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BRCC FACILITIES CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2004

Release Date 8/25/04

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Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

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FINANCIAL STATEMENTS

JUNE 30, 2004

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CONTENTS

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Postlethwaite & Netterville
A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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INDEPENDENT AUDITORS' REPORT

Board of Directors
BRCC Facilities Corporation
Baton Rouge, Louisiana

We have audited the accompanying statements of financial position of the BRCC Facilities Corporation (a nonprofit organization) as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the periods then ended. These financial statements are the responsibility of the Corporation'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 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 audits 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 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 BRCC Facilities Corporation, as of June 30, 2004 and 2003, and the results of its activities and its cash flows for the periods 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 August 4, 2004, on our consideration of BRCC Facilities Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report should be read in conjunction with this report in considering the results of our audits.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 4, 2004

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

Board of Directors
BRCC Facilities Corporation
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the BRCC Facilities Corporation (a not-for-profit organization), as of and for the year ended June 30, 2004, and have issued our report thereon dated August 4, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation'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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to 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 could 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 weakness.

This report is intended solely for the information and use of the board of directors and management of the BRCC Facilities Corporation and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statue 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 4, 2004

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BRCC FACILITIES CORPORATION

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2004 AND 2003

	2004	2003 (As Restated)
ASSETS		
Current Assets		
Accrued interest receivable	$ 51,436	$ 67,294
Total current assets	51,436	67,294
Noncurrent Assets		
Restricted cash and cash equivalents	39,774,415	50,995,559
Construction in progress	23,290,373	7,309,603
Property, plant and equipment, net of accumulated depreciation of $223,131 and $ -, respectively	9,235,662	-
Deferred financing costs, net	1,160,634	894,098
Total noncurrent assets	73,461,084	59,199,260
Total assets	$ 73,512,520	$ 59,266,554
LIABILITIES AND NET ASSETS		
Current Liabilities		
Construction costs payable	$ 2,173,191	$ 2,771,637
Accrued interest payable	281,103	235,270
Retainage payable	1,276,097	263,136
Total current liabilities	3,730,391	3,270,043
Noncurrent Liabilities		
Bonds payable, net	67,145,582	56,016,089
Total noncurrent liabilities	67,145,582	56,016,089
Total liabilities	70,875,973	59,286,132
Net Assets		
Unrestricted	2,636,547	(19,578)
Total liabilities and net assets	$ 73,512,520	$ 59,266,554

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

BRCC FACILITIES CORPORATION

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004 AND FOR THE SIX MONTHS ENDED JUNE 30, 2003

	2004	2003 (As Restated)
OPERATING REVENUES		
Lease income	$ 3,055,947	$ -
Total revenues	3,055,947	-
OPERATING EXPENSES		
Professional expenses	101,086	-
Depreciation expense	223,131	-
Other operating expenses	4,321	-
Total expenses	328,538	-
NONOPERATING EXPENSES		
Amortization expense	71,284	19,578
Total nonoperating expenses	71,284	19,578
CHANGE IN NET ASSETS	2,656,125	(19,578)
Net assets - beginning of year as previously reported	401,974	-
Correction to capitalized interest (Note 8)	(421,552)	-
Net assets - beginning of year, restated	(19,578)	-
Net assets - end of year	$ 2,636,547	$ (19,578)

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

BRCC FACILITIES CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004 AND FOR THE SIX MONTHS ENDED JUNE 30, 2003

	2004	2003 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 2,656,125	$ (19,578)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Amortization of deferred financing costs	71,284	19,578
Amortization of bond premiums	(120,949)	(73,734)
Depreciation expense	223,131	-
Changes in operating assets and liabilities:		
Accrued interest receivable	15,858	(67,294)
Accrued interest payable	45,833	235,270
Net cash provided by operating activities	2,891,282	94,242
CASH FLOWS FROM INVESTING ACTIVITIES:		
Facilities construction costs	(25,025,048)	(4,274,830)
Net cash used in investing activities	(25,025,048)	(4,274,830)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of bonds payable	11,250,442	56,089,823
Deferred financing costs	(337,820)	(913,676)
Net cash provided by financing activities	10,912,622	55,176,147
NET INCREASE IN CASH AND CASH EQUIVALENTS	(11,221,144)	50,995,559
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	50,995,559	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 39,774,415	$ 50,995,559

