

# **Beaufort-Jasper Higher Education Commission**

## ***Report on Financial Statements***

***For the year ended June 30, 2016***

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# Beaufort-Jasper Higher Education Commission

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## Independent Auditor's Report

Beaufort-Jasper Higher Education Commission  
Bluffton, South Carolina

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Beaufort-Jasper Higher Education Commission (the Commission), a component unit of the University of South Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission as of June 30, 2016, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Required Supplementary Information**

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive style with a large, sweeping initial 'E' and a long, trailing flourish at the end.

Columbia, South Carolina  
September 23, 2016

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**Beaufort-Jasper Higher Education Commission****Statement of Net Position****June 30, 2016**

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**Assets****Current assets**

Cash and cash equivalents	\$ 6,505,785
Restricted - cash and cash equivalents	500,000
Investments	1,444,070
Accounts receivable	7,273
Due from primary government, net	286,948
Prepaid items	52,797
Total current assets	<u>8,796,873</u>

**Noncurrent assets**

Capital assets, net of accumulated depreciation	<u>46,049,886</u>
Total noncurrent assets	<u>46,049,886</u>
Total assets	<u>54,846,759</u>

**Deferred Outflows of Resources**

Deferred loss on debt refunding	<u>739,585</u>
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**Liabilities****Current liabilities**

Accounts payable	89,901
Retainage payable	224,458
Accrued compensated absences	21,000
Accrued interest payable	39,766
Long-term debt - current portion	<u>2,032,773</u>
Total current liabilities	<u>2,407,898</u>

**Noncurrent liabilities**

Long-term debt	<u>38,056,354</u>
Total noncurrent liabilities	<u>38,056,354</u>
Total liabilities	<u>40,464,252</u>

**Net Position**

Net investment in capital assets	6,475,886
Restricted - expendable for:	
Debt service	500,000
Unrestricted	8,146,206
Total net position	<u>\$ 15,122,092</u>

**See Notes to Financial Statements**

**Beaufort-Jasper Higher Education Commission**  
**Statement of Revenues, Expenses and Change in Net Position**  
**For the year ended June 30, 2016**

**Operating revenues**

Charges for sales and services:	
Housing	\$ 5,068,672
Dining	2,460,756
Other	86,000
Total operating revenues	<u>7,615,428</u>

**Operating expenses**

Costs of sales and services:	
Housing	1,940,936
Dining	1,595,271
Administration:	
Services and supplies	336,142
Salaries	236,441
Debt issuance costs	63,610
Other	102,903
Amortization expense	38,925
Depreciation expense	1,320,969
Total operating expenses	<u>5,635,197</u>
Operating income	<u>1,980,231</u>

**Nonoperating revenues (expenses)**

County appropriations	2,000,000
Interest income	10,276
Interest on capital asset related debt	(597,963)
Gift to USC Beaufort	(1,139,920)
Proceeds from litigation settlement	405,836
Net nonoperating revenues	<u>678,229</u>
Change in net position	<u>2,658,460</u>

<b>Net position, beginning of year</b>	<u>12,463,632</u>
<b>Net position, end of year</b>	<u>\$ 15,122,092</u>

## Beaufort-Jasper Higher Education Commission

### Statement of Cash Flows

For the year ended June 30, 2016

#### Operating activities

Receipts from sales and services	\$ 8,170,889
Payments to employees for services	(236,441)
Payments to suppliers	(4,009,494)
Net cash provided by operating activities	<u>3,924,954</u>

#### Noncapital financing activities

County appropriations	2,000,000
Gift to USC Beaufort	(1,139,920)
Proceeds from litigation settlement	405,836
Net cash provided by noncapital financing activities	<u>1,265,916</u>

#### Capital and related financing activities

Purchase and construction of capital assets	(6,965,522)
Proceeds from long-term debt	4,698,667
Principal paid on capital asset related debt	(2,008,771)
Interest paid on capital asset related debt	(592,121)
Net cash used for capital and related financing activities	<u>(4,867,747)</u>

#### Investing activities

Purchase of investments	(5,753)
Interest income	10,276
Net cash provided by investing activities	<u>4,523</u>
Net increase in cash and cash equivalents	<u>327,646</u>

Cash and cash equivalents, beginning of year

6,678,139

Cash and cash equivalents, end of year

\$ 7,005,785

#### Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 6,505,785
Restricted - cash and cash equivalents	500,000
	<u>\$ 7,005,785</u>

#### Reconciliation of net operating income to net cash provided by operating activities

Operating income	\$ 1,980,231
Adjustments to reconcile operating income to net cash provided by operating activities	
Amortization expense	38,925
Depreciation expense	1,320,969
Change in current assets and liabilities	
Accounts receivable	98,522
Due from primary government, net	456,939
Prepaid items	(16,683)
Accounts payable	46,051
Net cash provided by operating activities	<u>\$ 3,924,954</u>

See Notes to Financial Statements

# Beaufort-Jasper Higher Education Commission

## Notes to Financial Statements

For the year ended June 30, 2016

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### Note 1. Summary of Significant Accounting Policies

#### Reporting entity:

The Beaufort-Jasper Higher Education Commission (the Commission) was created in 1994 by the South Carolina General Assembly. The Commission's primary purpose is to provide support and encouragement for all undertakings to improve the higher education opportunities for the benefit of the citizens and residents of Beaufort and Jasper Counties, South Carolina.

