



SHARPE
PATELCPA

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Financial Statements
and Supplementary Information

As of and for the Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Table of Contents

June 30, 2021

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statement of Net Position.....	9
Statement of Revenue, Expenses, and Changes in Net Position	10
Statement of Cash Flows.....	11
NOTES TO FINANCIAL STATEMENTS	12
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 <i>GOVERNMENT AUDITING STANDARDS</i>	20



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Fayetteville State University Housing Foundation, LLC as of June 30, 2021, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Fayetteville State University Housing Foundation, LLC's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 17, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 through 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 September 10, 2021, on our consideration of Fayetteville State University Housing Foundation, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports 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 the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fayetteville State University Housing Foundation, LLC's internal control over financial reporting and compliance.

Sharpe Patel PLLC

Raleigh, North Carolina
September 10, 2021

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

Introduction

The Fayetteville State University Housing Foundation, LLC (Housing Foundation) provides this overview and Management Discussion and Analysis to assist in understanding the statements and Notes to the Financial Statements presented herewith for the year ended June 30, 2021 and includes comparative data for the year ended June 30, 2020. The discussion describes important trends and events that have impacted the fiscal health of the Housing Foundation and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the Housing Foundation management along with the financial statements and Notes to the Financial Statements. The report should be read and considered in its entirety.

Using the Annual Report

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

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

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

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

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

Reporting Entity

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

Financial Highlights

The Housing Foundation's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2021. The combined net position for the Housing Foundation's increased \$66 thousand from the previous fiscal year.

Statement of Net Position

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

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

Condensed Statement of Net Position

	<u>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Assets				
Current Assets	\$ 3,618,935	\$ 3,413,531	\$ 205,404	6.02%
Noncurrent Assets:				
Capital	-	-	-	-
Other	8,024,000	8,578,000	(554,000)	-6.46%
Total Assets	<u>11,642,935</u>	<u>11,991,531</u>	<u>(348,596)</u>	-2.91%
Liabilities				
Current Liabilities	747,423	608,247	139,176	22.88%
Noncurrent Liabilities	8,024,000	8,578,000	(554,000)	-6.46%
Total Liabilities	<u>8,771,423</u>	<u>9,186,247</u>	<u>(414,824)</u>	-4.52%
Net Position				
Net Investment in Capital Assets	-	-	-	-
Restricted:				
Nonexpendable	-	-	-	-
Expendable	(41,213)	-	(41,213)	100.00%
Unrestricted	2,912,725	2,805,284	107,441	3.83%
Total Net Position	<u>\$ 2,871,512</u>	<u>\$ 2,805,284</u>	<u>\$ 66,228</u>	2.36%

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

As of June 30, 2021, total Housing Foundation's net position increased \$66 thousand to \$2.87 million. The Housing Foundation's largest asset is the capital lease receivable of \$8.58 million, representing 73.68% of total assets. Current assets increased \$205 thousand or 6.02%, due to an increase in cash in bank and current portion of the capital lease receivable.

The Housing Foundation's liabilities totaled \$8.77 million at June 30, 2021. Noncurrent liabilities of \$8.02 million consists of bonds payable. Current liabilities increased \$139 thousand or 22.88% because of an increase in accounts payable.

The Housing Foundation's current assets of \$3.62 million covered the current liabilities of \$608 thousand, at a ratio of 5.61 (\$4.84 in current assets for every \$1.00 in current liabilities).

At June 30, the Housing Foundation had a liability for bonds payable of \$8.58 million. Bonds payable is the Housing Foundation's largest liability, representing 97.79% of total Housing Foundation liabilities. The bonds will be repaid by a capital lease with the University.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

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

	<u>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Operating Revenues				
Operating Revenues	\$ 1,203,724	\$ 1,202,815	\$ 909	0.08%
Operating Expenses				
Supplies and Materials	140,010	45,571	94,439	207.23%
Services	778,131	617,622	160,509	25.99%
Utilities	219,772	274,404	(54,632)	-19.91%
Total Operating Expenses	<u>1,137,913</u>	<u>937,597</u>	<u>200,316</u>	21.36%
Operating Income	<u>65,811</u>	<u>265,218</u>	<u>(199,407)</u>	-75.19%
Nonoperating Revenues (Expenses)				
Gain on sale of property	-	-	-	-
Interest and fees on Capital Debt and leases	(250,642)	(266,821)	16,179	-6.06%
Bond Closing costs	-	-	-	-
Financing Fees	-	-	-	-
Investment Income	<u>251,059</u>	<u>285,654</u>	<u>(34,595)</u>	-12.11%
Net Nonoperating Revenues (Expenses)	<u>417</u>	<u>18,833</u>	<u>(18,416)</u>	-97.79%
Increase in Net Position	66,228	284,051	(217,823)	-76.68%
Net Position				
Beginning of Year	2,805,284	2,521,233	284,051	-11.27%
End of Year	<u>\$ 2,871,512</u>	<u>\$ 2,805,284</u>	<u>\$ 66,228</u>	2.36%

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$66 thousand for the fiscal year.

