

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

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

Year ended June 30, 2016

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Member AICPA, NCACPA

INDEPENDENT AUDITOR'S 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, 2016, 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, 2016, 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.

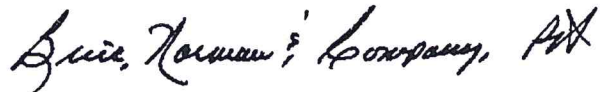
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2016, 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 4, 2016
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, 2016, and includes comparative data for the year ended June 30, 2015. 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, 2016. The combined net position for the Housing Foundation's increased \$251 thousand from the previous fiscal year.

Statement 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 Statement of Net Position | | | | |
|---|---------------------|-----------------------|-----------------------------|-----------------------|
| | 2016 | 2015 | Increase/ (Decrease) | Percent Change |
| Assets | | | | |
| Current Assets | \$ 1,581,845 | \$ 1,604,658 | \$ (22,813) | -1.42% |
| Noncurrent Assets: | | | | |
| Capital | 8,286,833 | 8,494,388 | (207,555) | -2.44% |
| Other | 1,043,603 | 1,043,246 | 357 | 0.03% |
| Total Assets | 10,912,281 | 11,142,292 | (230,011) | -2.06% |
| Deferred Outflow of Resources | | | | |
| Accumulated Decrease in Fair Value of Hedging Derivatives | 476,332 | 2,083,804 | (1,607,472) | -77.14% |
| Liabilities | | | | |
| Current Liabilities | 360,000 | 480,758 | (120,758) | -25.12% |
| Noncurrent Liabilities | 11,876,332 | 13,843,804 | (1,967,472) | -14.21% |
| Total Liabilities | 12,236,332 | 14,324,562 | (2,088,230) | -14.58% |
| Net Position | | | | |
| Net Investment in Capital Assets | - | - | - | 0.00% |
| Restricted: | | | | |
| Nonexpendable | - | - | - | 0.00% |
| Expendable | 2,239,358 | 2,060,588 | 178,770 | 8.68% |
| Unrestricted | (3,087,077) | (3,159,054) | 71,977 | -2.28% |
| Total Net Position | \$ (847,719) | \$ (1,098,466) | \$ 250,747 | -22.83% |

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

As of June 30, 2016, total Housing Foundation's net position increased \$251 thousand to -\$848 thousand. The Housing Foundation largest assets are the capital assets of \$8.29 million, representing 75.94% of total assets. Noncurrent capital assets decreased by \$208 thousand or 2.44% due to depreciation. Current assets decreased \$23 thousand or 1.42%, mainly due to a decrease in cash in bank.

The Housing Foundation's Accumulated Decrease in Fair Value of Hedging Derivatives decreased by \$1.61 million or 77.14% due to change in the calculation of the hedging derivative liability. In fiscal year 2015 the fair value was estimated using the zero coupon method, while in fiscal year 2016 the value was established by market quotation obtained from third-parties using the income approach. A different valuation technique was used due to the implementation of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*.

The Housing Foundation's liabilities totaled \$12.24 million at June 30, 2016. Current liabilities decreased by \$121 thousand or 25.12% as a result of payments made to the Foundation for a prior loan and payment to the University for expenses they incurred for security services on behalf of the Housing Foundation. Noncurrent liabilities of \$11.88 million consists of bonds payable and hedging derivative liability. The decrease in

hedging derivative liability is due to a different valuation technique being used for fiscal year 2016.

The Housing Foundation's current assets of \$1.58 million covered the current liabilities of \$360 thousand, at a ratio of 4.39 (\$4.39 in current assets for every \$1.00 in current liabilities).

At June 30, the Housing Foundation had a liability for bonds payable of \$11.76 million. Bonds payable is the Housing Foundation's largest liability, representing 96.11% 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.