The nine members of the Commission are appointed by the Governor of the State of South Carolina. Seven members must be residents of Beaufort County and two members must be residents of Jasper County. Appointments are based on the recommendation of a majority of the respective county's legislative delegation.

The Commission serves as the liaison between the University of South Carolina Beaufort campus (USC Beaufort) and the Beaufort and Jasper communities as well as the oversight committee for campus dormitories and the student center including the construction and management of those facilities. Management personnel of the Commission are employed by USC Beaufort and report to the University of South Carolina (the University).

GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for those organizations. Based on these criteria, the Commission is considered a discretely presented component unit of the University and is thus included in the University's financial statements.

#### Basis of accounting:

For financial reporting purposes, the Commission is considered to be a special-purpose government engaged only in business-type activities. Accordingly, the Commission's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The Commission distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. The principal operating revenues of the Commission are housing and dining fees charged to students of USC Beaufort. Operating expenses for the Commission include cost of sales and services, administration expenses, amortization expense, and depreciation on capital assets. Cost of sales and services includes expenses related to maintenance, utilities, and contractual services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### Cash and cash equivalents, and investments:

For purposes of the statement of cash flows, the Commission considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash and cash equivalents are comprised of externally restricted funds. Investments are stated at fair value.



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# Beaufort-Jasper Higher Education Commission

## Notes to Financial Statements

For the year ended June 30, 2016

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Accounts receivable:

Accounts receivable consists of amounts due from bookstore activity.

#### Due from primary government:

Due from primary government consists of amounts due from USC Beaufort for student housing and dining fees. USC Beaufort acts as an agent and collects housing and dining fees from students on behalf of the Commission. Unpaid fees are reported to the Commission and recorded net of estimated uncollectible amounts.

#### Prepaid items:

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of insurance premiums.

#### Capital assets:

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Commission capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements and buildings and improvements costing in excess of \$100,000. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 15 years for land improvements, and 5 to 10 years for furniture and fixtures, software, and equipment. Depreciation expense totaled \$1,320,969 for the fiscal year ended June 30, 2016.

#### Retainage payable:

Retainage payable includes the portion of the payment withheld until the completion of the 2016 housing project.

#### Noncurrent liabilities:

Noncurrent liabilities include principal amounts of revenue notes.

# Beaufort-Jasper Higher Education Commission

## Notes to Financial Statements

For the year ended June 30, 2016

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Net position:

The Commission's net position is classified as follows:

**Net investment in capital assets:** This represents the Commission's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

**Restricted:** The restricted component of net position includes resources for which the Commission is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

**Unrestricted:** The unrestricted component of net position represents resources derived from charges for sales and services and County appropriations. These resources are used for transactions relating to the general operations of the Commission, and may be used at the discretion of the governing board to meet current expenses for any purpose.

The Commission's policy for applying expenses that can be used for both restricted and unrestricted resources is to first apply the expense to restricted resources then to unrestricted resources.

#### Income taxes:

The Commission is a special purpose government of the State of South Carolina and, is therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of the Commission may be subject to taxation as unrelated business income.

#### Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include depreciation expense. Actual results could differ from those estimates.

#### New accounting pronouncements - adopted:

The GASB issued Statement No. 72, *Fair Value Measurement and Application*, in February 2015. This statement provides guidance for determining a fair value measurement for financial reporting purposes, and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. See Note 2 for more information.

# Beaufort-Jasper Higher Education Commission

## Notes to Financial Statements

For the year ended June 30, 2016

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### Note 2. Deposits and Investments

#### Custodial credit risk:

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. At June 30, 2016, the carrying amount of the Commission's deposits was \$7,005,785 and the bank balance was \$7,030,927. As of June 30, 2016, the Commission held the following investments:

<u>Investment Type</u>	<u>Original Maturity</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Certificates of deposit	6 months	\$ 1,444,070	\$ 1,444,070

#### Interest rate risk:

The Commission does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Credit risk:

The Commission has no investment policy that would limit its investment choices.

