

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

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

Year ended June 30, 2017

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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, 2017, 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, 2017, 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.

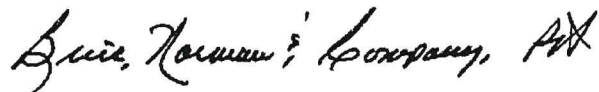
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9 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 October 10, 2017, 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

October 10, 2017
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, 2017, and includes comparative data for the year ended June 30, 2016. 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, 2017. The combined net position for the Housing Foundation's increased \$2.45 million 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

	2017	2016	Increase/ (Decrease)	Percent Change
Assets				
Current Assets	\$ 1,884,851	\$ 1,581,845	\$ 303,006	19.16%
Noncurrent Assets:				
Capital	-	8,286,833	(8,286,833)	-100.00%
Other	10,150,000	1,043,603	9,106,397	872.59%
Total Assets	<u>12,034,851</u>	<u>10,912,281</u>	<u>1,122,570</u>	10.29%
Deferred Outflow of Resources				
Accumulated Decrease in Fair Value of Hedging Derivatives	<u>-</u>	<u>476,332</u>	<u>(476,332)</u>	-100.00%
Liabilities				
Current Liabilities	277,763	360,000	(82,237)	-22.84%
Noncurrent Liabilities	10,150,000	11,876,332	(1,726,332)	-14.54%
Total Liabilities	<u>10,427,763</u>	<u>12,236,332</u>	<u>(1,808,569)</u>	-14.78%
Net Position				
Net Investment in Capital Assets	-	-	-	0.00%
Restricted:				
Nonexpendable	-	-	-	0.00%
Expendable	-	2,239,358	(2,239,358)	-100.00%
Unrestricted	1,607,088	(3,087,077)	4,694,165	152.06%
Total Net Position	<u>\$ 1,607,088</u>	<u>\$ (847,719)</u>	<u>\$ 2,454,807</u>	289.58%

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

As of June 30, 2017, total Housing Foundation's net position increased \$2.45 million to \$1.61 million due to the restructuring of the bond debt associated with UPA and the gain on sale of assets. The Housing Foundation's largest asset is the capital lease receivable of \$10.15 million, representing 84.34% of total assets. Current assets increased \$303 thousand or 19.16%, mainly due to an increase in cash in bank. Other noncurrent assets increased \$9.11 million while capital assets decreased \$8.29 million. This was due to recording the capital lease between Fayetteville State University and Housing Foundation and in essence no longer recording property as a capital asset.

The Housing Foundation's Accumulated Decrease in Fair Value of Hedging Derivatives decreased by \$476 thousand or 100% due to the termination of the swap agreement required under the previous bond covenant.

The Housing Foundation's liabilities totaled \$10.43 million at June 30, 2017. Noncurrent liabilities decreased by \$1.73 million or 14.54% as a result of the restructuring of the bond debt. The Housing Foundation issued Series 2017 refinancing bond in FY17, previously held series 2001 bond was paid off. The refinancing allowed the Housing Foundation to obtain a lower interest rate, obtain a fixed interest rate, and terminate the hedging derivative related to the swap agreement.

The Housing Foundation's current assets of \$1.88 million covered the current liabilities of \$278 thousand, at a ratio of 6.79 (\$6.79 in current assets for every \$1.00 in current liabilities).

At June 30, the Housing Foundation had a liability for bonds payable of \$10.15 million. Bonds payable is the Housing Foundation's largest liability, representing 97.34% of total Housing Foundation liabilities. The bonds will be repaid by a capital lease with the University.

