

SOUTH DAKOTA BOARD OF REGENTS

Budget & Finance

AGENDA ITEM: 6 – E

DATE: October 7-8, 2015

SUBJECT: Housing and Auxiliary Facilities System Audit FY15

An independent audit of the Housing and Auxiliary Facilities System is required by bond counsel. In order to accomplish this, the BOR has retained the Department of Legislative Audit (DLA) to provide an Agreed Upon Procedures audit of the system. The BOR compliance officer and internal auditor receive the financial statements from the universities and combine and audit the statements and prepare the footnotes. They provide the financial statements and working papers to DLA to perform certain tests that are outlined in the Agreed Upon Procedures document. These procedures were developed based on the requirements noted in the bond documents.

For the FY15 Audit of the Housing and Auxiliary Facilities System, DLA found no exceptions or instances of noncompliance to the Agreed Upon Procedures audit. In addition, the report was issued 4 months earlier than the past audit.

The Housing and Auxiliary Facilities System had a debt service coverage ratio of 150%. The required coverage per the bond covenants is 120%. Each individual institution's ratio is as follows: BHSU 161%, DSU 172%, NSU 172%, SDSMT 158%, SDSU 135% and USD 165%.

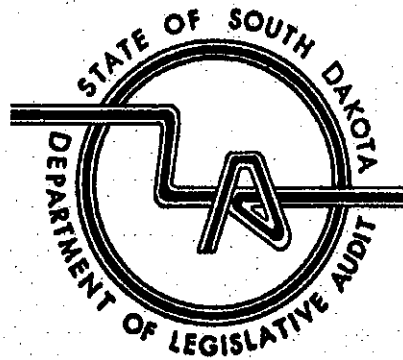
RECOMMENDED ACTION OF THE EXECUTIVE DIRECTOR

Informational.

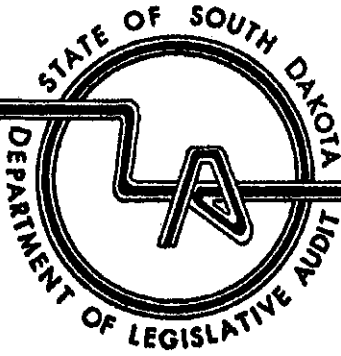
**SOUTH DAKOTA BOARD OF REGENTS
FINANCIAL STATEMENTS OF THE HOUSING
AND AUXILIARY FACILITIES SYSTEM**

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES**

Fiscal Year Ended June 30, 2015



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Dr. Michael G. Rush
Executive Director

and

South Dakota Board of Regents

We have performed the procedures enumerated below, which were agreed to by management of the South Dakota Board of Regents (Board), solely to assist the Board in evaluating its compliance with bond requirements in the Housing and Auxiliary Facilities System for the year ended June 30, 2015. The Board's management is responsible for the Housing and Auxiliary Facilities System financial statements and the underlying accounting records, and for complying with bond compliance requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board's management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position – Agreed-Upon Procedures

- a. *We obtained the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2015, as prepared by management. We agreed the amounts on the statements to management's worksheets and agreed the amounts on management's worksheets to the accounts in the Board's general ledger and other supporting documentation.*

No exceptions were noted.

- b. *We traced information in the footnotes to the statements and other supporting documentation.*

We proposed minor changes which we discussed with management and which have been reflected in the attached footnotes.

- c. *We agreed the information in the supplementary schedules to the Board's general ledger and other supporting documentation.*

No exceptions were noted.

Compliance – Agreed-Upon Procedures

- d. *We determined that balances in the Repair and Replacement Reserve Fund and the Debt Service Reserve Fund were in compliance with bond covenants at June 30, 2015.*

We found no instances of noncompliance.

- e. *We determined that the bond accounts were maintained separately from all other accounts on the accounting system in accordance with bond covenants.*

We found no instances of noncompliance.

- f. *We reviewed the Board of Regents meeting minutes for meetings occurring during the fiscal year ended June 30, 2015, and obtained representations from management that none of the facilities of the Auxiliary and Facilities System had been sold or otherwise disposed of contrary to bond covenants as of June 30, 2015.*

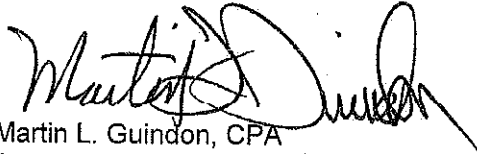
We found no instances of noncompliance.