#### Concentration of credit risk:

The Commission places no limit on the amount that may be invested in any one issuer. The Commission's cash balances are placed with high credit quality financial institutions. At times, the Commission may have cash on deposit with financial institutions in excess of amounts covered by the Federal Deposit Insurance Corporation (FDIC).

#### Fair value of financial instruments:

The Commission has adopted applicable accounting standards for its financial assets and liabilities which clarify that fair value is an exit price, representing 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. The Commission utilizes market data or assumptions that market participants would use in pricing the asset or liability. The standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Commission's investments consist entirely of \$1,444,070 in certificates of deposits issued by commercial banks. Due to the short-term duration of these investments, management does not consider there to be a significant difference between fair value and the carrying amount. These investments have been categorized as Level 2.

# Beaufort-Jasper Higher Education Commission

## Notes to Financial Statements

For the year ended June 30, 2016

### Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2016:

Bookstore revenue	\$ 6,667
Other	606
	<u>\$ 7,273</u>

Management of the Commission does not believe it is necessary to record an allowance for accounts receivable at June 30, 2016.

### Note 4. Due from Primary Government

Due from primary government consisted of the following at June 30, 2016:

Housing and dining fees	\$ 334,711
Less: allowance for doubtful accounts	47,763
	<u>\$ 286,948</u>

Management has estimated the allowance for doubtful accounts based upon actual losses experienced in prior years and evaluation of the current accounts.

### Note 5. Capital Assets

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 4,460,792	\$ -	\$ -	\$ 4,460,792
Construction in progress	<u>2,745,859</u>	<u>6,974,576</u>	<u>(4,540,925)</u>	<u>5,179,510</u>
Total capital assets not being depreciated	<u>7,206,651</u>	<u>6,974,576</u>	<u>(4,540,925)</u>	<u>9,640,302</u>
Other capital assets:				
Land improvements	1,782,809	934,205	-	2,717,014
Buildings	36,208,344	3,606,720	-	39,815,064
Furniture and fixtures	1,842,839	-	-	1,842,839
Software	148,632	-	-	148,632
Equipment	<u>517,649</u>	<u>62,956</u>	<u>-</u>	<u>580,605</u>
Total capital assets at historical cost	<u>40,500,273</u>	<u>4,603,881</u>	<u>-</u>	<u>45,104,154</u>
Less accumulated depreciation	<u>(7,373,601)</u>	<u>(1,320,969)</u>	<u>-</u>	<u>(8,694,570)</u>
Other capital assets, net	<u>33,126,672</u>	<u>3,282,912</u>	<u>-</u>	<u>36,409,584</u>
Capital assets, net	<u>\$ 40,333,323</u>	<u>\$ 10,257,488</u>	<u>\$ (4,540,925)</u>	<u>\$ 46,049,886</u>

## Beaufort-Jasper Higher Education Commission

### Notes to Financial Statements

For the year ended June 30, 2016

#### Note 6. Lease Obligations

The Commission does not have any noncancelable operating leases having remaining terms of more than one year. Current year lease expense consisted of the following for the year ended June 30, 2016:

AAA Storage	\$	9,264
University Park Access Road		5,292
Equipment		<u>18,165</u>
	\$	<u>32,721</u>

#### Note 7. Long-Term Debt

Long-term debt consisted of the following at June 30, 2016:

<u>Revenue Notes</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance</u>
Series 2012A Student Housing Revenue Note	2.09%	6/1/2035	\$ 13,513,206
Series 2012B Student Housing Revenue Note	75% of 1-Month LIBOR (.47% at June 30, 2016) plus .80%	6/1/2035	9,009,289
Series 2014 Student Housing Revenue Note	67% of 1-Month LIBOR (.47% at June 30, 2016) plus .85%	8/1/2034	3,641,314
Student Facilities Revenue Refunding Note	3.04%	5/29/2024	4,983,782
Series 2015 Student Housing Revenue Note	66.75% of 1-Month LIBOR (.47% at June 30, 2016) plus .85%	8/1/2035	4,242,869
Series 2016 Student Housing Revenue Note	67% of 1-Month LIBOR (.47% at June 30, 2016) plus .85%	9/1/2036	<u>4,698,667</u>
			<u>\$ 40,089,127</u>

On March 11, 2016, the Commission entered into the Series 2016 Student Housing Revenue Note. The note allows for drawdowns up to \$6,000,000 during the construction process of a new student housing unit with interest only payments during the first five months at the stated interest rate above. The Commission is responsible for fixed principal plus interest payments on the note beginning September 1, 2016. As of June 30, 2016, the Commission had drawn down \$4,698,667.

All outstanding notes are subject to covenants requiring that revenue generated from fees charged for usage of the asset be pledged for repayment of the notes. In the event these revenues are not adequate for repayment, no transfer may be made to the USC Beaufort until it is assured such amounts are not needed to provide for the timely repayment of the notes. All outstanding notes also contain restrictive covenants pertaining to certain reporting and financial requirements.