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

	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Operating Revenues				
Operating Revenues	\$ 1,878,196	\$ 1,937,640	\$ (59,444)	-3.07%
Operating Expenses				
Supplies and Materials	3,023	192,465	(189,442)	-98.43%
Services	318,615	395,601	(76,986)	-19.46%
Utilities	160,737	282,777	(122,040)	-43.16%
Depreciation	179,492	302,931	(123,439)	-40.75%
Total Operating Expenses	<u>661,867</u>	<u>1,173,774</u>	<u>(511,907)</u>	-43.61%
Operating Income	<u>1,216,329</u>	<u>763,866</u>	<u>452,463</u>	59.23%
Nonoperating Revenues (Expenses)				
Gain on sale of property	2,042,659		2,042,659	100.00%
Interest and fees on Capital Debt and leases	(369,167)	(359,354)	(9,813)	2.73%
Bond Closing costs	(233,042)		(233,042)	100.00%
Financing Fees	(314,322)	(155,962)	(158,360)	101.54%
Investment Income	<u>112,350</u>	<u>2,197</u>	<u>110,153</u>	5013.79%
Net Nonoperating Revenues (Expenses)	<u>1,238,478</u>	<u>(513,119)</u>	<u>1,751,597</u>	341.36%
Increase in Net Position	2,454,807	250,747	2,204,060	879.00%
Net Position				
Beginning of Year	(847,719)	(1,098,466)	250,747	22.83%
End of Year	<u>\$ 1,607,088</u>	<u>\$ (847,719)</u>	<u>\$ 2,454,807</u>	289.58%

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$2.45 million or 289.58% which came about due to the refinancing of the UPA Bond debt and the gain on sale of property caused by the subsequent change to the terms of the lease, for a total net position of \$1.61 million.

The total operating income for fiscal year 2017 was \$1.22 million, representing a 59.23% percent increase. This increase came about due to several factors. In FY17 a phase of the University Place Apartments was closed down due to flood damage, this lead to lower utility costs for the fiscal year. Other factors include a decrease in non-capitalized equipment and a decrease in depreciation recognized due to the lease being reclassified as a capital lease.

The Housing Foundation has entered into a lease agreement with Fayetteville State University whereby the University will lease the capital assets from the Housing Foundation for a period ending November 1, 2039. The capital lease is subject to a base rental which constitutes the portion of the rental payments equal to the principal and interest requirement on the bond purchase. In addition there is additional rental revenue to cover operating expenses. The yearly

lease is \$1,995,752 and 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 \$59 thousand or 3.07% in fiscal year 2017, due to a portion of the rent revenue being reclassified as investment income.

Operating expenses decreased \$512 thousand or 43.61%, due primarily to one of the phases of UPA being offline. Supplies and materials decreased by \$189 thousand or 98.43% due to fewer general repairs needed. Services decreased by \$77 thousand or 19.46% due to fewer general maintenance and renovations needed for UPA.

Operating income increased by \$452 thousand mainly due to lower utility costs and lower general maintenance requirements in fiscal year 17. For the next several years repairs and maintenance are expected to remain stable 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.

In FY17, the Housing Foundation recognized a gain on sale of \$2.04 million as a result of the reclassification of the lease with the University. The operating lease has been classified as a capital lease. As a result there was a sale of assets in exchange for the capital lease receivable. The sales price is the amount of the bond, 10.15 million, resulting in a gain on sale of \$2.04 million.

Bond closing costs of \$233 thousand came about as the result of the refinancing bond of the old debt, this is a one-time cost. Financing fees increased \$158 thousand or 101.54% due to the one-time termination fee of the previously held swap agreement required under the previous debt structure.

Investment income increased by \$110 thousand or 5013.79% due to the portion of the lease payment to the Housing Foundation from the University that is used to service the debt being classified as investment income.

There were no new capital projects for the fiscal year 2017, although repairs and renovations associated with flooding of several units are under way 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 \$10,150,000 as of June 30, 2017. For detailed information about long-term debt, see Note 9 of the Notes to the Financial Statements.

	2017	2016	Increase/ (Decrease)
Total Long-Term Liabilities - Bonds Payable	<u>\$ 10,150,000</u>	<u>\$ 11,760,000</u>	<u>\$ (1,610,000)</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 capital lease between the University and the Housing Foundation, which is effective until November 1, 2039, 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, 2017

(With comparative totals at June 30, 2016)

