

**FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION
AND SUBSIDIARY
FAYETTEVILLE, NORTH CAROLINA**

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

Year ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Fayetteville State University Student Housing Corporation and Subsidiary
Fayetteville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Fayetteville State University Student Housing Corporation and Subsidiary (a nonprofit organization), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fayetteville State University Student Housing Corporation and Subsidiary's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville State University Student Housing Corporation and Subsidiary as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

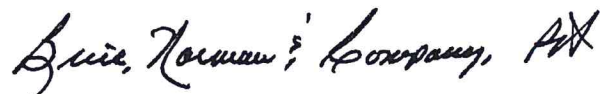
Other Matters

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 12, 2014, on our consideration of Fayetteville State University Student Housing Corporation and Subsidiary'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 Student Housing Corporation and Subsidiary's internal control over financial reporting and compliance.



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

Fayetteville, North Carolina
August 12, 2014

**FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION, INC., AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Introduction

The Fayetteville State University Student Housing Corporation, Inc. (Corporation) and Subsidiary, 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, 2014, and includes comparative data for the year ended June 30, 2013. The discussion describes important trends and events that have impacted the fiscal health of the Corporation and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the Corporation's 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 Corporation 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 and 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 Corporation'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 Revenue, Expenses, and Change 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 Corporation'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 Corporation as a whole using accounting methods similar to those used in the private-sector. The Corporation includes as a subsidiary the the Fayetteville State University Housing, LLC which constructed Renaissance Hall on the campus of Fayetteville State University (University). The land for Renaissance Hall is leased to the Corporation for this purpose, and the beds are leased to the University under a master lease agreement.

Financial Highlights

The Corporation's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2014. The combined net position for the Corporation increased \$587 thousand from the previous fiscal year.

Summary of Net Position

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

Net Position is divided into categories to show the availability to meet the Corporation's obligations. The first category, net investment in capital assets provides the Corporation's equity in property, plant, and equipment. The next asset category is restricted net assets; those are available for use by the Corporation 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 assets. Unrestricted net assets are available to the Corporation for any lawful purpose of the Corporation.

Condensed Summary of Net Position				
	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Assets:				
Current Assets	\$ 956,051	\$ 389,376	\$ 566,675	145.53%
Noncurrent Assets:				
Capital	-	-	-	0.00%
Other	20,250,000	20,485,000	(235,000)	-1.15%
Total Assets	<u>21,206,051</u>	<u>20,874,376</u>	<u>331,675</u>	1.59%
Liabilities:				
Current Liabilities	753,380	773,790	(20,410)	-2.64%
Noncurrent Liabilities	20,250,000	20,485,000	(235,000)	-1.15%
Total Liabilities	<u>21,003,380</u>	<u>21,258,790</u>	<u>(255,410)</u>	-1.20%
Net Position:				
Net Investment				
in Capital Assets	-	-	-	0.00%
Restricted:				
Nonexpendable	-	-	-	0.00%
Expendable	100	86,417	(86,317)	-99.88%
Unrestricted	202,571	(470,831)	673,402	143.02%
Total Net Position	<u>\$ 202,671</u>	<u>\$ (384,414)</u>	<u>\$ 587,085</u>	152.72%

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

As of June 30, 2014, total Corporation net position was \$203 thousand. The Corporation's largest asset is a capital lease receivable of \$20.25 million, representing 95% of total assets. Other noncurrent assets decreased \$235 thousand due to lease payment. Current assets increased \$567 thousand or 145.53% due to rent receipts for Renaissance Hall being fully realized in FY14.

The Corporation's liabilities totaled \$21.00 million at June 30, 2014. Noncurrent liabilities of \$20.25 million consists of bonds payable. Current liabilities decreased \$20 thousand or 2.64% primarily due to a decrease in accounts payable.

