

**THE FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
FAYETTEVILLE, NORTH CAROLINA**

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

Years ended June 30, 2012 and 2011

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Buie, Norman & Co., P.A.



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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Fayetteville State University Housing Foundation, LLC

We have audited the accompanying balance sheets of The Fayetteville State University Housing Foundation, LLC as of June 30, 2012 and 2011, and the related statements of activities and changes in member's equity and cash flows for the years then ended. These financial statements are the responsibility of the organization'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. 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 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 Fayetteville State University Housing Foundation, LLC as of June 30, 2012 and 2011, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Buie, Norman & Company, PA". The signature is written in a cursive, flowing style.

BUIE, NORMAN & COMPANY
Certified Public Accountants

September 14, 2012

**THE FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC**

BALANCE SHEETS

June 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash in bank	\$ 89,354	\$ 43,028
Restricted cash	<u>1,634,311</u>	<u>1,340,395</u>
Total current assets	<u>1,723,665</u>	<u>1,383,423</u>
Property and equipment:		
Furniture and equipment	1,100,733	1,100,733
Land and Buildings	<u>12,424,385</u>	<u>12,424,385</u>
Total property and equipment	13,525,118	13,525,118
Less: accumulated depreciation	<u>4,152,702</u>	<u>3,856,107</u>
Net property and equipment	<u>9,372,416</u>	<u>9,669,011</u>
Total assets	<u><u>\$ 11,096,081</u></u>	<u><u>\$ 11,052,434</u></u>
 <u>LIABILITIES AND MEMBER'S EQUITY</u>		
Current liabilities:		
Current maturities of long term debt	\$ 290,000	\$ 275,000
Accounts payable - trade	2,184	1,067
Due to Fayetteville State University Foundation	180,000	180,000
Bank overdraft	<u>-</u>	<u>83,471</u>
Total current liabilities	<u>472,184</u>	<u>539,538</u>
Long-term debt	<u>12,730,000</u>	<u>13,020,000</u>
Member's equity (deficit)		
Unrestricted	(3,740,414)	(3,847,499)
Temporarily Restricted	<u>1,634,311</u>	<u>1,340,395</u>
	<u>(2,106,103)</u>	<u>(2,507,104)</u>
Total liabilities and member's equity	<u><u>\$ 11,096,081</u></u>	<u><u>\$ 11,052,434</u></u>

See accompanying notes to financial statements.

THE FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
INCOME STATEMENT AND CHANGES IN MEMBER'S EQUITY
Years ended June 30, 2012 and 2011

	Unrestricted	Temporarily Restricted	Total	
			2012	2011
Revenues				
Rent	\$ -	\$ 1,776,215	\$ 1,776,215	\$ 1,310,420
Other income	-	-	-	50
Interest	221	-	221	607
Net mandatory transfers to and from debt service reserve accounts	1,482,299	(1,482,299)	-	-
Total revenues	<u>1,482,520</u>	<u>293,916</u>	<u>1,776,436</u>	<u>1,311,077</u>
Expenses:				
Bank charges	514	-	514	499
Contract services	-	-	-	26,678
Depreciation	296,595	-	296,595	297,303
Financing fees	178,128	-	178,128	178,776
Insurance	37,692	-	37,692	34,519
Interest	407,830	-	407,830	428,612
Management fees	5,680	-	5,680	5,680
Professional fees	6,000	-	6,000	4,250
Repairs	36,605	-	36,605	5,310
Security and Other Current Services	74,786	-	74,786	59,237
Supplies	24,904	-	24,904	6,209
Taxes - Other	1,216	-	1,216	1,667
Telephone	5,891	-	5,891	3,919
Utilities	299,594	-	299,594	265,215
Total expenses	<u>1,375,435</u>	<u>-</u>	<u>1,375,435</u>	<u>1,317,874</u>
Net income (loss)	107,085	293,916	401,001	(6,797)
Member's equity (deficit) at beginning of year	<u>(3,847,499)</u>	<u>1,340,395</u>	<u>(2,507,104)</u>	<u>(2,500,307)</u>
Member's equity (deficit) at end of year	<u>\$ (3,740,414)</u>	<u>\$ 1,634,311</u>	<u>\$ (2,106,103)</u>	<u>\$ (2,507,104)</u>

See accompanying notes to financial statements.

THE FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$ 401,001	\$ (6,797)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	296,595	297,303
Increase (decrease) in:		
Accounts payable - trade	1,117	(2,908)
Bank overdraft	(83,471)	(209,440)
Net cash provided by (used in) operating activities	615,242	78,158
Cash flows from financing activities:		
Principal payments of long-term debt	(275,000)	(260,000)
Net cash used in financing activities	(275,000)	(260,000)
Net increase (decrease) in cash	340,242	(181,842)
Cash:		
Beginning of year	1,383,423	1,565,265
End of year	\$ 1,723,665	\$ 1,383,423

See accompanying notes to financial statements.

THE FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – NATURE OF ACTIVITIES

The Fayetteville State University Housing Foundation, LLC (Housing Foundation) was incorporated in 2001 under the laws of the state of North Carolina. Its primary purpose is to build, maintain and manage a student housing facility for students of Fayetteville State University. The Housing Foundation is a wholly owned subsidiary of Fayetteville State University Foundation, Inc.