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 1,836,881	\$ 386,090
Restricted cash	-	1,195,755
Accrued interest receivable	47,970	-
Total current assets	<u>1,884,851</u>	<u>1,581,845</u>
Noncurrent Assets:		
Restricted Cash	-	1,043,603
Capital lease receivable	10,150,000	-
Capital Assets nondepreciable: Land	-	708,888
Capital Assets depreciable:		
Equipment	-	1,211,784
Building	-	11,715,497
Total capital assets: depreciable	-	12,927,281
Less: accumulated depreciation	-	5,349,336
Total capital assets: depreciable, net	-	7,577,945
Total Noncurrent Assets	<u>10,150,000</u>	<u>9,330,436</u>
Total Assets	<u>12,034,851</u>	<u>10,912,281</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Accumulated Decrease in Fair Value of Hedging		
Derivatives	-	476,332
Total Deferred Outflows of Resources	<u>-</u>	<u>476,332</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable - trade	197,748	-
Current portion of Bonds payable	-	360,000
Due to Fayetteville State University	32,045	-
Interest Payable	47,970	-
Total current liabilities	<u>277,763</u>	<u>360,000</u>
Noncurrent Liabilities:		
Hedging Derivative Liability	-	476,332
Bonds Payable	10,150,000	11,400,000
Total Noncurrent Liabilities	<u>10,150,000</u>	<u>11,876,332</u>
Total Liabilities	<u>10,427,763</u>	<u>12,236,332</u>
<u>NET POSITION</u>		
Net position:		
Net Investment in Capital Assets	-	-
Restricted for:		
Bond agreement	-	2,239,358
Unrestricted	1,607,088	(3,087,077)
Total Net Position	<u>\$ 1,607,088</u>	<u>\$ (847,719)</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, 2017
(With comparative totals for the Year ended June 30, 2016)

	Total	
	2017	2016
Revenues:		
Operating Revenues:		
Rent Revenue	\$ 1,877,992	\$ 1,937,623
Commissions and services	204	17
Total revenues	<u>1,878,196</u>	<u>1,937,640</u>
Expenses:		
Operating Expenses:		
Arbitrage Expense	1,250	1,250
Bank charges	777	596
Cleaning	1,440	470
Contract Service	-	102,973
Depreciation	179,492	302,931
Insurance	44,096	46,855
Management fees	5,152	6,090
Non capitalized equipment	-	187,863
Office	-	441
Payroll taxes and other benefits	42,331	33,172
Professional fees	29,625	4,950
Repairs	83,588	76,270
Salaries	95,542	75,232
Security and Other Current Services	6,514	41,583
Supplies	3,023	4,602
Taxes - Other	2,657	-
Telephone	5,643	5,719
Utilities	160,737	282,777
Total operating expenses	<u>661,867</u>	<u>1,173,774</u>
Operating income (loss)	<u>1,216,329</u>	<u>763,866</u>
Nonoperating Revenues (Expenses)		
Gain on sale of property	2,042,659	-
Investment income (net of investment expense of \$-0-)	112,350	2,197
Bond closing costs	(233,042)	-
Financing fees	(314,322)	(155,962)
Interest and fees on Capital Debt and Leases	<u>(369,167)</u>	<u>(359,354)</u>
Net Nonoperating Revenues(expense)	<u>1,238,478</u>	<u>(513,119)</u>
Increase (decrease) in net position	2,454,807	250,747
Net Position - Beginning of year	(847,719)	(1,098,466)
Net Position - End of year	<u>\$ 1,607,088</u>	<u>\$ (847,719)</u>

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, 2017

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

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Rent income	\$ 1,877,992	\$ 1,937,623
Commissions	204	17
Payments to Vendors and Suppliers	<u>(252,582)</u>	<u>(1,049,977)</u>
Net cash provided (used) by operating activities	<u>1,625,614</u>	<u>887,663</u>
Cash flow from Capital Financing and related financing activities		
Repayment of due to FSU Foundation	-	(57,000)
Issuance of Bonds payable	10,150,000	-
Principal payments of Bonds payable	(11,760,000)	(340,000)
Financing fees	(314,322)	(155,962)
Bond closing costs	(233,042)	-
Interest and fees paid on Capital Debt and Leases	<u>(321,197)</u>	<u>(359,354)</u>
Net cash provided (used) by financing activities	<u>(2,478,561)</u>	<u>(912,316)</u>
Cash flows from investing activities:		
Interest income	<u>64,380</u>	<u>2,197</u>
Net cash provided by investing activities	<u>64,380</u>	<u>2,197</u>
Net increase (decrease) in cash	(788,567)	(22,456)
Cash:		
Beginning of year	2,625,448	2,647,904
End of year	<u><u>\$ 1,836,881</u></u>	<u><u>\$ 2,625,448</u></u>
Reconciliation of net operating income to net cash provided (used) by operating activities		
Operating income (loss)	1,216,329	763,866
Adjustment to reconcile operating (loss) to net cash (used)		
Depreciation	179,492	302,931
Capitalized equipment	-	(95,376)
Change in accounts payable	197,748	(34,756)
Change in Due to Fayetteville State University	<u>32,045</u>	<u>(49,002)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>1,625,614</u></u>	<u><u>887,663</u></u>
Reconciliation of Cash and Cash Equivalents		
Current Assets:		
Cash in bank	1,836,881	386,090
Restricted Cash	-	2,239,358
	<u><u>\$ 1,836,881</u></u>	<u><u>\$ 2,625,448</u></u>

