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BRCC FACILITIES CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2006

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Release Date 9/13/06



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BRCC FACILITIES CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2006

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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, 2006 and 2005, and the related statements of activities and cash flows for the years 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, 2006 and 2005, 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 *Governmental Auditing Standards*, we have also issued our report dated August 11, 2006, on our consideration of the Corporation's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 or on compliance. 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 in considering the results of our audit.

Postlethwaite & Netterville

Baton Rouge, Louisiana
August 11, 2006

BRCC FACILITIES CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Accrued interest receivable	\$ 41,136	\$ 26,461
Total current assets	<u>41,136</u>	<u>26,461</u>
<u>Noncurrent Assets</u>		
Restricted cash and cash equivalents	11,182,937	24,304,480
Construction in progress	4,763,816	14,364,815
Property, plant and equipment, net of accumulated depreciation of \$4,041,165 and \$1,332,853, respectively	63,721,300	42,771,608
Deferred financing costs, net	1,056,729	1,157,772
Total noncurrent assets	<u>80,724,782</u>	<u>82,598,675</u>
Total assets	<u>\$ 80,765,918</u>	<u>\$ 82,625,136</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Construction costs payable	\$ 467,876	\$ 58,732
Accrued interest payable	301,461	307,718
Lease payable, short term	1,622,000	1,552,000
Retainage payable	27,258	1,256,540
Total current liabilities	<u>2,418,595</u>	<u>3,174,990</u>
<u>Noncurrent Liabilities</u>		
Bonds payable, net	66,750,782	66,948,182
Lease payable, long term	4,089,000	5,711,000
Maintenance Reserve Fund	745,326	-
Total noncurrent liabilities	<u>71,585,108</u>	<u>72,659,182</u>
Total liabilities	<u>74,003,703</u>	<u>75,834,172</u>
 Net Assets		
Unrestricted	<u>6,762,215</u>	<u>6,790,964</u>
Total liabilities and net assets	<u>\$ 80,765,918</u>	<u>\$ 82,625,136</u>

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

BRCC FACILITIES CORPORATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Lease income	\$ 5,193,486	\$ 5,193,793
Total revenues	<u>5,193,486</u>	<u>5,193,793</u>
<u>OPERATING EXPENSES</u>		
Professional expenses	124,809	14,926
Depreciation expense	2,708,312	1,109,722
Other operating expenses	52,129	68,022
Total expenses	<u>2,885,250</u>	<u>1,192,670</u>
Operating income	2,308,236	4,001,123
<u>NONOPERATING EXPENSES</u>		
Investment income	422,608	-
Interest expense	(2,658,550)	-
Amortization expense	(101,043)	(109,131)
Total nonoperating expenses	<u>(2,336,985)</u>	<u>(109,131)</u>
<u>CHANGE IN NET ASSETS</u>	(28,749)	3,891,992
Net assets - beginning of year	<u>6,790,964</u>	<u>2,898,972</u>
Net assets - end of year	<u>\$ 6,762,215</u>	<u>\$ 6,790,964</u>

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

BRCC FACILITIES CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Lease income received	\$ 5,193,486	\$ 5,193,793
Operating expenses	(176,938)	(82,948)
Net cash provided by operating activities	<u>5,016,548</u>	<u>5,110,845</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Interest income	407,933	-
Facilities construction costs	(14,877,143)	(27,999,934)
Net cash used in investing activities	<u>(14,469,210)</u>	<u>(27,999,934)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Interest expense	(2,862,207)	-
Payments on lease payable	(1,552,000)	(1,487,000)
Deposit received for maintenance reserve fund	745,326	-
Net cash (used in) financing activities	<u>(3,668,881)</u>	<u>(1,487,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,121,543)	(24,376,089)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>24,304,480</u>	<u>48,680,569</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 11,182,937</u>	<u>\$ 24,304,480</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating income	\$ 2,308,236	\$ 4,001,123
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation expense	2,708,312	1,109,722
Change in accrued		
Net cash provided by operating activities	<u>\$ 5,016,548</u>	<u>\$ 5,110,845</u>
<u>Supplemental Cash Flow Information</u>		
Cash paid for interest	<u>\$ 3,720,269</u>	<u>\$ 3,706,792</u>

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 "*The Financial Reporting Entity*" 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 Corporation follows 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.

