

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

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

Year ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Fayetteville State University Housing Foundation, LLC
Fayetteville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Fayetteville State University Housing Foundation, LLC (a nonprofit organization), which comprise the statement of net position as of June 30, 2015, and the related statement of revenues expenses, and changes in net position and the statement of cash flows for the year then ended, and the related notes to the financial statements.

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 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 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 presentation of the financial statements.

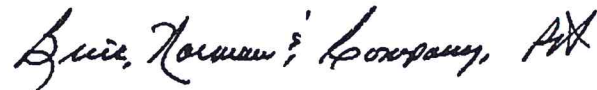
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville State University Housing Foundation, LLC as of June 30, 2015, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2015, on our consideration of Fayetteville State University Housing Foundation, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fayetteville State University Housing Foundation's internal control over financial reporting and compliance.



BUIE, NORMAN & COMPANY, P.A.
Certified Public Accountants

August 13, 2015

Fayetteville, North Carolina

**FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Introduction

The Fayetteville State University Housing Foundation, LLC (Housing Foundation) provides this overview and Management Discussion and Analysis to assist in understanding the statements and Notes to the Financial Statements presented herewith for the year ended June 30, 2015, and includes comparative data for the year ended June 30, 2014. The discussion describes important trends and events that have impacted the fiscal health of the Housing Foundation and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the Housing Foundation management along with the financial statements and Notes to the Financial Statements. The report should be read and considered in its entirety.

Using the Annual Report

This annual report consists of a series of financial statements, Notes to the Financial Statements, and other information prepared in accordance with the Governmental Accounting Standards Board (GASB). The GASB establishes standards for external financial reporting and requires that financial statements be presented on a consolidated basis for the Housing Foundation as a whole. These standards were used in the preparation of this document. The statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Comparative information for the prior fiscal year is also presented in the condensed financial statements.

The basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are discussed in later sections of this discussion and analysis.

The Statement of Cash Flows provides information relative to the Housing Foundation's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balance of noncash accounts on the Statement of Net Position.

The Notes to the Financial Statements should be read in conjunction with the financial statements. The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and

associated risk of deposits and investments, detailed information on deposits and investments, long-term liabilities, revenues, expenses, required information on insurance against losses, commitments and contingencies, and if necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the Housing Foundation's financial statement period. Overall, these Notes to the Financial Statements provide information to better understand details, risk, and uncertainties associated with amounts reported in the financial statements.

Reporting Entity

The financial statements report information about the Housing Foundation as a whole using accounting methods similar to those used in the private-sector. The Housing Foundation is a subsidiary of the Fayetteville State University Foundation, Inc. (Foundation). The Housing Foundation owns University Place Apartments (UPA) near to the campus of Fayetteville State University (University). All beds at UPA are leased to the University to be utilized for student housing.

Financial Highlights

The Housing Foundation's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2015. The combined net position for the Housing Foundation's increased \$123 thousand from the previous fiscal year.

Summary of Net Position

The Statement of Net Position presents the assets, deferred outflow of resources, liabilities, and net position of the Housing Foundation's as of the end of the fiscal year. The statement is a point-in-time statement presenting a fiscal snapshot of Housing Foundation. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of Housing Foundation. They are also able to determine how much the Housing Foundation owes to vendors and others and how much is held for future use by the Housing Foundation or others. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the Housing Foundation.

Net position is divided into categories to show the availability to meet Housing Foundation's obligations. The first category, net investment in capital assets provides the Housing Foundation's equity in property, plant, and equipment. The next net position category is restricted expendable net position; those are available for use by the Housing Foundation but must be spent for the purposes as determined by the donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the Housing Foundation for any lawful purpose of the Housing Foundation.

Condensed Summary of Net Position				
	<u>2015</u>	<u>2014 (Restated)</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Assets				
Current Assets	\$ 1,604,658	\$ 1,572,982	\$ 31,676	2.01%
Noncurrent Assets:				
Capital	8,494,388	8,792,550	(298,162)	-3.39%
Other	1,043,246	1,043,246	-	0.00%
Total Assets	<u>11,142,292</u>	<u>11,408,778</u>	<u>(266,486)</u>	-2.34%
Deferred Outflow of Resources				
Accumulated Decrease in Fair Value of Hedging Resources	<u>2,083,804</u>	<u>2,218,503</u>	<u>(134,699)</u>	-6.07%
Liabilities				
Current Liabilities	480,758	530,408	(49,650)	-9.36%
Noncurrent Liabilities	13,843,804	14,318,503	(474,699)	-3.32%
Total Liabilities	<u>14,324,562</u>	<u>14,848,911</u>	<u>(524,349)</u>	-3.53%
Net Position				
Net Investment in Capital Assets	-	-	-	0.00%
Restricted:				
Nonexpendable	-	-	-	0.00%
Expendable	2,060,588	1,886,696	173,892	9.22%
Unrestricted	(3,159,054)	(3,108,326)	(50,728)	1.63%
Total Net Position	<u>\$ (1,098,466)</u>	<u>\$ (1,221,630)</u>	<u>\$ 123,164</u>	-10.08%