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, 2017

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. During the current year the Series 2001 bonds were refunded and replaced with Series 2017 Student Housing Facilities Revenue Refunding Bond for \$10,150,000.

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, 2017

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, 2017.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017.

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, 2017, 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, 2017 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, 2017

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, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,371,490, which represents the Housing Foundation's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

The Organization also has \$465,391 in First Citizens Bank at June 30, 2017, \$215,391 of which is uninsured.

NOTE 5 - FAIR VALUE MEASUREMENTS

To the extent available, the Housing Foundation's investments are recorded at fair value as of June 30, 2017. 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 in active markets that an entity 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, either directly or indirectly.

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

The following table summarizes the Corporation's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2017:

	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Other Securities				
Short-Term Investment Fund	\$ 1,371,490	\$ -	\$ 1,371,490	\$ -

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.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	\$ 708,888	\$ -	\$ (708,888)	\$ -
Capital Assets, Depreciable:				
Equipment	1,211,784	-	(1,211,784)	-
Building	11,715,497	-	(11,715,497)	-
Total Capital Assets, Depreciable	12,927,281	-	(12,927,281)	-
Less Accumulated Depreciation:				
Equipment	1,110,988	6,478	(1,117,466)	-
Building	4,238,348	173,014	(4,411,362)	-
Total Accumulated Depreciation	5,349,336	179,492	(5,528,828)	-
Total Capital Assets, Depreciable, net	7,577,945	(179,492)	(7,398,453)	-
Capital Assets, Net	\$ 8,286,833	\$ (179,492)	\$ (8,107,341)	\$ -

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 were dated October 1, 2001, and bear interest from that date. Interest is paid monthly. The principal on the bonds was paid annually in November. The maturity of the bonds was to 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 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 was at a variable interest rate based on the BMA index.

During the current year the Series 2001 bonds were refunded and replaced with Series 2017 Student Housing Facilities Revenue Refunding Bond. Total Bond issued is \$10,150,000. Bond interest is 2.82% with interest payable semi annually. Principal is payable starting November 1, 2018 and payable annually through November 2033.

Annual requirements to pay principal and interest on the long-term obligations at June 30, 2017, are as follows:

Year ended June 30:	Annual Requirements	
	Principal	Interest
2018	\$ -	\$ 287,025
2019	509,000	279,053
2020	524,000	264,488
2021	539,000	249,500
2022	554,000	234,088
2023 and after	8,024,000	1,433,632
Total	\$ 10,150,000	\$ 2,747,786

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 - HOUSING FOUNDATION, LLC LEASE AGREEMENT

Effective February 15, 2017, the State of North Carolina entered a lease agreement with Fayetteville State University Housing Foundation, LLC, whereby the State will lease the capital assets from Fayetteville State University Housing Foundation, LLC, for a period ending November 1, 2039. The lease includes a purchase option of \$1 plus the amount then necessary to pay the Bank any amount remaining outstanding with respect to the Advance under the Bond Purchase and Loan Agreement. The lease has been classified as a capital lease. As a result there is sale of assets in exchange for the capital lease receivable. The sales price is the amount of the Bond, \$10,150,000, resulting in a gain on sale of \$2,042,659. The capital lease portion is a Base rental which constitutes the portion of the rental payments equal to the Principal and Interest Requirement on the Bond purchase. In addition there is Additional Rentals to cover operating expenses. defined in the Use Agreement. The yearly lease is \$1,995,752 to be increased by an amount not to exceed the increase in the Consumer Price Index with a annual cap of 3%.

