

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

INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS

Year ended June 30, 2018

## CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Consolidated Statement of Net Position	9
Consolidated Statement of Revenue, Expenses, and Changes in Net Position	10
Consolidated Statement of Cash Flows	11
Notes to Consolidated Financial Statements	12
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 <i>GOVERNMENT AUDITING STANDARDS</i>	19

# Buie, Norman & Co., P.A.



CERTIFIED  
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## INDEPENDENT AUDITOR'S 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, 2018, 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, 2018, 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.

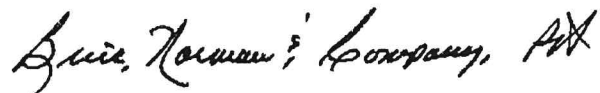
***Other Matters***

***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 October 16, 2018, 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  
October 16, 2018

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

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**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, 2018 and includes comparative data for the year ended June 30, 2017. 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, 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 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 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 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, 2018. The combined net position for the Corporation decreased \$2 thousand from the previous fiscal year.

## **Statement 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 net position category is restricted expendable net position; 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 position. Unrestricted net position is available to the Corporation for any lawful purpose of the corporation.

**Condensed Statement of Net Position**

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
<b>Assets</b>				
Current Assets	\$ 1,846,778	\$ 1,841,673	\$ 5,105	0.28%
Noncurrent Assets:				
Capital	-	-	-	0.00%
Other	18,685,000	19,125,000	(440,000)	-2.30%
Total Assets	<u>20,531,778</u>	<u>20,966,673</u>	<u>(434,895)</u>	-2.07%
<b>Liabilities</b>				
Current Liabilities	948,180	941,405	6,775	0.72%
Noncurrent Liabilities	18,685,000	19,125,000	(440,000)	-2.30%
Total Liabilities	<u>19,633,180</u>	<u>20,066,405</u>	<u>(433,225)</u>	-2.16%
<b>Net Position</b>				
Net Investment				
in Capital Assets	-	-	-	0.00%
Restricted:				
Nonexpendable	-	-	-	0.00%
Expendable	-	-	-	0.00%
Unrestricted	898,598	900,268	(1,670)	-0.19%
Total Net Position	<u>\$ 898,598</u>	<u>\$ 900,268</u>	<u>\$ (1,670)</u>	-0.19%

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

As of June 30, 2018, total Corporation net position was \$899 thousand. The Corporation's largest asset is a capital lease receivable of \$19.13 million, representing 93.15% of total assets. Current assets increased \$5 thousand or 0.28% as a result of the lease payment received from the University in FY18. Most operating costs for Renaissance Hall are the responsibility of Housing System, leaving the debt service obligation as the basis for the lease payment.

The Corporation's liabilities totaled \$19.63 million at June 30, 2018. Noncurrent liabilities of \$18.69 million consists of bonds payable. Current liabilities increased \$7 thousand or 0.72% due to an increase in the current portion of bonds payable.

The Corporation's current assets of \$1.85 million covered the current liabilities of \$948 thousand, at a ratio of 1.95 (\$1.95 in current assets for every \$1.00 in current liabilities).

At June 30, the Corporation had a liability for bonds payable of \$19.13 million. Bonds payable is the Corporation's largest liability, representing 97.41% of total Corporation 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 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. Nonoperating revenues are revenues received for which goods and services are not provided.

### Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
<b>Operating Revenues</b>				
Operating Revenues	\$ -	\$ -	\$ -	0.00%
<b>Operating Expenses</b>				
Services	13,800	95,754	(81,954)	-85.59%
Operating Income (Loss)	<u>(13,800)</u>	<u>(95,754)</u>	<u>81,954</u>	-85.59%
<b>Nonoperating Revenues (Expenses)</b>				
Investment Income	923,324	930,402	(7,078)	-0.76%
Fees	-	(1,725)	1,725	-100.00%
Interest and Fees on Capital Debt and Leases	<u>(911,194)</u>	<u>(921,356)</u>	<u>10,162</u>	-1.10%
Net Nonoperating Revenues	<u>12,130</u>	<u>7,321</u>	<u>4,809</u>	65.69%
Increase (Decrease) in Net Position	(1,670)	(88,433)	86,763	-98.11%
<b>Net Position</b>				
Beginning of Year	900,268	988,701	(88,433)	-8.94%
End of Year	<u>\$ 898,598</u>	<u>\$ 900,268</u>	<u>\$ (1,670)</u>	-0.19%



Operating revenues were not generated in FY18 as a result of the lease payment, the lease payment was the exact amount of the debt service payments. The lease agreement states that the University's lease payment to the Corporation shall be a sum of not to exceed \$1.7 million annually through the life of the agreement. 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.