Net Position categories are defined in Note 3 of the Notes to the Financial Statements.

As of June 30, 2015, total Housing Foundation's net position increased \$123 thousand to -\$1.1 million. The Housing Foundation largest assets are the capital assets of \$8.49 million, representing 76.24% of total assets. Noncurrent capital assets decreased by \$298 thousand or 3.39% due to depreciation. Current assets increased \$32 thousand or 2.01%, mainly due to an increase in cash in bank.

The Housing Foundation's liabilities totaled \$14.32 million at June 30, 2015. Current liabilities decreased by \$50 thousand or 9.36% as a result of payments made to the Foundation for a prior loan. Noncurrent liabilities of \$13.84 million consists of bonds payable and Hedging Derivative Liability.

The Housing Foundation's current assets of \$1.6 million covered the current liabilities of \$481 thousand, at a ratio of 3.34 (\$3.34 in current assets for every \$1.00 in current liabilities).

At June 30, the Housing Foundation had a liability for bonds payable of \$12.1 million. Bonds payable is the Housing Foundation's largest liability, representing 84.47% of total Housing Foundation liabilities. The bonds will be repaid by a lease with the University.

The Housing Foundation also recorded a liability for a hedging derivative related to an interest rate swap on their bond.

Summary of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The change in total net position as presented on the Condensed Summary of Net Position is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the Housing Foundation, both operating and nonoperating, the expenses paid by the Housing Foundation, operating and non-operating, and any other revenues, expenses, and any gains and/or losses received or spent by the Housing Foundation.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the Housing Foundation. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Housing Foundation. Nonoperating revenues are revenues received for which goods and services are not provided.

Condensed Summary of Revenues, Expenses, and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Operating Revenues				
Operating Revenues	\$ 1,939,679	\$ 1,890,567	\$ 49,112	2.60%
Operating Expenses				
Supplies and Materials	317,174	63,874	253,300	396.56%
Services	328,381	185,760	142,621	76.78%
Utilities	342,380	330,981	11,399	3.44%
Depreciation	298,162	298,162	-	0.00%
Total Operating Expenses	<u>1,286,097</u>	<u>878,777</u>	<u>407,320</u>	46.35%
Operating Income	<u>653,582</u>	<u>1,011,790</u>	<u>(358,208)</u>	-35.40%
Nonoperating Revenues (Expenses)				
Interest and fees on Capital Debt and leases	(372,146)	(383,784)	11,638	-3.03%
Financing Fees	(158,663)	(156,663)	(2,000)	1.28%
Investment Income	391	559	(168)	-30.05%
Net Nonoperating Expenses	<u>(530,418)</u>	<u>(539,888)</u>	<u>9,470</u>	-1.75%
Increase in Net Position	123,164	471,902	(348,738)	-73.90%
Net Position				
Beginning of Year	(1,221,630)	(1,693,532)	471,902	-27.86%
End of Year	<u>\$ (1,098,466)</u>	<u>\$ (1,221,630)</u>	<u>\$ 123,164</u>	-10.08%

The Condensed Summary of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$123 thousand or 10.08%, for a total net position of -\$1.1 million.

The total operating income for fiscal year 2015 was \$654 thousand, representing a 35.4% percent decrease. This decrease came about due to an increase in repairs and renovations in FY15. The Housing Foundation has 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 ended June 30, 2015 is \$1,937,623. A new lease was entered into with a term of ten years beginning May 16, 2011. Rent is to increase annually not to exceed the increase in the Consumer Price Index for the preceding year and in no case more than 3%.

Operating revenues increased \$49 thousand or 2.6% in fiscal year 2015, mainly due to this annual increase. Supplies and materials increased by \$253 thousand or 396.56% and Services increased by \$143 thousand or 76.78% due to major maintenance and renovations of UPA. Operating expenses increased \$407 thousand or 46.35%, due primarily to the increases in supplies and materials and services. Operating income decreased by \$358 thousand mainly due to increased maintenance and renovations. The

Housing Foundation is committed to ensuring UPA is preferred housing for students and is committed to maintaining UPA in a fiscally sound.

