lease receivable - Student Life Center	-	3,935,879	-	3,935,879
Total assets	\$ 7,350	\$5,592,347	\$ 34,172	\$5,633,849
Liabilities and net assets				
Accounts payable	\$ 34,250	\$ 1,312	\$ -	\$ 35,562
Due to other funds	18,137	-	-	18,137
Bonds payable, net of discount	-	4,053,855	-	4,053,855
Accrued interest payable	-	68,526	-	68,526
Due to Delgado, net	-	494,284	-	494,284
Net assets:				
Unrestricted and other	(43,897)	-	-	(43,897)
Temporary restricted grant	-	38,656	-	38,656
Literacy Center	-	117,207	-	117,207
Challenge Grant Endowment	-	445,147	-	445,147
Restricted Capital Development	-	350,095	-	350,095
Adopt-a-Professor	-	16,733	-	16,733
Overtime Endowment	-	14,502	34,172	48,674
Total net assets	(43,897)	953,790	34,172	971,885
Total liabilities and net assets	\$ 7,350	\$5,592,347	\$ 34,172	\$5,633,849

See accompanying notes.

Delgado Community College Foundation, Inc.

Statement of Activities

Year ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Contributions	\$ 54,032	\$ 3,729	\$ -	\$ 57,761
Lease rental revenue	-	255,866	-	255,866
Donated services and facilities	32,623	-	-	32,623
Dividends and interest	117	42,513	-	42,630
Realized gain on investments	-	1,178	-	1,178
Unrealized gain on investments	-	17,627	-	17,627
Total revenue and support	86,761	320,913	-	407,674
Expenses:				
Development program	36,978	-	-	36,978
Scholarships	6,000	1,500	-	7,500
Management and general expenses - salary	18,000	-	-	18,000
Management and general expenses - other	78,707	24,061	-	102,768
Interest expense	-	249,138	-	249,138
Total expense	139,677	274,699	-	414,376
Net assets released from restrictions	20,509	(20,509)	-	-
Change in net assets	(32,407)	25,765	-	(6,642)
Net assets, beginning of period	112,650	957,005	34,172	978,527
Net assets, end of period	\$ 145,057	\$ 982,770	\$ 34,172	\$ 978,385

See accompanying notes.

Delgado Community College Foundation, Inc.

Statement of Cash Flows

Year ended June 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating activities				
Change in net assets	\$ (31,807)	\$ 25,365	\$ -	\$ (6,442)
Amortization of bond discount and bond issuance costs	-	9,280	-	9,280
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities:				
Realized and unrealized (gains) and losses on investments	-	(35,800)	-	(35,800)
Decrease in pledges receivable, net of discount accretion	-	11,271	-	11,271
(Increase) decrease in prepaid expenses	141	8,408	-	8,558
Increase in accounts payable	(1,173)	(115)	-	(1,288)
Decrease in accrued interest payable	-	(800)	-	(800)
Net cash provided by (used in) operating activities	(31,666)	34,994	-	1,328
Investing activities				
Sale of investments, net	-	392	-	392
Net cash provided by investing activities	-	392	-	392
Financing activities				
Bond principal payments	-	(30,000)	-	(30,000)
Decreases in lease receivable	-	30,000	-	30,000
Interfund receivables and payable	(8,137)	(8,137)	-	-
Decrease in due to Delgado, net	-	(17,164)	-	(17,164)
Net cash provided by (used in) financing activities	(8,137)	(5,301)	-	(13,438)
Net increase (decrease) in cash	(15,487)	89	-	(15,402)
Cash at beginning of year	15,487	17,649	-	32,536
Cash at end of year	\$ -	\$ 17,134	\$ -	\$ 17,134

See accompanying notes.

Delgado Community College Foundation, Inc.

Notes to Financial Statements

June 30, 2003

1. Background

The Delgado Community College Foundation, Inc. (the Foundation) is a nonprofit corporation organized under the laws of the State of Louisiana on June 1, 1988 to:

Promote the educational and cultural welfare of the Delgado Community College (Delgado) and develop, expand and improve Delgado's facilities to provide broader educational advantages and opportunities, encourage research and increase Delgado's usefulness;

Assist any student to continue his or her studies within Delgado; aid and facilitate any line of work or research in the areas embraced in the objects and purposes of Delgado; and generally, interpret the aims, objectives and needs of Delgado to the public with a view to better mutual understanding and progress; and

Solicit and accept grants and bequests, including funds of all kinds, to provide scholarships, and activities in research, or such other designated benefits for Delgado and its facilities and students.