Supplemental Cash Flow Information

	2004	2003
Cash paid for interest	$ 3,055,947	$ 1,184,191

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

BRCC FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

BRCC Facilities Corporation (the Corporation) is a Louisiana non-profit corporation formed to support and benefit the educational, scientific research and public service mission of the Baton Rouge Community College (the College). The Corporation was formed during 2002 to finance a portion of the costs of the development, design, renovation, construction and equipping of facilities for the College. Governmental Accounting Standards Board (GASB) pronouncement No. 14 requires inclusion of the Corporation's financial statements in the Baton Rouge Community College's financial statements

2. **Summary of Significant Accounting and Reporting Policies**

Basis of Accounting and Reporting

Transactions of the Corporation are accounted for on the accrual basis of accounting. The Corporation uses various trust accounts created pursuant to trust indentures of the related bonds. The trust accounts, which are administered by a trustee bank, provide for the custody of the assets, debt service payments and bond redemption requirements, and payment of administrative expenses.

The programs follow the not-for-profit model for financial reporting as set forth in FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features which the college follows. With the exception of necessary presentation adjustments, no modifications have been made to the Corporation's financial information for these differences.

Deferred Financing Costs

Bond issuance costs, including underwriters' discount on bonds sold, are deferred and amortized over the life of the indebtedness based upon the principal amount of bonds outstanding.

Investments & Cash Equivalents

Investments are included in the accompanying financial statements at cost which approximates their fair value (See Note 3). For financial reporting purposes, cash and cash equivalents include all highly liquid investments with an original maturity of three months or less. All investments held by the corporation are considered cash equivalents and are restricted for debt service and construction costs.

Bond Premiums

Premiums incurred upon issuance of bonds are deferred and amortized to interest expense over the life of the related bonds using a method that approximates the interest method.

2. **Summary of Significant Accounting and Reporting Policies** (continued)

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 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.

Interest Capitalized

The Corporation follows the policy of capitalizing interest expense incurred as a component of the cost of property, plant and equipment constructed for its own use and appropriately offsets the capitalized interest with interest earned on tax-exempt borrowings to fund the construction. During the years ended June 30, 2004 and 2003, the Corporation capitalized interest expense of approximately $2,665,000 and $978,000 respectively, net of interest earned of approximately $672,000 and $422,000.

Property, Plant and Equipment

The Corporation originally records property, plant and equipment at cost of acquisition. Depreciation expense for the building is accounted for on the straight line method with a useful life of 39 years.

Income Taxes

The Corporation is organized as a Louisiana non-profit 501(c)3 corporation and as such is exempt from State and Federal income taxes.

3. **Cash and Investments**

Investments consist of U. S. Treasury obligations which represent deposits in money market funds invested in U.S. Treasury Securities as well as overnight repurchase agreements. Fair values of these instruments approximate cost.

Substantially all investments are restricted for debt service, construction and various program expenses. At June 30, 2004 and 2003, cash and investments were as follows:

	Repurchase Agreement	Securities Backed by U. S. Treasury	Total
June 30, 2004	$ 39,673,540	$ 100,875	$ 39,774,415
June 30, 2003	$ 50,918,318	$ 77,241	$ 50,995,559

4. Bonds Payable

The bonds are limited and special revenue obligations of the Louisiana Local Government Environmental Facilities and Community Development Authority (the Authority), the source of the payment of which will be derived from the payments due to the Corporation under a facilities lease agreement with the College. The obligation of the Corporation to make payments to the Authority for debt service is limited to the rents received from the Board of the College. The Corporation has assigned its rights under the facility lease to the Authority as security for the bonds. The net proceeds obtained from the bond issue are to be used to finance a portion of the development, design, renovation, construction and equipping of facilities for the College.