The North Carolina Capital Facilities Finance Agency (the "Issuer") issued \$14,950,000 in Series 2001 revenue bonds which will be payable solely from the cash flows of the Housing Foundation. The proceeds of the Series 2001 bonds were lent to the Housing Foundation pursuant to a Loan Agreement dated as of October 18, 2001 between the Issuer and the Housing Foundation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The Fayetteville State University Housing Foundation, LLC is presented to assist in understanding the Housing Foundation's financial statements. The financial statements and notes are representations of the Housing Foundation's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The Housing Foundation prepares its financial statements on the accrual basis of accounting recognizing revenue when earned and expenses when incurred. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets.

Statements of Cash Flows

The Housing Foundation presents its cash flow statements using the indirect method. For purposes of cash flow presentation, the Housing Foundation considers currency on hand and demand deposits with financial institutions to be cash.

Accounts Receivable

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the age of past due balances. As of June 30, 2012, all accounts were considered collectible; therefore there is no allowance for doubtful accounts.

Property and Equipment

Property and equipment are stated at cost. Donated assets are recorded at their estimated fair market values at the date of donation. Repairs and maintenance are expensed currently and betterments and improvements are capitalized. Property and equipment are depreciated using the straight-line method over their estimated useful lives.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

The Housing Foundation employs Financial Statements of Not-for-Profit Organizations. The Housing Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. In addition, the Housing Foundation presents a statement of cash flows. At June 30, 2012 and 2011, there were no permanently restricted net assets. At June 30, 2012 and 2011, temporarily restricted assets were \$1,634,311 and \$1,340,395, respectively.

Contributions

The Housing Foundation employs Accounting for Contributions Received and Contributions Made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. For each of the years ended June 30, 2012 and 2011, there were no temporarily or permanently restricted donations.

Income Taxes

The Housing Foundation is a not-for-profit organization exempt from income taxes under Section 501c(3) of the Internal Revenue Code (IRC). The Housing Foundation has been determined not to be a private foundation within the meaning of Section 509(a) of the IRC. The Housing Foundation is a subsidiary of Fayetteville State University Foundation, Inc. and files a consolidated Federal information return. There was no unrelated business income for the years ended June 30, 2012 or 2011.

On July 1, 2011, the Housing Foundation adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Housing Foundation has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Housing Foundation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Housing Foundation's financial condition, results of operations or cash flows. Accordingly, the Housing Foundation has not recorded any reserves, or related accruals for interest and penalties for income tax positions at June 30, 2012.

The Housing Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Housing Foundation believes it is no longer subject to income tax examinations for years prior to 2008.

The Housing Foundation's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

Long-Lived Assets

Accounting for the Impairment or Disposal of Long-Live Assets, requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of June 30, 2012, management determined that no indicators of impairment existed.

Restricted Cash

Restricted cash consists of amounts reserved for the debt service reserve fund, required operation and maintenance fund, and other restricted funds as stipulated by the Loan Agreement. Restricted cash also consists of funds reserved for resident security deposits as required by the management agreement. Restricted cash at June 30, 2012 and 2011 was \$1,634,311 and \$1,340,395, respectively.

THE FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – CREDIT CONCENTRATION

Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk requires the organization to disclose significant concentrations of credit risk regardless of the degree of risk. The Housing Foundation maintains its cash balances at one bank where they are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2012 and 2011, the bank balances were in excess of the limit by \$1,384,311 and \$1,133,423, respectively. The Housing Foundation also maintains \$46,845 at the State Treasury which is all insured.

NOTE 4 – LONG-TERM DEBT

Long-term debt at June 30, 2012 and 2011, consisted of a North Carolina Student Housing Facilities Revenue Bond with a balance of \$13,020,000 and \$13,295,000, respectively, secured by real property. The Housing Foundation has entered into an interest rate swap arrangement to lock in the interest rate on 90% of the bond at 3.45%. The remainder of the bond is at a variable interest rate based on the BMA index.

Maturities of long-term debt are as follows:

<u>Year ending June 30,</u>	
2013 (included in current maturities)	290,000
2014	305,000
2015	325,000
2016	340,000
2017	360,000
2018 and after	<u>11,400,000</u>
	<u><u>\$13,020,000</u></u>

NOTE 5 – MANAGEMENT FEES

The Housing Foundation pays management fees for an investment firm to manage its cash balances. These fees amounted to \$5,680 and \$5,680 for the years ended June 30, 2012 and 2011, respectively.

NOTE 6 – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the years ended June 30, 2012 and 2011, for interest was \$407,830 and \$428,612, respectively. All cash paid was expensed in the year incurred.

NOTE 7 - FINANCING FEES

The Housing Foundation pays an annual financing fee of 1.3% quarterly to Wachovia Bank for the remarking of the bond debt and standby commission fee. The amount paid for 2012 and 2011 was \$178,128 and \$178,776, respectively.

THE FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 - STUDENT HOUSING REVENUES AND RELATED RECEIVABLES

The Housing Foundation entered into a lease agreement with Fayetteville State University for the lease of 341 units to be paid on a semester basis. The rental fee for the year is \$1,773,200. The lease is for a term of ten years and began on May 16, 2011. Rent is to increase annually not to exceed the increase in the Consumer Price Index for the preceeding year and in no case more than 3%.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events were considered through September 14, 2012, the date the financial statements were issued.