Statement 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 Statement 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 Statement of Revenues, Expenses, and Changes in Net Position | | | | |
|---|--------------|----------------|---------------------------------|---------------------------|
| | 2016 | 2015 | Increase/ (Decrease) | Percent Change |
| Operating Revenues | | | | |
| Operating Revenues | \$ 1,937,640 | \$ 1,939,679 | \$ (2,039) | -0.11% |
| Operating Expenses | | | | |
| Supplies and Materials | 192,465 | 317,174 | (124,709) | -39.32% |
| Services | 395,601 | 328,381 | 67,220 | 20.47% |
| Utilities | 282,777 | 342,380 | (59,603) | -17.41% |
| Depreciation | 302,931 | 298,162 | 4,769 | 1.60% |
| Total Operating Expenses | 1,173,774 | 1,286,097 | (112,323) | -8.73% |
| Operating Income | 763,866 | 653,582 | 110,284 | 16.87% |
| Nonoperating Revenues (Expenses) | | | | |
| Interest and fees on Capital Debt and leases | (359,354) | (372,146) | 12,792 | -3.44% |
| Financing Fees | (155,962) | (158,663) | 2,701 | -1.70% |
| Investment Income | 2,197 | 391 | 1,806 | 461.89% |
| Net Nonoperating Expenses | (513,119) | (530,418) | 17,299 | -3.26% |
| Increase in Net Position | 250,747 | 123,164 | 127,583 | 103.59% |
| Net Position | | | | |
| Beginning of Year | (1,098,466) | (1,221,630) | 123,164 | -10.08% |
| End of Year | \$ (847,719) | \$ (1,098,466) | \$ 250,747 | -22.83% |

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$251 thousand or 22.83%, for a total net position of -\$848 thousand.

The total operating income for fiscal year 2016 was \$764 thousand, representing a 16.87% percent increase. This increase came about due to a decrease in non-capitalized equipment in FY16. 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, 2016 is \$1,937,623. A new lease was entered into with a term of ten years beginning May 16, 2011. Rent is subject to an annual increase not to exceed the increase in the Consumer Price Index for the preceding year and in no case more than 3%.

Operating revenues decreased \$2 thousand or 0.11% in fiscal year 2016, due to the Housing Foundation not receiving commissions from their laundry service agreement. Supplies and materials decreased by \$125 thousand or 39.32% due to the capitalization of the Wi-Fi Installation. Services increased by \$67 thousand or 20.47% due to some maintenance and renovations of UPA. Operating expenses decreased \$112 thousand or 8.73%, due primarily to the capitalization of the Wi-Fi equipment and installation. Operating income increased by \$110 thousand mainly due to a decrease in non-capitalized equipment in fiscal year 16 and the stabilizing of the maintenance and repair

requirements. For the next several years repairs and maintenance are expected to stabilize due to two consecutive years of major renovations and upgrades. 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 \$13 thousand or 3.44% due to the decrease of the outstanding bonds payable.

Investment income increased by \$2 thousand or 461.89% due to an increase in interest earned on cash held by our trustee bank.

There were no new capital projects for the fiscal year 2016, although major repairs and renovations were completed for UPA.

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 \$11,760,000 as of June 30, 2016. For detailed information about long-term debt, see Note 8 of the Notes to the Financial Statements.

| | 2016 | 2015 | Increase/ (Decrease) |
|--|----------------------|----------------------|-------------------------|
| Total Long-Term Liabilities - Bonds Payable | \$ 11,760,000 | \$ 12,100,000 | \$ (340,000) |

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, 2016
(With comparative totals at June 30, 2015)