## Beaufort-Jasper Higher Education Commission

### Notes to Financial Statements

For the year ended June 30, 2016

#### Note 7. Long-Term Debt, Continued

In addition to the covenants listed above, the Commission is required to maintain a minimum balance with one of its financial institutions. At June 30, 2016, the Commission had cash held for debt service at this financial institution of \$500,000.

The scheduled maturities of the revenue notes are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,032,773	\$ 587,546	\$ 2,620,319
2018	2,102,884	559,138	2,662,022
2019	2,120,487	526,943	2,647,430
2020	2,163,586	494,848	2,658,434
2021	2,207,197	460,512	2,667,709
2022-2026	12,953,682	1,662,089	14,615,771
2027-2031	10,825,539	762,812	11,588,351
2032-2036	<u>5,682,979</u>	<u>146,019</u>	<u>5,828,998</u>
	<u>\$ 40,089,127</u>	<u>\$ 5,199,907</u>	<u>\$ 45,289,034</u>

The following is a summary of the changes in long-term debt for the fiscal year ended June 30, 2016:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Due within one year</u>
Revenue notes	\$ 37,399,231	\$ 4,698,667	\$ 2,008,771	\$ 40,089,127	\$ 2,032,773
Total long-term debt	<u>\$ 37,399,231</u>	<u>\$ 4,698,667</u>	<u>\$ 2,008,771</u>	<u>\$ 40,089,127</u>	<u>\$ 2,032,773</u>

#### Note 8. Commitments

The Commission had outstanding commitments under construction contracts of \$590,814. The Commission anticipates funding these projects with the remainder of the undrawn balance of the Series 2016 Student Housing Revenue Note.

The University has entered into an agreement with the Town of Hilton Head Island to construct an educational facility on the island. The Commission has agreed to contribute \$1.5 million to the University in support of this project. As of the date of this report, the Commission had contributed \$34,052 to the University related to this project. This amount is recorded as part of the gift to USC Beaufort nonoperating expense.

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## **Beaufort-Jasper Higher Education Commission**

### ***Notes to Financial Statements***

***For the year ended June 30, 2016***

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#### **Note 9. Risk Management**

The Commission is exposed to various risks of loss and maintains commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from the prior year. The costs of settled claims and claim losses have not exceeded this coverage in any of the past three years. The Commission pays insurance premiums to certain commercial insurers to cover risks that occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits. In management's opinion, claim losses in excess of insurance coverage are unlikely, and, if incurred, would be insignificant to the Commission's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at June 30, 2016.

#### **Note 10. Revenues from Major Sources**

A significant amount of the Commission's revenues for the year ended June 30, 2016 were from Beaufort County. The amount received from Beaufort County totaled \$2,000,000. This amount represents approximately 20% of total revenues for the fiscal year ended June 30, 2016.

#### **Note 11. Related Party Transaction**

During the fiscal year ended June 30, 2016, a total of \$1,376,361 was paid from the Commission to USC Beaufort. Of this amount, \$236,441 was reimbursement of Commission salaries paid by USC Beaufort and the remaining funds were gifted for general operating purposes and scholarships. Salary expense is allocated to the Commission based on management's estimate of time spent by the individuals attributable to the Commission.

All employee benefits for Commission employees are paid by USC Beaufort; therefore, no retirement or other postemployment benefits are recorded in the financial statements of the Commission. Please see the issued financial statements of USC Beaufort for more information regarding employee benefits. USC Beaufort processes and distributes payroll for the Commission, therefore the pension liability also remains with USC Beaufort as the primary government.

#### **Note 12. Litigation Settlement**

The Commission filed a lawsuit in May 2013 against the developer, architect, sub-contractors and other defendants involved in the construction of four dormitory structures owned by the Commission after certain latent defects were discovered. The final portion of this litigation was settled during fiscal year 2016 and the Commission was awarded \$405,836.

#### **Note 13. Subsequent Events**

During fiscal year 2016, the Commission executed both a loan agreement for \$3 million and a construction contract for approximately \$3.2 million related to a proposed housing project. The proposed project is contingent upon the Commission receiving certification from the Department of Health and Environmental Control that the project would be conducted in accordance with the Federal Clean Water Act. The Commission received this certification on August 19, 2016 and the project is planned to commence during fiscal year 2017.

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## **Beaufort-Jasper Higher Education Commission**

*Notes to Financial Statements*

*For the year ended June 30, 2016*

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### **Note 13. Subsequent Events, Continued**

The Commission also executed a construction contract for approximately \$426,000 on July 8, 2016 for a parking expansion project that will commence during fiscal year 2017. The project will be funded out of undrawn note proceeds of \$350,000 and unrestricted cash.