BRCC FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

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, 2006 and 2005, the Corporation capitalized interest expense of approximately \$858,000 and \$2,922,000 respectively, net of interest earned of approximately \$85,000 and \$614,000. The majority of construction projects were completed by September 30, 2005.

Property, Plant and Equipment

The Corporation originally records property, plant and equipment at cost of acquisition. Depreciation expense for property, plant and equipment commences when the assets are placed in service and computed using the straight line method with an estimated useful life of 5 to 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 guaranteed investment contracts (GICs). Fair values of these instruments approximate cost.

GIC's are unsecured. Redemption of these investments depends solely on the financial condition of the companies which provide the contracts, and their ability to pay their obligations.

Substantially all investments are restricted for debt service, construction and various program expenses. At June 30, 2006 and 2005, cash and investments were as follows:

	<u>2006</u>	<u>2005</u>
Demand Deposits	\$ 11,914	\$ 11,808
Money Markets	180,611	13,302,260
Investment Contracts	10,990,412	10,990,412
	<u>\$ 11,182,937</u>	<u>\$ 24,304,480</u>

BRCC FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

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 (See Note 5) 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, 2006, bonds payable outstanding were as follows:

	<u>Interest Amount</u>	<u>Principal Amount</u>	<u>Accrued Interest</u>
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%	<u>10,000,000</u>	<u>45,834</u>
		65,000,000	<u>\$ 281,103</u>
Premium		2,340,265	
Accumulated Amortization of Premium		(589,483)	
Bonds Payable, net		<u>\$ 66,750,782</u>	

At June 30, 2005, bonds payable outstanding were as follows:

	<u>Interest Amount</u>	<u>Principal Amount</u>	<u>Accrued Interest</u>
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%	<u>10,000,000</u>	<u>45,834</u>
		65,000,000	<u>\$ 281,103</u>
Premium		2,340,265	
Accumulated Amortization of Premium		(392,083)	
Bonds Payable, net		<u>\$ 66,948,182</u>	

BRCC FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

4. Bonds Payable (continued)

At June 30, 2006, the debt service for all bond issues were as follows:

<u>For the Years ending:</u>	<u>Principal</u>	<u>Interest</u>
2007	-	3,353,463
2008	-	3,353,463
2009	-	3,353,463
2010	1,560,000	3,272,980
2011	1,645,000	3,188,111
2012-2016	9,695,000	14,492,377
2017-2021	11,440,000	11,677,790
2022-2026	5,190,000	9,287,287
2027-2031	12,105,000	6,027,205
2032-2033	23,365,000	1,205,441
	<u>\$ 65,000,000</u>	<u>\$ 59,211,580</u>

5. Lease Agreements

The Corporation leases facilities and equipment 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, 2006 and 2005, 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 Louisiana 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 are as follows:

<u>For the Years ending:</u>	<u>Amount</u>
2007	\$ 5,193,023
2008	5,193,363
2009	5,193,352
2010	5,193,341
2011	5,157,148
	<u>\$ 25,930,227</u>

BRCC FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

6. Equipment Lease Agreements

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%. The leases are for equipment, furniture and fixtures for the new buildings. The Corporation used approximately \$8,750,000 of the proceeds to acquire furniture, fixtures and equipment for the construction projects completed during fiscal 2006 and 2005. The following is the combined payment schedule for these leases.

<u>For the Years ending:</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,622,000	\$ 217,560
2008	1,696,000	143,900
2009	1,773,000	66,889
2010	303,000	20,801
2011	<u>317,000</u>	<u>7,037</u>
	<u>\$ 5,711,000</u>	<u>\$ 456,187</u>