| | 2016 | 2015 |
|---|--------------|----------------|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash in bank | \$ 386,090 | \$ 587,316 |
| Restricted cash | 1,195,755 | 1,017,342 |
| Total current assets | 1,581,845 | 1,604,658 |
| Noncurrent Assets: | | |
| Restricted Cash | 1,043,603 | 1,043,246 |
| Capital Assets nondepreciable: Land | 708,888 | 708,888 |
| Capital Assets depreciable: | | |
| Equipment | 1,211,784 | 1,116,408 |
| Building | 11,715,497 | 11,715,497 |
| Total capital assets: depreciable | 12,927,281 | 12,831,905 |
| Less: accumulated depreciation | 5,349,336 | 5,046,405 |
| Total capital assets: depreciable, net | 7,577,945 | 7,785,500 |
| Total Noncurrent Assets | 9,330,436 | 9,537,634 |
| Total Assets | 10,912,281 | 11,142,292 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | |
| Accumulated Decrease in Fair Value of Hedging | | |
| Derivatives | 476,332 | 2,083,804 |
| Total Deferred Outflows of Resources | 476,332 | 2,083,804 |
| <u>LIABILITIES</u> | | |
| Current liabilities: | | |
| Accounts payable - trade | - | 34,756 |
| Current portion of Bonds payable | 360,000 | 340,000 |
| Due to Fayetteville State University | - | 49,002 |
| Due to Fayetteville State University Foundation | - | 57,000 |
| Total current liabilities | 360,000 | 480,758 |
| Noncurrent Liabilities: | | |
| Hedging Derivative Liability | 476,332 | 2,083,804 |
| Bonds Payable | 11,400,000 | 11,760,000 |
| Total Noncurrent Liabilities | 11,876,332 | 13,843,804 |
| Total Liabilities | 12,236,332 | 14,324,562 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | |
| Accumulated Increase in Fair Value of Hedging | | |
| Derivatives | - | - |
| Total Deferred Outflows of Resources | - | - |
| <u>NET POSITION</u> | | |
| Net position: | | |
| Net Investment in Capital Assets | - | - |
| Restricted for: | | |
| Bond agreement | 2,239,358 | 2,060,588 |
| Unrestricted | (3,087,077) | (3,159,054) |
| Total Net Position | \$ (847,719) | \$ (1,098,466) |

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, 2016

(With comparative totals for the Year ended June 30, 2015)

| | Total | |
|--|--------------|----------------|
| | 2016 | 2015 |
| Revenues: | | |
| Operating Revenues: | | |
| Rent Revenue | \$ 1,937,623 | \$ 1,937,623 |
| Commissions | 17 | 2,056 |
| Total revenues | 1,937,640 | 1,939,679 |
| Expenses: | | |
| Operating Expenses: | | |
| Arbitrage Expense | 1,250 | - |
| Bank charges | 596 | 448 |
| Cleaning | 470 | 2,774 |
| Contract Service | 102,973 | - |
| Depreciation | 302,931 | 298,162 |
| Insurance | 46,855 | 46,272 |
| Management fees | 6,090 | 7,090 |
| Non capitalized equipment | 187,863 | 305,020 |
| Office | 441 | - |
| Payroll taxes and other benefits | 33,172 | - |
| Professional fees | 4,950 | 5,750 |
| Repairs | 76,270 | 203,068 |
| Salaries | 75,232 | 49,002 |
| Security and Other Current Services | 41,583 | 6,754 |
| Supplies | 4,602 | 12,154 |
| Taxes - Other | - | 1,897 |
| Telephone | 5,719 | 5,326 |
| Utilities | 282,777 | 342,380 |
| Total operating expenses | 1,173,774 | 1,286,097 |
| Operating income (loss) | 763,866 | 653,582 |
| Nonoperating Revenues (Expenses) | | |
| Investment income (net of investment expense of \$-0-) | 2,197 | 391 |
| Financing fees | (155,962) | (158,663) |
| Interest and fees on Capital Debt and Leases | (359,354) | (372,146) |
| Net Nonoperating Revenues(expense) | (513,119) | (530,418) |
| Increase (decrease) in net position | 250,747 | 123,164 |
| Net Position - Beginning of year | (1,098,466) | (1,221,630) |
| Net Position - End of year | \$ (847,719) | \$ (1,098,466) |

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, 2016
(With comparative totals for the Year ended June 30, 2015)