Interest and fees on capital debt and leases decreased by \$12 thousand or 3.03% due to the variable interest rate of the bond payable.

There were no new capital projects for the fiscal year 2015 although major repairs and renovations were completed.

Long-Term Debt Activities

The Housing Foundation bond was issued for construction, equipping, and furnishing of UPA. As shown in the table below, the Housing Foundation's long-term debt is \$12,100,000 as of June 30, 2015. For detailed information about long-term debt, see Note 9 of the Notes to the Financial Statements.

	<u>2015</u>	<u>2014</u>	<u>Increase/ (Decrease)</u>
Total Long-Term Liabilities - Bonds Payable	<u>\$ 12,100,000</u>	<u>\$ 12,425,000</u>	<u>\$ (325,000)</u>

Factors Impacting Future Periods

Management believes that the Housing Foundation is positioned to provide excellent housing services to students attending the University. UPA is a top choice among student residing on the campus of the University. The execution of the lease of all 341 units, which is effective until May 15, 2021 with an option to renew for five additional years, provides the resources necessary to maintain UPA as the housing of choice for students attending the University.

**FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC**

STATEMENT OF NET POSITION

June 30, 2015

(With comparative totals at June 30, 2014)

	<u>2015</u>	<u>2014</u> (Restated)
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 587,316	\$ 729,532
Restricted cash	1,017,342	843,450
Total current assets	<u>1,604,658</u>	<u>1,572,982</u>
Noncurrent Assets:		
Restricted cash	1,043,246	1,043,246
Capital Assets nondepreciable: Land	708,888	708,888
Capital Assets depreciable:		
Equipment	1,116,408	1,116,408
Building	11,715,497	11,715,497
Total capital assets: depreciable	<u>12,831,905</u>	<u>12,831,905</u>
Less: accumulated depreciation	5,046,405	4,748,243
Total capital assets: depreciable, net	<u>7,785,500</u>	<u>8,083,662</u>
Total Noncurrent Assets	<u>9,537,634</u>	<u>9,835,796</u>
Total Assets	<u>11,142,292</u>	<u>11,408,778</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Accumulated Decrease in Fair Value of Hedging Derivatives	<u>2,083,804</u>	<u>2,218,503</u>
Total Deferred Outflows of Resources	<u>2,083,804</u>	<u>2,218,503</u>
 <u>LIABILITIES</u>		
Current liabilities:		
Accounts payable - trade	34,756	25,408
Current portion of Bonds payable	340,000	325,000
Due to Fayetteville State University	49,002	-
Due to Fayetteville State University Foundation	57,000	180,000
Total current liabilities	<u>480,758</u>	<u>530,408</u>
Noncurrent Liabilities:		
Hedging Derivative Liability	2,083,804	2,218,503
Bonds Payable	11,760,000	12,100,000
Total Noncurrent Liabilities	<u>13,843,804</u>	<u>14,318,503</u>
Total Liabilities	<u>14,324,562</u>	<u>14,848,911</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Accumulated Increase in Fair Value of Hedging Derivatives	<u>-</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>
 <u>NET POSITION</u>		
Net position:		
Net Investment in Capital Assets	-	-
Restricted for:		
Bond agreement	2,060,588	1,886,696
Unrestricted	(3,159,054)	(3,108,326)
Total Net Position	<u>\$ (1,098,466)</u>	<u>\$ (1,221,630)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year ended June 30, 2015
(With comparative totals for the Year ended June 30, 2014)

	Total	
	2015	2014
Revenues:		
Operating Revenues:		
Rent Revenue	\$ 1,937,623	\$ 1,881,188
Commissions	2,056	9,379
Total revenues	1,939,679	1,890,567
Expenses:		
Operating Expenses:		
Bank charges	448	542
Cleaning	2,774	18,071
Depreciation	298,162	298,162
Insurance	46,272	44,727
Management fees	7,090	5,885
Non capitalized equipment	305,020	52,977
Offices	-	588
Payroll taxes and other benefits	-	4,642
Professional fees	5,750	6,000
Repairs	203,068	52,822
Salaries	49,002	33,286
Security and Other Current Services	6,754	12,127
Supplies	12,154	10,897
Taxes - Other	1,897	1,667
Telephone	5,326	5,403
Utilities	342,380	330,981
Total operating expenses	1,286,097	878,777
Operating income (loss)	653,582	1,011,790
Nonoperating Revenues (Expenses)		
Investment income (net of investment expense of \$-0-)	391	559
Financing fees	(158,663)	(156,663)
Interest and fees on Capital Debt and Leases	(372,146)	(383,784)
Net Nonoperating Revenues(expense)	(530,418)	(539,888)
Increase (decrease) in net position	123,164	471,902
Net Position - Beginning of year	(1,221,630)	(1,693,532)
Net Position - End of year	\$ (1,098,466)	\$ (1,221,630)