The Foundation is governed by a Board of Directors. Prior to the organization of the Foundation, the Delgado Community College Development Foundation (the Development Foundation) represented the support organization for Delgado. On June 13, 1988, the past Chairman and Liquidator of the Development Foundation and the Delgado Entertainment Group, Inc. (an affiliated entity) authorized the transfer of all funds of such entities to the Foundation. The Development Foundation had not maintained detailed records to document the assets, liabilities and unrestricted/restricted fund balances, but management of the Foundation believes that all funds maintained by the Development Foundation were transferred and that the funds transferred were not restricted as to use.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accounts of the Foundation are maintained in accordance with the principles of fund accounting under which resources for various purposes are classified into funds according to specified activities or objectives. These financial statements have been prepared to focus on the Foundation as a whole and to present transactions according to

Delgado Community College Foundation, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

the existence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets—unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets – Are used to account for unrestricted revenues and expenditures.

Temporarily Restricted Net Assets include the following:

Temporarily restricted grant – Is used to account for a grant that is expected to be received over a 5 year term. The grant is recorded at the discounted value.

Challenge Grant Endowment – Is used to account for a grant received from the U.S. Department of Education which is being administered by the Foundation.

Restricted Capital Development – Is used to account for contributions to the Foundation whose use has been restricted by donors for capital improvements.

Adopt-a-Professor – Is used to account for contributions to the Foundation which the donor has designated for the purpose of obtaining endowed professorships. Once a specified level of donations are obtained, the funds are transferred to Delgado to be used in the employment program.

Literacy Center – Is used to account for contributions to the Foundation to create a Literacy Center on Delgado's City Park Campus.

Overture Endowment – An endowment scholarship fund was established by the Foundation in accordance with the gift instruments from the Overture to the Cultural Arts. The corpus is permanently restricted; however, the interest income generated from the corpus is temporarily restricted.

Permanently Restricted Net Assets include the following:

Overture Endowment – An endowment scholarship fund was established by the Foundation in accordance with the gift instruments from the Overture to the Cultural Arts. The corpus is permanently restricted; however, the interest income generated from the corpus is temporarily restricted.

Delgado Community College Foundation, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

For the purpose of the cash flows, the Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments and Investment Income

Equity and fixed income securities are carried at quoted market value. Income earned from investments, including realized and unrealized gains and losses, is reported in the unrestricted net asset class except where the instructions of the donor specify otherwise.

Contributions

Contributions and pledges received are recognized as revenues in the period received at their fair value and contributions and pledges made are recognized as expenses in the period made at their fair value. Included in contributions in the current year are approximately \$13,800 transferred from Delgado Community College for pledges collected on the Foundation's behalf in previous years.

The Foundation records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Amortization of the Bond Discount and Bond Issuance Costs

Both the Bond Discount and the Bond Issuance Costs are being amortized over the life of the bonds (30 years), utilizing a method which approximates the interest method. Bond discount accretion of \$4,630 is included as a component of management and general expenses within the accompanying statement of activities.

Income Taxes

The Foundation is exempt from state and federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Delgado Community College Foundation, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

3. Investments

As of June 30, 2003, the investments of the Foundation consisted of the following:

Description	Endowment Funds		Student Life Center	
	Cost	Fair Value	Cost	Fair Value
Equity securities	\$ 487,493	\$ 451,095	\$ -	\$ -
Fixed income securities	498,132	493,132	324,081	329,911
Total	\$ 985,625	\$ 944,227	\$ 324,081	\$ 329,911

4. Student Life Center

During 1999, the Board of Directors approved a plan which resulted in the Foundation providing a vehicle for financing the design and construction of a Student Life Center on the Delgado campus. The transaction was structured as described below.

The Board of Trustees for State Colleges and Universities (the "Board of Trustees") entered into a Ground Lease Agreement with the Foundation for the site on which the proposed Student Life Center (the "Facility") was to be constructed. The Foundation selected a developer, entered into a design and construction contract with that developer and the developer commenced construction of the Facility on the land leased to the Foundation by the Board of Trustees during fiscal 2000.

Delgado Community College Foundation, Inc.

Notes to Financial Statements (continued)

4. Student Life Center (continued)

Title to the Facility itself (but not the underlying land) is held by the Foundation. The Foundation has agreed to lease the Facility to Delgado pursuant to a Facility Lease Agreement under which Delgado will lease the building and has agreed to operate the Facility. The Facility Lease Agreement requires Delgado to pay rent in an amount sufficient to cover the operating costs of the Facility and the debt of service on the bonds issued on behalf of the Foundation (see discussion below) to fund the construction of the Facility. The Facility Lease Agreement has a 30-year term and it includes a provision which transfers the title of the Facility to Delgado at the end of its term.