The Corporation's current assets of \$956 thousand covered the liabilities of \$753 thousand, at a ratio of 1.27 (\$1.27 in current assets for every \$1.00 in current liabilities).

At June 30, the Corporation had a liability for bonds payable of \$20.49 million. Bonds payable is the Corporation's largest liability, representing 98% of total Corporation liabilities. The bonds will be repaid by a capital lease with the University.

Summary of Revenues, Expenses, and Changes in Net Position

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

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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the Corporation. 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 Corporation. Non-operating revenues are revenues received for which goods and services are not provided.

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

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Operating Revenues				
Operating Revenues	\$ 524,806	\$ 308,186	\$ 216,620	70.29%
Total Revenues	<u>524,806</u>	<u>308,186</u>	<u>216,620</u>	70.29%
Operating Expenses:				
Supplies and Materials	38,653	749,000	(710,347)	-94.84%
Services	132,657	19,820	112,837	569.31%
Total Operating Expenses	<u>171,310</u>	<u>768,820</u>	<u>(597,510)</u>	-77.72%
Operating Income (Loss)	<u>353,496</u>	<u>(460,634)</u>	<u>814,130</u>	176.74%
Nonoperating Revenues (Expenses):				
Gain on Sale of Property	-	1,051,308	(1,051,308)	-100.00%
Investment Income	1,181,808	8,163	1,173,645	14377.62%
Fees	(4,175)	(6,575)	(2,400)	-36.50%
Interest and Fees on Capital Debt and Leases	<u>(944,044)</u>	<u>(945,194)</u>	<u>(1,150)</u>	-0.12%
Net Nonoperating Revenues	<u>233,589</u>	<u>107,702</u>	<u>1,170,095</u>	1086.42%
Increase (decrease) in Net Position	<u>587,085</u>	<u>(352,932)</u>	<u>940,017</u>	266.35%
Net Position:				
Beginning of Year	<u>(384,414)</u>	<u>(31,482)</u>	<u>(352,932)</u>	-1121.06%
End of Year	<u>\$ 202,671</u>	<u>\$ (384,414)</u>	<u>\$ 587,085</u>	152.72%

Operating revenues increased \$217 thousand or 70% in fiscal year 2014 due to rental revenues. The Corporation is committed to ensuring housing facilities constructed by the Corporation are the preferred housing for students and is committed to maintaining Renaissance Hall in a fiscally sound manner.

Expenses for supplies and materials decreased due to the fact that the construction of Renaissance Hall was completed during FY13. Service expenses increased substantially now that the residence hall is in operation. The changes to gain on sale of assets is due to a sale of assets in exchange for the capital lease receivable in FY13.

The total operating income for fiscal year 2014 was \$353 thousand. Effective August 24, 2012, the State of North Carolina has a lease agreement with Fayetteville State University Housing, LLC, whereby the State will lease the real property on which the project was constructed for a period of thirty two years.

The portion of the lease payment to the Corporation from the University that is used to service the debt is classified as Investment income. Investment income increased significantly due to a full academic year of rent receipts being realized.

The Condensed Summary of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$587 thousand. This can be attributed to collection of rent receipts (classified as Investment income) for Renaissance Hall.

There were no new capital projects for the fiscal year 2014 although minor repairs were completed.

Long-Term Debt Activities

The Corporation incurred long-term debt to finance the construction, equipping, and furnishing of Renaissance Hall. As shown in the table below, the Corporation's long-term debt is \$20,485,000 as of June 30, 2014. For detailed information about long-term debt, see note 6 of the Notes to the Financial Statements.

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>
Total Long-Term Liabilities - Bonds Payable	<u>\$ 20,485,000.00</u>	<u>\$ 20,715,000.00</u>	<u>\$ (230,000.00)</u>

Factors Impacting Future Periods

Management believes that the Corporation is positioned to provide excellent housing services to students attending Fayetteville State University. Renaissance Hall is also a "green" building and was designed to LEED (Leadership in Energy and Environmental Design) Silver standards and is pending certification.

FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF NET POSITION

June 30, 2014

(With Comparative Totals at June 30, 2013)

	2014	2013
<u>ASSETS</u>		
Current Assets:		
Cash in Bank	\$ 485,803	\$ 72,959
Restricted Cash	100	86,417
Current Portion of Capital Lease	235,000	230,000
Accrued Interest Receivable	235,148	-
Total Current Assets	956,051	389,376
Noncurrent Assets:		
Restricted Cash	-	-
Capital Lease Receivable	20,250,000	20,485,000
Total Noncurrent Assets	20,250,000	20,485,000
Total Assets	21,206,051	20,874,376
 <u>LIABILITIES</u>		
Current Liabilities:		
Accounts Payable - Trade	-	248,658
Due to Fayetteville State University	283,232	58,834
Accrued Interest	235,148	236,298
Current Portion of Bonds Payable	235,000	230,000
Total Current Liabilities	753,380	773,790
Noncurrent Liabilities:		
Bonds Payable	20,250,000	20,485,000
Total Noncurrent Liabilities	20,250,000	20,485,000
Total Liabilities	21,003,380	21,258,790
 <u>NET POSITION</u>		
Net Position:		
Net Investment in Capital Assets	-	-
Restricted for:		
Expendable:		
Capital Projects	100	86,417
Unrestricted	202,571	(470,831)
Total Net Position	\$ 202,671	\$ (384,414)

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

FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION

For the Fiscal Year Ended June 30, 2014
(With Comparative Totals for the Year Ended June 30, 2013)

	2014	2013
Revenues:		
Operating Revenues:		
Revenue	\$ 524,806	\$ 308,186
Total Revenues	524,806	308,186
Expenses:		
Operating Expenses:		
Accounting and Auditing	4,000	3,250
Insurance	37,702	-
Janitorial	24,700	-
Maintenance Agreement	-	1,898
Repairs	66,255	14,672
Supplies	38,653	749,000
Total Operating Expenses	171,310	768,820
Operating Income (Loss)	353,496	(460,634)
Nonoperating Revenues (Expenses)		
Gain on sale of property	-	1,051,308
Investment Income (Net of Investment Expense of \$-0-)	1,181,808	8,163
Fees	(4,175)	(6,575)
Interest and Fees on Capital Debt and Leases	(944,044)	(945,194)
Net Nonoperating Revenues	233,589	107,702
Increase (Decrease) in Net Position	587,085	(352,932)
Net Position - Beginning of Year	(384,414)	(31,482)
Net Position - End of Year	\$ 202,671	\$ (384,414)

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

FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2014

(With Comparative Totals for the Year Ended June 30, 2013)

	2014	2013
Cash Flows from Operating Activities:		
Rent Income	\$ 524,806	\$ 308,186
Payments to Vendors and Suppliers	(195,570)	(766,922)
Net Cash Provided (Used) by Operating Activities	329,236	(458,736)
Cash Flow from Capital Financing and Related Financing Activities		
Principal Received on Capital Leases	230,000	-
Equipment Purchases	-	(7,879)
Construction Costs	-	(4,113,070)
Advances from (Payments to) Fayetteville State University	-	(59,840)
Principal Paid on Capital Debt and Leases	(230,000)	-
Fees	(4,175)	(6,575)
Interest and Fees Paid on Capital Debt and Leases	(945,194)	(945,194)
Proceeds from Issuance of Bonds	-	-
Net Cash Provided (Used) by Financing Activities	(949,369)	(5,132,558)
Cash Flows from Investing Activities:		
Interest Income	946,660	11,609
Net Cash Provided by Investing Activities	946,660	11,609
Gain on sale of property		
Net Increase (Decrease) in Cash	326,527	(5,579,685)
Cash:		
Beginning of Year	159,376	5,739,061
End of Year	\$ 485,903	\$ 159,376
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	353,496	(460,634)
Adjustment to Reconcile Operating (Loss) to Net Cash (Used)		
Depreciation	-	-
Change in Accounts Payable	(24,260)	1,898
Net Cash Provided (Used) by Operating Activities	329,236	(458,736)
Reconciliation of Cash and Cash Equivalents		
Current Assets:		
Cash in Bank	485,803	72,959
Restricted Cash	100	86,417
Noncurrent Assets:		
Restricted Cash	-	-
	\$ 485,903	\$ 159,376