The accompanying notes to the financial statements are an integral part of this statement.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
STATEMENT OF CASH FLOWS
For the Fiscal Year ended June 30, 2015
(With comparative totals for the Year ended June 30, 2014)

	2015	2014
Cash flows from operating activities:		
Rent income	\$ 1,937,623	\$ 1,881,188
Commissions	2,056	9,379
Payments to Vendors and Suppliers	(929,585)	(576,323)
Net cash provided (used) by operating activities	1,010,094	1,314,244
Cash flow from Capital Financing and related financing activities		
Equipment purchases	-	-
Repayment of due to FSU Foundation	(123,000)	-
Principal payments of Bonds payable	(325,000)	(305,000)
Financing fees	(158,663)	(156,663)
Interest and fees paid on Capital Debt and Leases	(372,146)	(383,784)
Net cash provided (used) by financing activities	(978,809)	(845,447)
Cash flows from investing activities:		
Interest income	391	559
Net cash provided by investing activities	391	559
Net increase (decrease) in cash	31,676	469,356
Cash:		
Beginning of year	2,616,228	2,146,872
End of year	\$ 2,647,904	\$ 2,616,228
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	653,582	1,011,790
Adjustment to reconcile operating (loss) to net cash (used)		
Depreciation	298,162	298,162
Change in accounts payable	9,348	4,292
Change in Due to Fayetteville State University	49,002	-
Net Cash Provided (Used) by Operating Activities	1,010,094	1,314,244
Reconciliation of Cash and Cash Equivalents		
Current Assets:		
Cash in bank	587,316	729,532
Restricted Cash	2,060,588	1,886,696
Total	\$ 2,647,904	\$ 2,616,228

The accompanying notes to the financial statements are an integral part of this statement.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - ORGANIZATIONAL STRUCTURE AND PURPOSE

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 Fayetteville State University Housing Foundation, LLC is presented to assist in understanding the Housing Foundation's financial statements. The financial statements and notes to the financial statements 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 as prescribed by the Governmental Accounting Standards Board (GASB) and have been consistently applied in the preparation of the financial statements.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statement - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the Housing Foundation's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Housing Foundation does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

Cash and Cash Equivalents

This classification includes cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

Receivables

Receivables are recorded net of estimated uncollectible amounts.

Capital Assets

Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The Corporation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for intangible assets which are capitalized when the value or cost is \$100,000 or greater and internally generated software which is capitalized when the value or cost is \$1,000,000 or greater.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

Certain resources are reported as restricted assets because restriction on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operation and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

Noncurrent Long-Term Liabilities

Noncurrent long-term liabilities include principal amounts of bonds payable that will not be paid within the next fiscal year.

Revenues and Expense Recognition

The Housing Foundation classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Housing Foundation's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent subsidies or gifts to the Housing Foundation, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

Basis of Accounting

The financial statements of the Housing Foundation are prepared using the economic resource measurement focus and the accrual basis of accounting by recognizing revenues when earned and expenses when an obligation has been incurred, regardless of the timing of the cash flows. Support that is restricted by the donor is reported as an increase in unrestricted net position if the restriction expires within the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in restricted net position depending on the nature of the restriction. When a restriction expires, restricted net position is reclassified to unrestricted net position.

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, 2015.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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, 2015.

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

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Lived Assets

Accounting for the Impairment or Disposal of Long-Lived Assets requires that long-lived assets be held and 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, 2015, management determined that no indicators of impairment existed.

NOTE 3 - NET POSITION

The Housing Foundation reports four classes of net position: net investment in capital assets, restricted net position-nonexpendable, restricted net position-expendable, and unrestricted net position. At June 30, 2015 there were no restricted assets-nonexpendable and no net investment in capital assets.