7. Schedule of Property, Plant and Equipment

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

<u>June 30, 2006:</u>	<u>Balance</u> <u>June 30,</u> <u>2005</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30,</u> <u>2006</u>
Capital assets not being depreciated				
Construction in progress	<u>\$14,364,815</u>	<u>\$ 6,446,495</u>	<u>\$(16,047,494)</u>	<u>\$4,763,816</u>
Total capital assets not being depreciated	<u>\$14,364,815</u>	<u>\$ 6,446,495</u>	<u>\$(16,047,494)</u>	<u>\$4,763,816</u>
Other capital assets				
Buildings	\$40,852,385	\$ -	\$16,047,494	\$56,899,879
Equipment	3,252,076	7,610,510	-	10,862,586
Less accumulated depreciation	<u>(1,332,853)</u>	<u>(2,708,312)</u>	<u>-</u>	<u>(4,041,165)</u>
Total other capital assets	<u>\$42,771,608</u>	<u>\$ 4,902,198</u>	<u>\$16,047,494</u>	<u>\$63,721,300</u>

BRCC FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

7. Schedule of Property, Plant and Equipment (continued)

	<u>Balance</u> <u>June 30,</u> <u>2005</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30,</u> <u>2006</u>
Capital Asset Summary:				
Capital assets not being depreciated	\$ 14,364,815	\$ 6,446,495	\$(16,047,494)	\$ 4,763,816
Other capital assets, at cost	<u>44,104,459</u>	<u>7,610,512</u>	<u>16,047,494</u>	<u>67,762,465</u>
Total cost of capital assets	58,469,274	14,057,007	-	72,526,280
 Less accumulated depreciation	 (1,332,853)	 (2,708,312)	 -	 (4,041,465)
 Capital assets, net	 <u>\$ 57,136,421</u>	 <u>\$11,348,695</u>	 <u>\$ -</u>	 <u>\$68,485,116</u>
	<u>Balance</u> <u>June 30,</u> <u>2004</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30,</u> <u>2005</u>
June 30, 2005:				
Capital assets not being depreciated				
Construction in progress	<u>\$23,290,373</u>	<u>\$ 24,539,778</u>	<u>(\$ 33,465,336)</u>	<u>\$ 14,364,815</u>
Total capital assets not being depreciated	<u>\$23,290,373</u>	<u>\$ 24,539,778</u>	<u>(\$ 33,465,336)</u>	<u>\$ 14,364,815</u>
 Other capital assets				
Buildings	\$ 9,458,793	\$ -	\$ 31,393,592	\$ 40,852,385
Equipment	-	1,180,332	2,071,744	3,252,076
Less accumulated depreciation	<u>(223,131)</u>	<u>(1,109,722)</u>	<u>-</u>	<u>(1,332,853)</u>
Total other capital assets	<u>\$ 9,235,662</u>	<u>\$ 70,610</u>	<u>\$ 33,465,336</u>	<u>\$42,771,608</u>
 Capital Asset Summary:				
Capital assets not being depreciated	\$ 23,290,373	\$24,539,778	(\$33,465,336)	\$ 14,364,815
Other capital assets, at cost	<u>9,458,793</u>	<u>1,180,330</u>	<u>33,465,336</u>	<u>44,104,459</u>
 Total cost of capital assets	32,749,166	25,720,108	(-)	58,469,274
 Less accumulated depreciation	 (223,131)	 (1,109,722)	 -	 (1,332,853)
 Capital assets, net	 <u>\$ 32,526,035</u>	 <u>\$24,610,386</u>	 <u>(\$ -)</u>	 <u>\$ 57,136,421</u>

BRCC FACILITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

8. Commitment

During the year ended June 30, 2006, construction of a governor's building and a sign, signage, and landscaping project continued from the prior year. The estimated cost for these projects is approximately \$6,862,000 of which, \$4,763,815 was in progress at June 30, 2006.

For all of the projects, the Corporation has contracted the services of CSRS as the owner's representative. CSRS was paid \$21,000 per month through March, 2006 and \$12,000 per month thereafter.

9. Contingency

The Corporation, along with the state, is involved in a lawsuit with an architectural firm stemming from contracts that existed prior to the formation of the Corporation. The suit is for architectural fees in the approximate amount of \$500,000. The ultimate resolution of this matter is not ascertainable at this time; however, the Corporation intends to vigorously defend its position that the Corporation has no contract, express or implied, with the architectural firm to pay such fees. No amount has been accrued relating to this contingency in the accompanying financial statements.



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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*

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, 2006, and have issued our report thereon dated August 11, 2006. 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

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 material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud 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.

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, 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 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*.

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.

Postlethwaite ; Netterville

Baton Rouge, Louisiana
August 11, 2006