- h. *We verified compliance with the rate covenant for each institution which requires the ratio of net revenues to annual debt service to exceed 120%. There are currently no outstanding bonds that require a debt service reserve.*

We found no instances of noncompliance.

We were not engaged to and did not conduct an examination of internal controls over the compliance with bond requirements or an audit of the Housing and Auxiliary Facilities System – Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, the objective of which would be the expression of an opinion on the internal control over bond compliance requirements or the financial statements referred to above. Accordingly, we do not express any such opinions. Had we performed additional procedures, other matters might have come to our attention that would have been reported to the Board.

This report is intended solely for the information and use of management and members of the Board of Regents and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is stylized and cursive.

Martin L. Guindon, CPA
Auditor General

September 15, 2015

**SOUTH DAKOTA BOARD OF REGENTS - COMBINED
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2015
Unaudited**

<u>Assets</u>	<u>Housing & Auxiliary Facilities Revenue Fund</u>	<u>Bond & Interest Sinking Fund Account</u>	<u>Debt Service Reserve Account</u>	<u>Repair & Replacement Reserve Account</u>	<u>(Memorandum Only) Total</u>
Cash and Investments	\$ 6,312,630.30	\$ 3,244,544.20	\$ -	\$ 19,351,376.58	\$ 28,908,551.08
Total Assets	<u>\$ 6,312,630.30</u>	<u>\$ 3,244,544.20</u>	<u>\$ -</u>	<u>\$ 19,351,376.58</u>	<u>\$ 28,908,551.08</u>
<u>Net Position</u>					
Unrestricted	\$ 6,312,630.30	\$ -	\$ -	\$ 5,481,641.20	\$ 11,794,271.50
Externally restricted (Note 3)	-	3,244,544.20	-	13,869,735.38	17,114,279.58
Total Net Position	<u>\$ 6,312,630.30</u>	<u>\$ 3,244,544.20</u>	<u>\$ -</u>	<u>\$ 19,351,376.58</u>	<u>\$ 28,908,551.08</u>

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

SOUTH DAKOTA BOARD OF REGENTS - COMBINED
HOUSING AND AUXILIARY FACILITIES SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2015
Unaudited

	Housing & Auxiliary Facilities <u>Revenue Fund</u>	Bond & Interest Sinking Fund <u>Account</u>	Debt Service <u>Reserve Account</u>	Repair & Replacement <u>Reserve Account</u>	(Memorandum Only) <u>Total</u>
Revenues and other additions:					
Net revenues from bonded facilities (Note 1)	\$ 22,476,600.34	\$ -	\$ -	\$ -	\$ 22,476,600.34
Investment income	87,653.09	45,469.50	5,131.70	202,763.90	341,018.19
Net general activity fee	5,382,281.72	-	-	1,121,975.00	6,504,256.72
Proceeds from bond issuance, net (Note 4)	-	14,847,894.09	-	-	14,847,894.09
Other Income	1,335,033.02	198,372.24	-	679,644.11	2,213,049.37
Total revenues and other additions	29,281,568.17	15,091,735.83	5,131.70	2,004,383.01	46,382,818.71
Expenses and other deductions:					
Bond principal payments	-	24,835,000.00	-	-	24,835,000.00
Bond interest expense	-	11,743,686.31	-	-	11,743,686.31
Bond capitalized interest expense	-	155,337.50	-	-	155,337.50
Bond issuance costs	-	207,389.58	-	-	207,389.58
Trustee fees and bank charges	-	5,525.00	-	-	5,525.00
General and administrative expenses	-	-	-	5,737,374.23	5,737,374.23
Total expenses and other deductions	-	36,946,938.39	-	5,737,374.23	42,684,312.62
Revenues and other additions over (under) expenses and other deductions	29,281,568.17	(21,855,202.56)	5,131.70	(3,732,991.22)	3,698,506.09
Transfers among funds - additions (deductions)					
Transfers for bond payments	(19,615,265.82)	21,354,544.64	(735,000.00)	(1,004,278.82)	-
Transfers for renewal and replacement	(7,517,554.56)	-	-	8,014,318.77	496,764.21
Other Transfers	11,599.63	(7,583,314.61)	(468,828.40)	20,250.28	(8,020,293.10)
Total transfers among funds - additions (deductions)	(27,121,220.75)	13,771,230.03	(1,203,828.40)	7,030,290.23	(7,523,528.89)
Net increase (decrease) in net position	2,160,347.42	(8,083,972.53)	(1,198,696.70)	3,297,299.01	(3,825,022.80)
Beginning net position	4,152,283.18	11,328,516.73	1,198,696.70	16,054,077.57	32,733,574.18
Prior Period Adjustment	(0.30)	-	-	-	(0.30)
Ending net position	\$ 6,312,630.30	\$ 3,244,544.20	\$ -	\$ 19,351,376.58	\$ 28,908,551.08