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

FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - ORGANIZATIONAL STRUCTURE AND PURPOSE

Fayetteville State University Student Housing Corporation (Corporation) is a separate and distinct entity from Fayetteville State University (University). It was chartered by the State of North Carolina and has its own Board of Directors. Its purpose is to construct, equip, furnish and manage the debt for residential housing facilities for the students of Fayetteville State University.

Fayetteville State University Student Housing Corporation and Fayetteville State University Housing, LLC are governed by a board consisting of six appointed Directors. Because the elected Directors of the Board are appointed by the University, and the purpose of the Corporation is to benefit Fayetteville State University, the Corporation's financial statements are blended into those of the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Fayetteville State University Student Housing Corporation is presented to assist in understanding the Corporation's financial statements. The financial statements and notes are representations of the Corporation'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 Corporation's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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 consist of accrued interest on Cash. Receivables are recorded net of estimated uncollectible amounts.

Capital Assets

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

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

Depreciation

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

FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

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 Corporation 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 Corporation'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 Corporation, 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 Consolidation

The consolidated financial statements include the accounts of Fayetteville State University Housing, LLC. The Corporation is the sole member of the limited liability company. All significant intercompany transactions have been eliminated.

Basis of Accounting

The consolidated financial statements of the Corporation 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

Fayetteville State University Student Housing Corporation received its 501(c)(3) status effective December 7, 2010.

Fayetteville State University Student Housing Corporation files federal Form 990, *Return of Organization Exempt from Income Tax*, on a fiscal year basis beginning July 1 and ending June 30. The Corporation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC); therefore, no provision for income taxes has been made in the accompanying financial statements. In addition, it has been determined that the Corporation is not a "private foundation" within the meaning of §509(a) of the IRC. There was no unrelated business income during the fiscal year.

FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

On December 3, 2010, the Corporation 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 Corporation has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Corporation 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 Corporation's financial condition, results of operations or cash flows. Accordingly, the Corporation has not recorded any reserves, or related accruals for interest and penalties for income tax positions at June 30, 2014.

The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Corporation'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, 2014, management determined that no indicators of impairment existed.

NOTE 3 - NET POSITION

The Corporation 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, 2014 there were no restricted net position-nonexpendable and no net investment in capital assets.

Net Investment in Capital Assets

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

Restricted Net Position - Nonexpendable

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

Restricted Net Position - Expendable

Expendable restricted net position includes resources for which the Corporation 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
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NOTE 4 - SUBSIDIARY INFORMATION

In December 2010, Fayetteville State University Student Housing Corporation formed a wholly owned subsidiary named Fayetteville State University Housing, LLC whose purpose is to construct, equip, furnish, and manage the debt for residential housing facilities for students of Fayetteville State University. Renaissance Hall, the first student housing facility constructed by the Corporation, was completed in August 2012, and has been in operation since the Fall 2012 semester.

NOTE 5 - DEPOSITS AND INVESTMENTS

The Corporation 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, 2014 the amount shown on the Statement of Net Position as cash and cash equivalents includes \$100 which represents the Corporation's investments with Bank of New York, the trustee for the 2011 bonds. The Bank of New York holds these funds in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2014. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 6 - OBLIGATION BONDS

On August 10, 2011 Fayetteville State University Housing, LLC sold \$20,715,000 in Series 2011 tax-exempt Limited Obligation Bonds. These bonds are dated August 24, 2011, and bear interest from that date. Interest will be paid semiannually on April 1 and October 1, starting on April 1, 2012. The principal on the bonds will be paid annually on April 1, starting on April 1, 2014. The maturity of the bonds will be from 2014 to 2043 and were issued at coupon rates ranging from 2% to 5%. 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, LLC (an affiliate of Fayetteville State University), and be repaid from a lease with the University.