Operating expenses decreased \$82 thousand or 85.59% due to operating costs such as cleaning services and property insurance being identified as the Housing System's responsibility.

The total operating loss for fiscal year 2018 was \$14 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 decreased \$7 thousand or 0.76% due to the decrease in the debt service interest requirement for FY18. Interest and fees on capital debt and leases decreased \$10 thousand or 1.10% due to the decrease in the debt service interest requirement for FY18.

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shows a decrease in net position of \$2 thousand. This can be attributed to the lease payment in FY18 for Renaissance Hall.

There were no new capital projects for the fiscal year 2018.

**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, Corporation's long-term debt is \$19,125,000 as of June 30, 2018. For detailed information about long-term debt, see note 9 of the Notes to the Financial Statements.

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>
<b>Total Long-Term Liabilities - Bonds Payable</b>	<u>\$ 19,125,000</u>	<u>\$ 19,555,000</u>	<u>\$ (430,000)</u>

### **Factors Impacting Future Periods**

Management believes that the Corporation is positioned to provide excellent housing services to students attending the University. Renaissance Hall has maintained a high occupancy rate since it was placed online in the Fall of FY13, the University's housing management places a priority in filling Renaissance Hall ahead of other residence halls that no longer have outstanding debt. Renaissance Hall is also a "green" building designed to LEED (Leadership in Energy and Environmental Design) Silver standards and has achieved full certification.

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

June 30, 2018

(With Comparative Totals at June 30, 2017)

	2018	2017
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,181,830	\$ 1,183,500
Restricted Cash	-	-
Current Portion of Capital Lease	440,000	430,000
Accrued Interest Receivable	224,948	228,173
Total Current Assets	1,846,778	1,841,673
Noncurrent Assets:		
Capital Lease Receivable	18,685,000	19,125,000
Total Noncurrent Assets	18,685,000	19,125,000
Total Assets	20,531,778	20,966,673
<u>LIABILITIES</u>		
Current Liabilities:		
Due to Fayetteville State University	283,232	283,232
Interest Payable	224,948	228,173
Long-Term Liabilities - Current Portion (Note 7)	440,000	430,000
Total Current Liabilities	948,180	941,405
Noncurrent Liabilities:		
Long-Term Liabilities, Net (Note 7)	18,685,000	19,125,000
Total Noncurrent Liabilities	18,685,000	19,125,000
Total Liabilities	19,633,180	20,066,405
<u>NET POSITION</u>		
Net Position:		
Unrestricted	898,598	900,268
Total Net Position	\$ 898,598	\$ 900,268

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, 2018  
(With Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
Revenues:		
Operating Revenues:		
Revenue	\$ -	\$ -
Total Revenues	-	-
Expenses:		
Operating Expenses:		
Accounting and Auditing	4,000	4,000
Insurance	-	12,685
Janitorial	-	74,469
Other Services	9,800	4,600
Total Operating Expenses	13,800	95,754
Operating Income (Loss)	(13,800)	(95,754)
Nonoperating Revenues (Expenses)		
Investment Income (Net of Investment Expense of \$-0-)	923,324	930,402
Fees	-	(1,725)
Interest and Fees on Debt	(911,194)	(921,356)
Net Nonoperating Revenues	12,130	7,321
Increase (Decrease) in Net Position	(1,670)	(88,433)
Net Position - July 1, 2017 and 2016	900,268	988,701
Net Position - June 30, 2018 and 2017	\$ 898,598	\$ 900,268