At June 30, 2004, bonds payable outstanding were as follows:

	Interest Amount	Principal Amount	Accrued Interest
Bonds Payable			
Serial Bonds due 2014 – 2022	5.375%	$ 19,530,000	$ 87,478
Term Bonds due 2026	5.000%	12,105,000	50,437
Term Bonds due 2032	5.000%	23,365,000	97,354
Serial Bonds due 2009 – 2017	5.500%	10,000,000	45,834
		65,000,000	$ 281,103
Premium		2,340,265	
Accumulated Amortization of Premium		(194,683)	
Bonds Payable, net		$ 67,145,582	

At June 30, 2004, the debt service for all bond issues were as follows:

For the Years ending:	Principal	Interest
2005	$ -	$ 3,353,463
2006	-	3,353,463
2007	-	3,353,463
2008	-	3,353,463
2009	-	3,353,463
2010-2014	8,715,000	15,620,700
2015-2019	10,965,000	12,976,879
2020-2024	12,655,000	9,891,994
2025-2029	16,325,000	6,207,375
2029-2033	16,340,000	1,684,750
	$ 65,000,000	$ 63,149,013

BRCC FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

5. Lease Agreement

The Corporation will lease facilities to the College under a facilities lease agreement which provides for base rental payments due semi-annually beginning November 15, 2003 and expiring on December 1, 2032. The amount of the payments is equal to the required semi-annual debt service of the bonds, due to be paid on June 1 and December 1 of each year. Assets held for lease at June 30, 2004, consisted of all property, plant and equipment.

It is anticipated that the base rental will be sufficient to meet the principal and interest payment obligation of the bonds; however, the College's ability to make payments of base rental under the facilities lease will be subject to annual appropriation of funds sufficient for such purpose by the Legislature. The College is under no obligation to use any other of its funds to make payment of base rental.

The future minimum lease payments to be received from the lease during the next five years is as follows:

For the Years ending:	Amount
2005	$ 3,353,463
2006	3,353,463
2007	3,353,463
2008	3,353,463
2009	3,353,463
	$ 16,767,315

6. Schedule of Property, Plant and Equipment

The following assets are located on land owned by the Baton Rouge Community College.

	Balance June 30, 2003	Additions	Transfers	Balance June 30, 2004
Capital assets not being depreciated				
Construction in progress	$ 7,309,603	$25,439,563	($9,458,793)	$23,290,373
Total capital assets not being depreciated	$ 7,309,603	$25,439,563	($9,458,793)	$23,290,373
Other capital assets				
Buildings	$ -	$ 9,458,793	$ -	$ 9,458,793
Less accumulated depreciation	-	223,131	-	223,131
Total other capital assets	$ -	$ 9,235,662	$ -	$ 9,235,662
Capital Asset Summary:				
Capital assets not being depreciated	$ 7,309,603	$25,439,563	($9,458,793)	$23,290,373
Other capital assets, at cost	-	9,458,793	-	9,458,793
Total cost of capital assets	7,309,603	34,898,356	(9,458,793)	32,749,166
Less accumulated depreciation	-	223,131	-	223,131
Capital assets, net	$ 7,309,603	$34,675,225	($9,458,793)	$32,526,035

BRCC FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

7. Commitment

On various dates during the year, the construction of a new central plant building, interior and exterior renovation of DPS headquarters, renovations and additions to the OMV building, construction of a new Learning Resource Center, and construction of a new science and technology building commenced. The estimated cost for these projects is approximately $45,825,000 of which, $23,290,000 was in progress at June 30, 2004.

For all of the projects, the Corporation has contracted the services of CSRS as an owner's representative for $12,000 per month.

On June 3, 2004, the Corporation entered into two lease-sublease purchase agreements with Suntrust Leasing Corporation for the maximum amounts of $6,800,000 and $1,950,000 at an interest rate of 4.44%. These leases will be accounted for as capital leases. The leases are for equipment, furniture and fixtures for the new buildings. As of June 30, 2004, the Corporation has not received any of the assets related to the lease. The following is the combined payment schedule for these leases.

For the Years ending:	Principal	Interest
2005	$ 1,487,000	$ 353,330
2006	1,552,000	288,023
2007	1,622,000	217,560
2008	1,696,000	143,900
2009	1,773,000	66,889
2010	303,000	20,801
2011	317,000	7,037
	$ 8,750,000	$ 1,097,540

8. Prior Year Restatement of Net Assets

For the year ended June 30, 2003, a correction was made to the Corporation's net assets to properly net interest earned on investments against interest expense that was capitalized during construction of assets. The adjustment decreased the change in net assets and construction in progress by $421,552.