Net Investment in Capital Assets

Net Investment in Capital Assets represents the Housing Foundation'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 Net Position - Nonexpendable

Nonexpendable restricted net position include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Position - Expendable

Expendable restricted net position includes resources for which the Housing Foundation is legally or contractually obligated to spend in accordance with restriction imposed by external parties.

Unrestricted Net Position

Unrestricted net position includes resources derived from unrestricted gifts and interest income.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS

The Housing Foundation is required by *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, to disclose significant concentrations of credit risk regardless of the degree of risk.

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$2,060,588 which represents the Housing Foundation's investments with US Bank, the trustee for the 2001 bonds. US Bank holds these funds in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2015. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

The Housing Foundation also maintains \$562,786 at the State Treasury which is all insured.

NOTE 5 - DUE TO FAYETTEVILLE STATE UNIVERSITY

At June 30, 2015, Fayetteville State University Foundation had advanced money to the wholly owned subsidiary Fayetteville State University Housing Foundation, LLC. As of June 30, 2015, the amount due is \$57,000. Repayment will be made from excess revenue over expenses. The Organization also has a Due to Fayetteville State University of \$49,002 for expenses paid by the University in the current year.

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	\$ 708,888	\$ -	\$ -	\$ 708,888
Capital Assets, Depreciable:				
Equipment	1,116,408	-	-	1,116,408
Building	11,715,497	-	-	11,715,497
Total Capital Assets, Depreciable	12,831,905	-	-	12,831,905
Less Accumulated Depreciation:				
Equipment	1,103,084	1,567	-	1,104,651
Building	3,645,159	296,595	-	3,941,754
Total Accumulated Depreciation	4,748,243	298,162	-	5,046,405
Total Capital Assets, Depreciable, net	8,083,662	(298,162)	-	7,785,500
Capital Assets, Net	\$ 8,792,550	\$ (298,162)	\$ -	\$ 8,494,388

FAYETTEVILLE STATE UNIVERSITY
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June 30, 2015

NOTE 7 - OBLIGATION BONDS

In October 2001, Fayetteville State University Housing Foundation, LLC sold \$14,950,000 in Series 2001 tax-exempt Limited Obligation Bonds. These bonds are dated October 1, 2001, and bear interest from that date. Interest is paid monthly. The principal on the bonds is paid annually in November. The maturity of the bonds will be from 2002 to 2033. The issuance of the bonds was to provide funds for the construction, equipping and furnishing a new student housing facility to be located on the Fayetteville State University campus. The construction took place through Fayetteville State University Housing Foundation, LLC (an affiliate of Fayetteville State University), and be repaid from a lease with the University.

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.

Annual requirements are as follows:

Year ended June 30:	Annual Requirements	
	Principal	Interest
2016	\$ 340,000	\$ 386,405
2017	360,000	375,547
2018	380,000	364,051
2019	400,000	351,916
2020	425,000	339,142
2021 and after	10,195,000	2,913,205
Total	\$ 12,100,000	\$ 4,730,266

NOTE 8 - STUDENT HOUSING LEASE AGREEMENT

The Housing Foundation has 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 \$1,937,623. A new lease was entered into with a term of ten years beginning May 16, 2011. Rent is to increase annually not to exceed the increase in the Consumer Price Index for the preceding year and in no case more than 3%.

NOTE 9 - LONG-TERM LIABILITIES

A. A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Revenue Bond Payable	\$ 12,425,000	\$ -	\$ 325,000	\$ 12,100,000

Current portion of long-term debt at June 30, 2015 is \$340,000.

FAYETTEVILLE STATE UNIVERSITY
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June 30, 2015

NOTE 9 - LONG-TERM LIABILITIES (CONTINUED)

B. The Housing Foundation was indebted for revenue bonds payable for the purpose shown below:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015
Revenue Bonds Payable:					
Student Housing Project	2001			\$ 14,950,000	\$ 2,850,000
Total Revenue Bonds (principal only)				<u>\$ 14,950,000</u>	<u>\$ 2,850,000</u>

In connection with the long-term debt the Housing Foundation has a direct-pay letter of credit in the amount of \$12,631,675 with Wells Fargo Bank, National Association. The direct-pay letter of credit serves as a credit enhancement to the bonds and expires July 14, 2016. Short-term debt activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Draws	Repayments	Balance June 30, 2015
Direct-pay letter of credit	\$ -	\$ 372,146	\$ 372,146	\$ -