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, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
Cash Flows from Operating Activities:		
Rent Income	\$ -	\$ -
Payments to Vendors and Suppliers	(13,800)	(95,754)
Net Cash Provided (Used) by Operating Activities	(13,800)	(95,754)
Cash Flow from Capital Financing and Related Financing Activities		
Principal Received on Capital Leases	430,000	385,000
Principal Paid on Capital Debt and Leases	(430,000)	(385,000)
Fees	-	(1,725)
Interest and Fees Paid on Capital Debt and Leases	(914,419)	(924,244)
Net Cash Provided (Used) by Capital Financing and Related Financing Activities	(914,419)	(925,969)
Cash Flows from Investing Activities:		
Investment Income	926,549	933,290
Net Cash Provided by Investing Activities	926,549	933,290
Net Increase (Decrease) in Cash and Cash Equivalents	(1,670)	(88,433)
Cash and Cash Equivalents:		
Cash and Cash Equivalents - July 1, 2017 and 2016	1,183,500	1,271,933
Cash and Cash Equivalents - June 30, 2018 and 2017	\$ 1,181,830	\$ 1,183,500
Reconciliation of Net Operating (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	(13,800)	(95,754)
Net Cash Provided (Used) by Operating Activities	(13,800)	(95,754)
Reconciliation of Cash and Cash Equivalents		
Current Assets:		
Cash and Cash Equivalents	1,181,830	1,183,500
Restricted Cash and Cash Equivalents	-	-
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	-	-
	\$ 1,181,830	\$ 1,183,500

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, 2018

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 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 donation. 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.

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

June 30, 2018

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.

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

June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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.

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, 2018.

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, 2018, management determined that no indicators of impairment existed.



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

June 30, 2018

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, 2018 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 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 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.

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, 2018 the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,181,830, which represents the Corporation'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 1.4 years as of June 30, 2018. 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.

**FAYETTEVILLE STATE UNIVERSITY**  
**STUDENT HOUSING CORPORATION AND SUBSIDIARY**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2018

NOTE 6 - FAIR VALUE MEASUREMENTS

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2018. 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 a corporation can access at the measurement date.

Level 2 Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, 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 deposits in the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2018.

	Fair Value Measurements Using			
Fair Value	Level 1	Level 2	Level 3	
<b>Investments by Fair Value Level</b>				
Other Securities				
Investment in Real Estate	\$ -	\$ -	\$ -	\$ -
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	<u>1,181,830</u>			
Total Investments by Fair Value Level	<u>1,181,830</u>			
Total Investments Measured at Fair Value	<u>\$ 1,181,830</u>			

**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. Pool investments are measured at fair value in accordance with GASB 72. The University's position in the pool is measured and reported at fair value.

**FAYETTEVILLE STATE UNIVERSITY**  
**STUDENT HOUSING CORPORATION AND SUBSIDIARY**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2018

NOTE 7 - 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
2019	\$ 440,000	\$ 899,794
2020	455,000	885,494
2021	470,000	870,706
2022	485,000	854,256
2023	505,000	836,068
2024 and after	16,770,000	10,048,913
Total	<u>\$ 19,125,000</u>	<u>\$ 14,395,231</u>

NOTE 8 - 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, 2018.

Year ended June 30:	Amount
2019	\$ 1,339,794
2020	1,340,494
2021	1,340,706
2022	1,339,256
2023	1,341,068
2024 and after	26,818,913
Total Minimum Lease Payments	33,520,231
Amount Representing Interest (2%-5% Rate of Interest)	<u>14,395,231</u>
Present Value of Future Lease Payments	<u>\$ 19,125,000</u>

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

June 30, 2018

**NOTE 9 - LONG-TERM LIABILITIES**

A. A summary of changes in the long-term liabilities for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion
Limited Obligation Bonds Payable	\$ 19,555,000	\$ -	\$ 430,000	\$ 19,125,000	\$ 440,000

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018
Limited Obligation Bonds Payable:						
Student Housing Project	2011	2% to 5%	04/01/2043	\$ 20,715,000	\$ 1,590,000	\$ 19,125,000

**NOTE 10 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid for interest during the year ended June 30, 2018 was \$912,694. Accrued interest at June 30, 2018 was \$224,948. All interest was expensed.

**NOTE 11 - 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 12 - 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 13 - 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  
PUBLIC  
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Member AICPA, NCACPA

## 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 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, 2018, 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 October 16, 2018.

### 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.

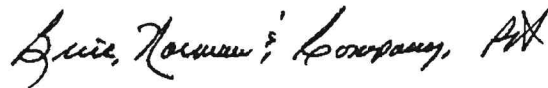
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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  
October 16, 2018