| | 2016 | 2015 |
|---|--------------|--------------|
| Cash flows from operating activities: | | |
| Rent income | \$ 1,937,623 | \$ 1,937,623 |
| Commissions | 17 | 2,056 |
| Payments to Vendors and Suppliers | (1,049,977) | (929,585) |
| Net cash provided (used) by operating activities | 887,663 | 1,010,094 |
| Cash flow from Capital Financing and related financing activities | | |
| Equipment purchases | - | - |
| Repayment of due to FSU Foundation | (57,000) | (123,000) |
| Principal payments of Bonds payable | (340,000) | (325,000) |
| Financing fees | (155,962) | (158,663) |
| Interest and fees paid on Capital Debt and Leases | (359,354) | (372,146) |
| Net cash provided (used) by financing activities | (912,316) | (978,809) |
| Cash flows from investing activities: | | |
| Interest income | 2,197 | 391 |
| Net cash provided by investing activities | 2,197 | 391 |
| Net increase (decrease) in cash | (22,456) | 31,676 |
| Cash: | | |
| Beginning of year | 2,647,904 | 2,616,228 |
| End of year | \$ 2,625,448 | \$ 2,647,904 |
| Reconciliation of net operating income to net cash provided (used) by operating activities | | |
| Operating income (loss) | 763,866 | 653,582 |
| Adjustment to reconcile operating (loss) to net cash (used) | | |
| Depreciation | 302,931 | 298,162 |
| Capitalized equipment | (95,376) | - |
| Change in accounts payable | (34,756) | 9,348 |
| Change in Due to Fayetteville State University | (49,002) | 49,002 |
| Net Cash Provided (Used) by Operating Activities | 887,663 | 1,010,094 |
| Reconciliation of Cash and Cash Equivalent | | |
| Current Assets: | | |
| Cash in bank | 386,090 | 587,316 |
| Restricted Cash | 2,239,358 | 2,060,588 |
| | \$ 2,625,448 | \$ 2,647,904 |

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, 2016

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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of acquisition. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The Housing Foundation 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, 2016

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 501(c)(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, 2016.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016.

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, 2016, 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, 2016 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 liabilities 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, 2016

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, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$2,239,358 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 1.5 years as of June 30, 2016. Assets and shares of the Short-Term Investment Fund are valued at 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 \$360,164 at the State Treasury which is all insured. The Organization also has \$25,926 in First Citizens Bank at June 30, 2016, which is all insured.

NOTE 5 - FAIR VALUE MEASUREMENTS

Housing Foundation - To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as 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. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a corporation can access at the measurement date.

Level 2 Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs for an asset or liability and may require a degree of professional judgment.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
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The following table summarizes the Housing Foundation's investments within the fair value hierarchy at June 30, 2016.

| | Fair Value Measurements Using | | | |
|--------------------------------|-------------------------------|---------|--------------|---------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Derivative instruments | | | | |
| Hedging Derivative instruments | | | | |
| Interest rate Swaps | \$ (476,332) | \$ - | \$ (476,332) | \$ - |

Short-Term Investment Fund - Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Derivative Instruments - These mark-to-market valuations were established by market quotations obtained from third parties, using the income approach. The income approach to measure fair value converts future payable or receivable amounts to a single current amount by applying a present value factor to the predicted cash flows.

The Housing Foundation's valuation agent used Level 2 inputs to calculate the fair value including:

- 1) Interest rates and yield curves observable at commonly quoted intervals
- 2) Credit Spreads applicable to municipal revenue bonds.

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

| | Balance July 1, 2015 | Increases | Decreases | Balance June 30, 2016 |
|--|-------------------------|--------------|-----------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 708,888 | \$ - | \$ - | \$ 708,888 |
| Capital Assets, Depreciable: | | | | |
| Equipment | 1,116,408 | 95,376 | - | 1,211,784 |
| Building | 11,715,497 | - | - | 11,715,497 |
| Total Capital Assets, Depreciable | 12,831,905 | 95,376 | - | 12,927,281 |
| Less Accumulated Depreciation: | | | | |
| Equipment | 1,104,651 | 6,336 | - | 1,110,987 |
| Building | 3,941,754 | 296,595 | - | 4,238,349 |
| Total Accumulated Depreciation | 5,046,405 | 302,931 | - | 5,349,336 |
| Total Capital Assets, Depreciable, net | 7,785,500 | (207,555) | - | 7,577,945 |
| Capital Assets, Net | \$ 8,494,388 | \$ (207,555) | \$ - | \$ 8,286,833 |

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 - OBLIGATION BONDS

In October 2001, Fayetteville State University Housing Foundation, LLC sold \$14,950,000 in Series 2001 tax-exempt Revenue 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 to pay principal and interest on the long-term obligations at June 30, 2016, are as follows;

| | Annual Requirements | | |
|------------------------|----------------------|-------------------|--------------------------|
| | Principal | Interest | Interest Rate Swaps, Net |
| Year ended June 30: | | | |
| 2017 | \$ 360,000 | \$ 47,040 | \$ 326,938 |
| 2018 | 380,000 | 45,600 | 316,492 |
| 2019 | 400,000 | 44,080 | 305,481 |
| 2020 | 425,000 | 42,480 | 293,835 |
| 2021 | 450,000 | 40,780 | 281,483 |
| 2022 and after | 9,745,000 | 324,120 | 2,150,150 |
| Total | <u>\$ 11,760,000</u> | <u>\$ 544,100</u> | <u>\$ 3,674,379</u> |