NOTE 10 - DERIVATIVE INSTRUMENT

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2015	
		Classification	Increase (decrease)	Classification	Asset (Liability)
Hedging Derivative Instrument					
Cash Flow Hedge: Pay fixed, receive variable interest rate swap for 2001 bond	\$10,890,000	Deferred Outflow of Resources	\$ (134,699)	Hedging Derivative Liability	\$ (2,083,804)
Total Derivative Instruments			<u>\$ (134,699)</u>		<u>\$ (2,083,804)</u>

The hedging derivative instrument held at June 30, 2015 is as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date
Pay-fixed, receive variable interest rate swap	Hedge Cash flows for 2001 Bonds	\$ 10,890,000	10/1/2001	11/1/2033

Terms

Pay 3.45%, Receive 67% of 1-month USD-LIBOR-BBA

The fair value of the pay-fixed, receive-variable interest rate swap was estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

FAYETTEVILLE STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - DERIVATIVE INSTRUMENT (CONTINUED)

Interest Rate Risk: The Foundation is exposed to interest rate risk on the interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. As the London Interbank Offered Rate (LIBOR) increases, the Foundation's net payment on the swap decreases.

Basis Risk: The Foundation is exposed to basis risk on the pay fixed interest rate swap because the variable-rate payments received by the Foundation on the hedging derivative is based on a deferent rate than the Foundation pays on its 2001 Series variable rate debt. As of June 30, 2015, the interest rate on the Foundation's pay-fixed interest rate swap is benchmarked to 67% of 1 month LIBOR, which is 0.127%. The variable-interest rate paid on the Foundation's debt is not benchmarked to a reference rate but is reset weekly by the remarketing agent based upon market conditions and the University's credit rating. At June 30, 2015 the interest rate upon the demand bond was 0.08%.

Termination Risk: The Foundation or its counterparty may terminate the pay-fixed, receive-variable interest rate swap if the other party fails to perform under the terms of the contract.

NOTE 11 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the year ended June 30, 2015 was \$372,146. All interest was expensed.

NOTE 12 - MANAGEMENT FEES

The Housing Foundation pays management fees for an investment firm to manage its cash balances. These fees amounted to \$7,090 for the year ended June 30, 2015.

NOTE 13 - FINANCING FEES

Included in bonds payable is a variable rate demand bond issue. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University's remarketing or paying agents. With regards to the bond, the University has entered into a take-out agreement, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

The Housing Foundation pays an annual financing fee of 1.3% quarterly to Wells Fargo Bank for the remarketing of the bond debt and standby commission fee. The amount paid for the year ended June 30, 2015 was \$158,663. Under an irrevocable letter of credit issued by Wells Fargo, National Association, the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase.

If the remarketing agent is unable to resell any bonds that are "put" within 90 days of the "put" date, the University has a take-out agreement with Wells Fargo Bank, National Association to convert the amount of bonds "put" to an installment loan payable over a five-year period bearing an adjustable interest rate equal to the bank's prime lending rate plus 1%. the take-out agreement expires on letter of credit expiration date. Per the take-out agreement, the structure of the installment loan cannot allow the bond principal to be retired faster than originally prescribe in the bond indenture amortization schedule.

FAYETTEVILLE STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 14 - RISK MANAGEMENT

The Housing Foundation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to contractors; and natural disasters. These exposures to loss are handled via a combination of methods, including purchase of commercial insurance and self-retention of certain risks.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The Housing Foundation has outstanding commitments on accounts payable of \$34,756.

NOTE 16 - SUBSEQUENT EVENTS

Management of the Organization has evaluated events for disclosure and/or recognition through the date of the *Independent Auditor's Report*, which is the date the financial statements were available to be issued.



INDEPENDENT AUDITORS' 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

The Board of Directors
Fayetteville State University Housing Foundation, LLC
Fayetteville, North Carolina

We have audited, in accordance with the 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, the financial statements of Fayetteville State University Housing Foundation, LLC (a nonprofit organization), which comprise the statement of net position as of June 30, 2015, and the related statement of revenues, expenses, and changes in net position, and statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fayetteville State University Housing Foundation, LLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fayetteville State University Housing Foundation, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

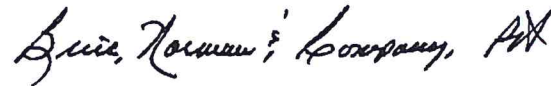
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fayetteville State University Housing Foundation, LLC's financial statements are free from 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 an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BUIE, NORMAN & COMPANY, P.A.
Certified Public Accountants

August 13, 2015
Fayetteville, North Carolina