Annual requirements are as follows:

Year ended June 30:	Annual Requirements	
	Principal	Interest
2015	\$ 235,000	\$ 940,594
2016	310,000	933,544
2017	385,000	924,244
2018	430,000	909,470
2019	440,000	899,794
2020 and after	18,685,000	15,607,159
Total	\$ 20,485,000	\$ 20,214,805

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NOTE 7 - STUDENT HOUSING LEASE AGREEMENT

Effective August 24, 2012, the State of North Carolina has a lease agreement with Fayetteville State University Housing, LLC, whereby the State will lease the real property on which the project will be constructed for a period of thirty two years. The lease has been classified as a capital lease. As a result there is sale of assets in exchange for the capital lease receivable. Lease payments are not to exceed \$1,700,000 per year.

Capital lease obligations relating to the real property 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, 2014.

<u>Year ended June 30:</u>	<u>Amount</u>
2015	\$ 1,175,594
2016	1,243,544
2017	1,309,244
2018	1,339,470
2019	1,339,794
2020 and after	<u>35,631,953</u>
Total Minimum Lease Payments	40,699,805
Amount Representing Interest (2%-5% Rate of Interest)	<u>20,214,805</u>
Present Value of Future Lease Payments	<u><u>\$ 20,485,000</u></u>

NOTE 8 - LONG-TERM LIABILITIES

A. A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>
Revenue Bond Payable	<u>\$ 20,715,000</u>	<u>\$ -</u>	<u>\$ 230,000</u>	<u>\$ 20,485,000</u>

Current portion of long-term debt at June 30, 2014 is \$235,000.

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

<u>Purpose</u>	<u>Series</u>	<u>Interest</u> <u>Rate/</u> <u>Ranges</u>	<u>Final</u> <u>Maturity</u> <u>Date</u>	<u>Original</u> <u>Amount</u> <u>of Issue</u>	<u>Principal</u> <u>Paid Through</u> <u>June 30, 2014</u>
Revenue Bonds Payable:					
Student Housing Project	2011	2% to 5%	04/01/2043	<u>\$ 20,715,000</u>	<u>\$ 230,000</u>
Total Revenue Bonds (Principal Only)				<u><u>\$ 20,715,000</u></u>	<u><u>\$ 230,000</u></u>

NOTE 9 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the year ended June 30, 2014 was \$945,194. Accrued interest at June 30, 2014 was \$235,148. All interest was expensed.

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NOTE 10 - RISK MANAGEMENT

The Corporation 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 11 - COMMITMENTS AND CONTINGENCIES

The Corporation has outstanding commitments on accounts payable of \$-0-. The Corporation also has an outstanding commitment to Fayetteville State University for capitalized expenses paid by the University for \$283,232 to be reimbursed to the University.

NOTE 12 - SUBSEQUENT EVENTS

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



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Fayetteville State University Student Housing Corporation and Subsidiary
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 Student Housing Corporation and Subsidiary (a nonprofit organization), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Fayetteville State University Student Housing Corporation and Subsidiary's basic financial statements, and have issued our report thereon dated August 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fayetteville State University Student Housing Corporation and Subsidiary'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 Student Housing Corporation and Subsidiary'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.

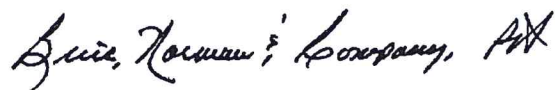
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Fayetteville, North Carolina
August 12, 2014