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, 2016, is presented as follows:

| | Balance July 1, 2015 | Additions | Reductions | Balance June 30, 2016 | Current Portion |
|----------------------|-------------------------|-----------|------------|--------------------------|--------------------|
| Revenue Bond Payable | \$ 12,100,000 | \$ - | \$ 340,000 | \$ 11,760,000 | \$ 360,000 |

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, 2016 | Principal Outstanding June 30, 2016 |
|-------------------------------|--------|-----------------------------|---------------------------|--------------------------------|--|---|
| <u>Revenue Bonds Payable:</u> | | | | | | |
| Student Housing Project | 2001 | 3.45%* | 11/01/2033 | \$ 14,950,000 | \$ 3,190,000 | \$ 11,760,000 |

*For variable rate debt, interest rates in effect at June 30, 2016 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

FAYETTEVILLE STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
June 30, 2016

In connection with the long-term debt the Housing Foundation has a direct-pay letter of credit in the amount of \$11,956,700 with Wells Fargo Bank, National Association. The direct-pay letter of credit serves as a credit enhancement to the bonds and expires July 31, 2017. Short-term debt activity for the year ended June 30, 2016, was as follows:

| | Balance July 1, 2015 | Draws | Repayments | Balance June 30, 2016 |
|-----------------------------|-------------------------|------------|------------|--------------------------|
| Direct-pay letter of credit | \$ - | \$ 359,354 | \$ 359,354 | \$ - |

NOTE 10 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2016 are as follows:

| Type | Notional Amount | Change in Fair Value | | Fair Value at June 30, 2016 | |
|---|--------------------|-------------------------------------|---------------------|------------------------------------|---------------------|
| | | Classification | Increase | Classification | Asset (Liability) |
| Hedging Derivative Instrument Cash Flow Hedges: Pay fixed, receive variable interest rate | \$10,584,000 | Deferred Outflow of Resources | <u>\$ 1,607,472</u> | Hedging Derivative Liability | <u>\$ (476,332)</u> |

The hedging derivative instrument held at June 30, 2016 is as follows:

| Type | Objective | Notional Amount | Effective Date | Maturity Date |
|--|------------------------------------|--------------------|----------------|---------------|
| Pay-fixed, receive variable interest rate swap | Hedge Cash flows for 2001 Bonds | \$ 10,584,000 | 10/1/2001 | 12/1/2017 |
| <u>Terms</u> | | | | |
| Pay 3.45%, Receive 68% of 1-month USD-LIBOR-BBA | | | | |

Hedging Derivative Risks

Interest Rate Risk: The Foundation is exposed to interest rate risk on its 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, 2016, the interest rate on the Foundation's pay-fixed interest rate swap is benchmarked to 68% of 1 month LIBOR, which is 0.313%. 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 Foundation's credit rating. At June 30, 2016 the interest rate upon the demand bond was 0.40%.

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.

Rollover Risk: The Foundation is exposed to rollover risk because the derivative contract expires on December 1, 2017 while the Series 2001 Bonds mature November 1, 2033. There is no assurance the Foundation will be able to enter into a new cash flow hedge at a fixed rate equal to or lower than the existing swap.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the year ended June 30, 2016 was \$359,354. 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 \$6,090 for the year ended June 30, 2016.

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 1.1% 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, 2016 was \$155,962. 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 1.5%. 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.

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 had no outstanding commitments on accounts payable as of June 30, 2016.

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 AUDITOR'S 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, 2016, 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 4, 2016.

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.

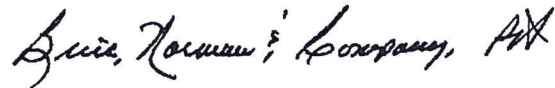
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 4, 2016
Fayetteville, North Carolina