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

Notes to the Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Housing and Auxiliary Facilities System (System) is reported in the financial statements of the South Dakota Board of Regents (BOR). The System includes the activity of the Housing and Auxiliary Facilities System Revenue Bonds Series 2003 (refunded), Series 2004A (refunded), Series 2005A, Series 2006, Series 2007, Series 2008A, Series 2008B, Series 2009, Series 2011, Series 2013A, Series 2014A, and Series 2014B for the year ended June 30, 2015.

The accompanying financial statements have been prepared on the cash basis of accounting and present the financial position and results of financial activity of the System in a format determined by the BOR. The financial statements are not prepared in accordance with generally accepted accounting principles and the notes to the financial statements are not intended to present all disclosures required by generally accepted accounting principles. The significant accounting policies followed are described below.

Revenues from bonded facilities are reported on the Statement of Revenues, Expenses and Changes in Net Position net of maintenance and operating costs. A breakdown of specific revenues and expenses may be found on the supplementary Schedule of Pledged Revenues.

A total column is presented in the statements. The total column includes interfund activity and is not comparable to a consolidated financial statement, but is presented only to facilitate financial analysis.

General Provisions

The Series 2003 (prior to refunding), Series 2004A (prior to refunding), Series 2005A, Series 2006, Series 2007, Series 2008A, Series 2008B, Series 2009, Series 2011, Series 2013A, Series 2014A, and Series 2014B Bonds are limited obligations of the BOR issued by the State Board of Regents and the State of South Dakota, and are secured under the provisions of the Bond Resolution authorizing their issuance. The Bonds are payable and collectible from student housing fees, and the net revenues of the BOR's student housing system and certain auxiliary enterprise facilities and certain other sources as shown in the schedule of pledged revenues. These revenues have been pledged to meet the bond obligations. Neither the credit nor the taxing power of the State of South Dakota nor any state agency, instrumentality, or political subdivision thereof is pledged for the payment of the principal, premium, if any, or interest on the Bonds. The Bonds are not general obligations of the State of South Dakota or any agency, instrumentality, or political subdivision thereof. The South Dakota Board of Regents has no taxing power.

The Series 2003 Bonds were insured by ACA Financial Guaranty Corporation prior to refunding. The Series 2004A Bonds were insured by MBIA Insurance Corporation prior to refunding. The Series 2005A Bonds are insured by Financial Guaranty Insurance Company; and the Series 2009 Bonds are insured by Assured Guaranty Corp. for the timely payment of principal and interest. The Series 2006, Series 2007,

Series 2008A, Series 2008B, Series 2011, Series 2013A, Series 2014A, and Series 2014B Bonds are not insured.

Fund Accounting

The assets, liabilities, and net position of the System are reported in four fund groups as follows:

- The Housing and Auxiliary Facilities Revenue Fund is the fund established to collect and record the gross revenue of the auxiliary institutional system. The moneys in the fund shall be applied to pay all necessary operating expenses, which include current maintenance charges, expenses of reasonable upkeep and repairs, properly allocated share of charges for insurance, and all other expenses incidental to the operation of the institutional system, but shall exclude depreciation.
- The Bond and Interest Sinking Fund Account is the fund established to maintain an amount sufficient to equal the interest then due on the bonds issued and one-half of the principal due on the bonds within the next 12 months. Transfers to this fund are due semi-annually on March 25 and September 25.
- The Debt Service Reserve Account was the fund established to maintain the debt service reserves for the Series 2003 and Series 2004A Bonds. These bonds were refinanced in fiscal year 2015 and there are currently no outstanding bonds that require a debt service reserve.
- The Repair and Replacement Reserve Account is the fund established to maintain an amount equal to the Repair and Replacement Reserve Requirement of each Bond issue. All moneys and investments so held in this account shall be used and held for use to pay the cost of unusual or extraordinary maintenance or repairs, renewals, renovations and replacements, and renovating or replacement of the furniture and equipment not paid as part of the ordinary maintenance and operation of the facilities constituting the related Institutional System.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and notes thereto.

Note 2: OUTSTANDING DEBT

The bond principal outstanding at June 30, 2015, was \$11,945,000 for Series 2005A; \$6,000,000 for Series 2006; \$6,625,000 for Series 2007; \$3,490,000 for Series 2008A; \$4,030,000 for Series 2008B; \$78,110,000 for Series 2009; \$59,985,000 for Series 2011; \$10,780,000 for Series 2013A Bonds; \$37,895,000 for Series 2014A and \$12,840,000 for Series 2014B.

Note 3: RESERVE BALANCE

Bond indentures for the Housing and Auxiliary Facilities System require the establishment of a Repair and Replacement Reserve consisting of 10% of the amount transferred to the Bond and Interest Sinking Fund Account for the Institutional System until an amount equal to 5% of the cost of construction, furnishing and equipping of all facilities in such Institutional System has been accumulated. Transfers to the Repair and Replacement Reserve in accordance with the bond indenture requirements are considered Externally Restricted. Balances in Repair and Replacement Reserve Accounts in excess of the transfer requirement are Unrestricted.

Note 4: BOND PROCEEDS

The 2014B bonds with a par balance of \$13,760,000 and \$2,065,670.45 for bond premium are shown net of construction funds of \$977,776.36 for SDSMT.

**SOUTH DAKOTA BOARD OF REGENTS - COMBINED
HOUSING AND AUXILIARY FACILITIES SYSTEM
SCHEDULE OF PLEDGED REVENUES - CASH BASIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
Unaudited**

	2015			2014		
	Gross Revenues	Maintenance and Operating Costs	Net Revenues Pledged	Gross Revenues	Maintenance and Operating Costs	Net Revenues Pledged
Bookstore	\$ 5,395,459.71	\$ 5,075,085.39	\$ 320,374.32	\$ 5,166,148.89	\$ 5,011,994.20	\$ 154,154.69
Student Center (Non-GAF)	1,595,148.83	1,399,008.30	196,140.53	1,564,426.62	1,142,360.07	422,066.55
Food Service	26,242,137.74	23,768,377.64	2,473,760.10	25,121,283.74	22,445,156.31	2,676,127.43
Residential Living	35,170,955.28	16,415,140.75	18,755,814.53	33,780,721.97	17,284,908.56	16,495,813.41
Conference Services	121,720.70	40,360.57	81,360.13	75,183.05	209,542.73	(134,359.68)
Other Facility Revenue	2,565,396.67	1,916,245.94	649,150.73	2,569,970.57	1,923,915.91	646,054.66
Revenues from facilities	71,090,818.93	48,614,218.59	22,476,600.34	68,277,734.84	48,017,877.78	20,259,857.06
General Activity Fee	9,408,228.13	2,903,971.41	6,504,256.72	9,061,006.52	2,818,816.80	6,242,189.72
Interest from Completed Construction Funds	-	-	-	80.93	-	80.93
Interest from Investments	341,018.19	-	341,018.19	499,517.48	-	499,517.48
Other Revenue	2,213,049.37	-	2,213,049.37	1,639,867.16	-	1,639,867.16
Capitalized Interest Applied to Debt Service	155,337.50	-	155,337.50	70,764.86	-	70,764.86
Total	<u>\$ 83,208,452.12</u>	<u>\$ 51,518,190.00</u>	31,690,262.12	<u>\$ 79,548,971.79</u>	<u>\$ 50,836,694.58</u>	28,712,277.21
Annual Debt Service			<u>21,103,033.14</u>			<u>20,345,947.36</u>
Coverage Ratio			1.50			1.41