Capital lease obligations relating to the lease of capital assets are recorded at the present value of the minimum lease payments. Future minimum lease payments under the capital lease obligation consist of the following at June 30, 2017.

Year Ended June 30:	Amount
2018	\$ 287,025
2019	788,053
2020	788,488
2021	788,500
2022	788,088
2023 and after	<u>9,457,632</u>
Total minimum lease payments	12,897,786
Amount Representing Interest at 2.82%	<u>2,747,786</u>
Present Value of Future Lease Payments	<u>\$ 10,150,000</u>

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 - LONG-TERM LIABILITIES

A. A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Revenue Bonds Payable	\$ 11,760,000	\$ 10,150,000	\$ 11,760,000	10,150,000	\$ -

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, 2017	Principal Outstanding June 30, 2017
Revenue Bonds Payable:						
Student Housing Project	2017	2.82%	11/01/2033	\$ 10,150,000	\$ -	\$ 10,150,000

In connection with the long-term debt, the Housing Foundation had a direct-pay letter of credit with Wells Fargo Bank, National Association. The direct-pay letter of credit served as a credit enhancement to the bonds. On February 15, 2017 the Housing Foundation refinanced the prior debt issued (Series 2001 Bond), by issuing the Series 2017 FSU Housing Foundation Revenue Refunding Bond, making the direct-pay credit unnecessary. The direct-pay letter of credit was subsequently cancelled. Short-term debt activity for the year ended June 30, 2017, was as follows;

	Balance July 1, 2016	Draws	Repayments	Balance June 30, 2017
Direct-pay letter of credit	\$ -	\$ 261,566	\$ 261,566	\$ -

C. The Housing Foundation has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On February 15, 2017 the Housing Foundation issued \$10,150,000 in Fayetteville State University Housing Foundation Revenue Refunding Bond, Series 2017, with an average interest rate of 2.82%. The bonds were issued for a current refunding of \$11,400,000 of outstanding Fayetteville State University Housing Foundation, LLC Project, Series 2001 bonds with an average interest rate of 3.45%. The refunding was undertaken to reduce total debt service payments by \$2,015,097 over the next 17 years and resulted in an economic gain of \$1,369,938.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2017 are as follows:

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2017	
		Classification	Increase	Classification	Asset (Liability)
Hedging Derivative Instrument Cash Flow Hedges: Pay fixed, receive variable interest rate	\$ -	Deferred Outflow of Resources	\$ -	Hedging Derivative Liability	\$ -

Hedging derivative instruments held at June 30, 2017 are as follows:

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

Derivative instrument was terminated prior to June 30, 2017 and therefore does not reflect a value.

On February 15, 2017 the Housing Foundation terminated the interest rate swap agreement with Wells Fargo. The Housing Foundation paid a one-time termination fee of \$236,000. In FY17 the Housing Foundation issued the Fayetteville State University Housing Foundation Revenue Refunding Bond, Series 2017, in order to achieve a current refunding of the outstanding debt from the previously issued Fayetteville State University Housing Foundation, Series 2001 bond. The prior debt issue (Series 2001 Bond) had a variable interest and therefore the Housing Foundation entered into a swap agreement with Wells Fargo bank to obtain a synthetic fixed interest rate. Upon completion of the refinance of the old debt, the interest rate swap was no longer necessary as the new debt structure has a fixed interest rate.

NOTE 11 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the year ended June 30, 2017 was \$321,197. Accrued interest at June 30, 2017 was \$47,970. All interest was expensed.

FAYETTEVILLE STATE UNIVERSITY
HOUSING FOUNDATION, LLC
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 12 – MANAGEMENT FEES

The Housing Foundation pays management fees for an investment firm to manage its cash balances. These fees amounted to \$5,152 for the year ended June 30, 2017.

NOTE 13 - 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 14 - COMMITMENTS AND CONTINGENCIES

The Housing Foundation had outstanding commitments on accounts payable of \$197,748 as of June 30, 2017.

NOTE 15 - 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.

Buie, Norman & Co., P.A.



CERTIFIED
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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, 2017, 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 October 10, 2017.

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.

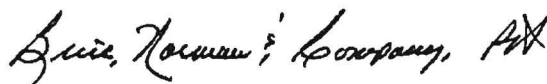
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

October 10, 2017
Fayetteville, North Carolina