The Housing Foundation has entered into a lease agreement with Fayetteville State University whereby the University will lease the capital assets from the Housing Foundation for a period ending November 1, 2039. The capital lease is subject to a base rental which constitutes the portion of the rental payments equal to the principal and interest requirement on the bond purchase. In addition, there is additional rental revenue to cover operating expenses. The yearly lease is \$1,995,752 and is subject to an annual increase not to exceed the increase in the Consumer Price Index for the preceding year and in no case more than 3%.

Operating revenues increased \$909 or 0.08% in fiscal year 2021, due to the decrease in debt service requirement for FY21.

Operating expenses increased \$200 thousand or 21.36%, due primarily to an increase in maintenance requirements in FY21. Supplies and materials increased by \$94 thousand or 207.23% due to increased non capitalized equipment purchases. Services increased by \$161 thousand or 25.99% due to increased general maintenance and renovations completed at UPA.

Operating income decreased by \$199 thousand mainly due to an increase in general maintenance requirements in fiscal year 21. For the next several years repairs and maintenance are expected to remain a priority to keep current on deferred maintenance requirements. The Housing Foundation is committed to ensuring UPA is the preferred housing for students and is committed to maintaining UPA fiscally sound.

Interest and fees on capital debt and leases decreased by \$16 thousand or 6.06% due to the lower interest payment requirement in FY21.

Investment income decreased by \$35 thousand or 12.11% due to a decrease in interest earned on assets held with PNC Bank.

There were no new capital projects for the fiscal year 2021, however all deferred maintenance repairs requirements were completed.

Long-Term Debt Activities

The Housing Foundation bond was issued for construction, equipping, and furnishing of UPA. As shown in the table below, the Housing Foundation’s long-term debt is \$8,578,000 as of June 30, 2021. For detailed information about long-term debt, see Note 8 of the Notes to the Financial Statements.

	2021	2020	Increase/ (Decrease)
Total Long-Term Liabilities - Bonds Payable	<u>\$ 8,578,000</u>	<u>\$ 9,117,000</u>	<u>\$ (539,000)</u>

Factors Impacting Future Periods

Management believes that the Housing Foundation is positioned to provide excellent housing services to students attending the University. UPA is a top choice among student residing on the campus of the University. The execution of the capital lease between the University and the Housing Foundation, which is effective until November 1, 2039, provides the resources necessary to maintain UPA as the housing of choice for students attending the University.

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Statement of Net Position

June 30, 2021

(With comparative totals as of June 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,023,722	\$ 2,830,729
Current portion of capital lease receivable	554,000	539,000
Accrued interest receivable	41,213	43,802
Total current assets	<u>3,618,935</u>	<u>3,413,531</u>
Noncurrent assets:		
Capital lease receivable, net of current portion	<u>8,024,000</u>	<u>8,578,000</u>
Total noncurrent assets	<u>8,024,000</u>	<u>8,578,000</u>
 Total assets	 <u>\$ 11,642,935</u>	 <u>\$ 11,991,531</u>
 LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 152,210	\$ 25,445
Interest payable	41,213	43,802
Long-term liabilities - current portion	554,000	539,000
Total current liabilities	<u>747,423</u>	<u>608,247</u>
Non-current liabilities:		
Long-term liabilities, net of current portion	<u>8,024,000</u>	<u>8,578,000</u>
Total non-current liabilities	<u>8,024,000</u>	<u>8,578,000</u>
 Total liabilities	 <u>8,771,423</u>	 <u>9,186,247</u>
 NET POSITION		
Restricted for:		
Expendable	(41,213)	-
Unrestricted	2,912,725	2,805,284
Total net position	<u>\$ 2,871,512</u>	<u>\$ 2,805,284</u>

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

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC
Statement of Revenues, Expenditures, and Changes in Net Position
For the Fiscal Year ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