The Foundation itself does not have the authority to be the issuer of the tax-exempt bonds. Therefore, a separate entity which is qualified to issue tax-exempt bonds was the issuer of the bonds. That issuer entered into a loan agreement with the Foundation pursuant to which the issuer loaned the proceeds of its bonds to the Foundation to pay for construction of the Facility and the Foundation expects to repay the issuer with the rental proceeds it receives from Delgado under the Facility Lease Agreement. \$235,866 of such proceeds received during fiscal 2003 have been recorded as lease rental revenues representing amounts attributable to bond debt service and other related costs of the Facility, net of investment earnings generated from the excess proceeds provided by the bond issuer (shown on the statement of financial position as "Investments - Student Life Center").

The estimated cost of the project was \$4,350,000, and the completion date was June 2001. The 30-year bonds were issued November 1, 1999 with interest rates ranging from 4.0% to 6.0%. Bond proceeds were \$4,236,073, net of a bond discount of \$113,925. Bond issuance costs were \$179,512. Bond debt service and other related Facility costs are to be funded through a special student assessment fee for Delgado's City Park Campus students only, assessed at the levels of \$15 per student for the fall and spring semesters and \$5 per student for the summer semester.

The transaction was approved by the Board of Trustees, the Louisiana State Bond Commission, and the City of New Orleans.

Delgado Community College Foundation, Inc.

Notes to Financial Statements (continued)

4. Student Life Center (continued)

The Facility's lease to Delgado is considered a sales-type lease for reporting purposes, therefore the asset associated with the Facility is carried as a lease receivable net of unearned future lease income of approximately \$4.8 million. The lease receivable will be reduced over time as Delgado meets bond principle payment reimbursements to the Foundation.

As of June 30, 2003, Delgado had cumulatively remitted \$1,134,055 to the Foundation to cover the bond debt service and other related costs of the Facility. Of this amount, \$482,607 has been recognized as lease rental revenue, \$130,000 has been recognized as a reduction of the Student Life Center lease receivable and the remaining balance is carried as deferred revenue (shown as due to Delgado, net) as of June 30, 2003.

5. Commitments and Contingencies

Auto Lease Payments

Included in Management and General Expenses are monthly lease payments and the related insurance on an automobile utilized by the chancellor of Delgado, who is also a member of the Board of the Foundation, totaling approximately \$6,977 in 2003. The lease agreement was terminated in October 2003 resulting in total payments subsequent to June 30, 2003, including a prepayment penalty, of \$4,764.

6. Related Parties

Delgado Community College provided the Foundation with facilities and administrative personnel valued at \$32,822 for the fiscal year ended June 30, 2003. In lieu of billing for this amount, the College acknowledges that the Foundation provides a number of direct and indirect benefits to the college and its students the value of which exceeds the above costs.

7. Student Life Center-West Bank

On March 18, 2003, the Board of Directors approved a plan which will result in the Foundation providing a vehicle for financing the design and construction of a Student Life Center on Delgado's West Bank campus similar to the one described in Note 4. On March 12, 2003, the board of the Louisiana Community and Technical College System

Delgado Community College Foundation, Inc.

Notes to Financial Statements (continued)

7. Student Life Center—West Bank (continued)

approved the students having a referendum on approving self-assessed fee in an amount up to \$40 per semester. In a referendum on April 18, 2003, the students of the West Bank Campus approved the self-assessed fee.

The West Bank Student Life Center will be approximately 15,000 square feet and cost approximately \$3 million. The Center will provide physical space for student activities, student organizations, meetings, dining, study areas, a game room, and other activities as required. As of June 30, 2003, the Foundation has solicited offers for the Senior Managing Underwriter. Also, as of June 30, 2003, the college has collected \$2,152 in Fall 2003 self-assessment fees.

**Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of the Financial Statements in Accordance With
Government Auditing Standards**

The Board of Directors
Delgado Community College Foundation, Inc.

We have audited the financial statements of Delgado Community College Foundation, Inc. as of and for the year ended June 30, 2000, and have issued our report thereon dated November 3, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Delgado Community College Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, as discussed below:

The Foundation did not provide their audited financial statements within the required time of the covenant included in the bond agreement.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Delgado Community College Foundation, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we

consider to be material weaknesses. However, we noted the following matters involving the internal control over financial reporting that we have reported to management at Delgado Community College Foundation, Inc.:

The Foundation does not keep detail records of the amounts initially recorded in temporarily restricted net assets or the activity that occurs in the temporarily restricted net assets. Without this detail, it is difficult for the Foundation to determine when to release the restrictions on the assets once the donor's purpose has been completed or to determine if funds need to be refunded to the donor if not used for their specific purpose.

During 2003, the Foundation sold \$31,850 of investments in the restricted accounts and transferred \$49,637 to the unrestricted accounts. The amounts were recorded as due without funds. However, the Foundation presently does not expect that sufficient funds will be generated from the unrestricted fund activity to repay the amounts on a current basis. The Foundation should consider what actions are necessary in order to reimburse the restricted account.

This report is intended solely for the information and use of the board of directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

November 3, 2003