	2021	2020
REVENUES		
Operating revenues:		
Rent revenue	\$ 1,203,724	\$ 1,202,815
Total operating revenues	1,203,724	1,202,815
EXPENSES		
Operating expenses:		
Cleaning	19,952	288
Insurance	63,763	58,571
Pest control	78,283	-
Professional fees	20,910	17,740
Repairs and maintenance	529,084	355,093
Rent	-	1,867
Salaries and benefits	-	131,399
Other current services (provided by the University)	59,890	-
Supplies	140,010	45,571
Taxes - other	3,964	3,964
Telephone	2,285	48,700
Utilities	219,772	274,404
Total operating expenses	1,137,913	937,597
Operating income (loss)	65,811	265,218
NONOPERATING REVENUES (EXPENSES)		
Investment income (net of investment expense)	251,059	285,654
Interest and fees on debt	(250,642)	(266,821)
Net nonoperating revenues (expense)	417	18,833
Increase (decrease) in net position	66,228	284,051
Beginning net position	2,805,284	2,521,233
Ending net position	\$ 2,871,512	\$ 2,805,284

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

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Statement of Cash Flows

For the Fiscal Year ended June 30, 2021

(With Comparative Totals for the Year Ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Rent income	\$ 1,203,724	\$ 1,202,815
Payments to vendor and suppliers	(1,011,148)	(1,055,257)
Net cash provided (used) by operating activities	<u>192,576</u>	<u>147,558</u>
CASH FLOWS FROM CAPITAL FINANCING AND RELATED ACTIVITIES		
Principal paid on long-term liabilities	(539,000)	(524,000)
Payments received on capital lease	539,000	524,000
Interest and fees paid on capital debt and leases	(253,231)	(269,339)
Net cash provided (used) by financing activities	<u>(253,231)</u>	<u>(269,339)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	253,648	288,172
Net cash provided (used) by investing activities	<u>253,648</u>	<u>288,172</u>
Net increase (decrease) in cash and cash equivalents	192,993	166,391
Balances - beginning of year	<u>2,830,729</u>	<u>2,664,338</u>
Balances - end of year	<u>\$ 3,023,722</u>	<u>\$ 2,830,729</u>
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 65,811	\$ 265,218
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Change in accrued interest receivable	2,589	2,518
Change in interest payable	(2,589)	(2,518)
Change in accounts payable	126,765	(117,660)
Net cash provided (used) by operating activities	<u>\$ 192,576</u>	<u>\$ 147,558</u>

The accompanying notes to financial statements are an integral part of these statements.

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 1 – NATURE OF THE ORGANIZATION

The Fayetteville State University Housing Foundation, LLC (Housing Foundation) was incorporated in 2001 under the laws of the state of North Carolina. Its primary purpose is to build, maintain and manage a student housing facility for students in Fayetteville State University. The Housing Foundation is a wholly owned subsidiary of Fayetteville State University Foundation, Inc.

The North Carolina Capital Facilities Finance Agency (the “Issuer”) issued \$14,950,000 in Series 2001 revenue bonds which will be payable solely from the cash flows of the Housing Foundation. The proceeds of the Series 2001 bonds were lent to the Housing Foundation pursuant to a Loan Agreement dated as of October 18, 2001 between the Issuer and the Housing Foundation. Subsequently, the Series 2001 bonds were refunded and replaced with Series 2017 Student Housing Facilities Revenue Refunding Bond for \$10,150,000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Fayetteville State University Housing Foundation, LLC is presented to assist in understanding the Housing Foundation’s financial statements. The financial statements and notes to the financial statements are representation of the Housing Foundation’s management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and have been consistently applied in the preparation of the financial statements.

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

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

Basis of Accounting

The financial statements of the Housing Foundation are prepared using the economic resource management 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 cash flows. Support that is restricted by the donor is reported as an increase in unrestricted net position if the restriction expires with 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 HOUSING FOUNDATION, LLC

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 acquisition. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The Housing Foundation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for intangible assets which are capitalized with 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.

Restricted Assets

Certain resources are reported as restricted assets because restriction on assets 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 eth acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

Impairment of 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, 2021 and 2020, management determined that no indicators of impairment existed.

Noncurrent Long-Term Liabilities

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

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Expense Recognition

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

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

Income Taxes

The Housing Foundation is a not-for-profit organization exempt from income taxes under Section 502(c)(3) of the Internal Revenue Code (IRC). The Housing Foundation has been determined not to be a private foundation within the meaning of Section 509(a) of the IRC. The Housing Foundation is a subsidiary of Fayetteville State University Foundation, Inc. and files a consolidated Federal information return. There was no unrelated business income for the years ended June 30, 2021 and 2020.

On July 1, 2011, the Housing Foundation adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Housing Foundation's financial condition, results of operations or cash flows. Accordingly, the Housing Foundation has not recorded any reserves, or related accruals for interest and penalties for income tax positions at June 30, 2021 and 2020.

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

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

NOTE 3 - DEPOSITS AND INVESTMENTS

The Housing Foundation is required by disclosure of information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk, to disclose significant concentrations of credit risk regardless of the degree of risk.

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2021 and 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,154,767 and \$170,008, respectively, which represents the Housing Foundation's equity position in the State Treasurer's Short Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2021. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the audited financial statements section.

The Organization also has \$1,868,955 and \$2,660,721 in a local financial institution at June 30, 2021 and 2020. The Housing Foundation occasionally maintains deposits in excess of federally insured limits. The Organization maintains its cash balances in reputable financial institutions in the United States of America and accounts at each institution are insured by the Federal Deposit Insurance Corporations up to \$250,000 at each financial institution. FASB ASC 825, *Financial Instruments*, identifies these items as a concentration of credit risk requiring disclosure, regardless of risk. At June 30, 2021 and 2020, the Housing Foundation's uninsured cash balances were \$1,618,954 and \$2,410,721, respectively.

NOTE 4 - FAIR VALUE MEASUREMENTS

To the extent available, the Housing Foundation's investment are recorded at fair value as of June 30, 2021. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace.

Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

Level 1 – Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that an entity can access at the measurement date.

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

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Housing Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2021 and 2020, all of the Housing Foundation's investments, including deposits in the Short-Term Investment Fund are deemed to be Level 1.

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.

NOTE 5 - HOUSING FOUNDATION, LLC LEASE AGREEMENT

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

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 5 - HOUSING FOUNDATION, LLC LEASE AGREEMENT (Continued)

Capital lease obligations relating to the lease of capital assets are recorded at the present value of the minimum lease payments. Future minimum lease payments under the capital lease obligation consist of the following at June 30, 2021:

<u>Year ended June 30:</u>	<u>Amount</u>
2022	\$ 791,405
2023	791,337
2024	791,352
2025	790,818
2026	790,336
2027 and after	<u>6,315,641</u>
Total minimum lease payments	10,270,889
Amount representing interest at 2.82%	<u>1,692,889</u>
Present value of future lease payments	<u>\$ 8,578,000</u>

In addition to the base capital lease payments, stated above, as noted the Housing Foundation will receive minimum rental payments of \$1,995,752 per year. The additional minimum lease payments to be received, net of the base payments noted above are as follows at June 30, 2021:

<u>Year ended June 30:</u>	<u>Amount</u>
2022	\$ 1,204,347
2023	1,204,415
2024	1,204,400
2025	1,204,934
2026	1,205,416
2027 and after	<u>17,633,383</u>
Total minimum lease payments	<u>\$ 23,656,895</u>

The Housing Foundation recognized additional rent revenue of \$1,203,724 and \$1,202,815 for the years ended June 30, 2021 and 2020, respectively.

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 6 - OBLIGATION BONDS

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

Subsequently, the Series 2001 bonds were refunded and replaced with Series 2017 Student Housing Facilities Revenue Refunding Bond. The total bond issued is \$10,150,000. Bond interest is 2.82% with interest payable semi-annually. Principle is payable starting November 1, 2018 and payable annually through November 2033.

Annual requirements to pay principal and interest on the long-term obligations at June 30, 2021, are as follows:

<u>Year ended June 30:</u>	Annual Requirements	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 554,000	\$ 237,405
2023	570,000	221,337
2024	586,000	205,352
2025	603,000	187,818
2026	620,000	170,336
2027 and after	5,645,000	670,641
Total	<u>\$ 8,578,000</u>	<u>\$ 1,692,889</u>

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2021, is presented as follows:

	<u>Balance</u> <u>July 01, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Current</u> <u>Portion</u>
Revenue bonds payable	<u>\$ 9,117,000</u>	<u>\$ -</u>	<u>\$ (539,000)</u>	<u>\$ 8,578,000</u>	<u>\$ 554,000</u>

FAYETTEVILLE STATE UNIVERSITY HOUSING FOUNDATION, LLC

Notes to the Financial Statements

June 30, 2021 and 2020

NOTE 7 - LONG-TERM LIABILITIES (Continued)

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

	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2021	Principal Outstanding June 30, 2021
<u>Revenue Bonds Payable:</u>						
Student Housing Project	2017	2.820%	11/01/2033	\$ 10,150,000	\$ 1,572,000	\$ 8,578,000

NOTE 8 - NET POSITION

The Housing Foundation reports four classes of net position: net investment in capital assets, restricted net position-nonexpendable, restricted net position-expendable, and unrestricted net position. At June 30, 2021 and 2020, all net position were classified as unrestricted net position.

NOTE 9 - RISK MANAGEMENT

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

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through September 10, 2021 which is the date the financial statements were available to be issued.

As of the date of issuance of the Foundation's audit, there is a pandemic situation regarding the COVID-19 virus. The Housing Foundation is monitoring the effect of this pandemic on its financial operations. At this time, management has evaluated the situation and had concluded no additional disclosures are warranted.