

**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC., AND SUBSIDIARY  
FAYETTEVILLE, NORTH CAROLINA**

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Year ended June 30, 2014

**CONTENTS**

	<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	13
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>	21



## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Fayetteville State University Foundation, Inc., and Subsidiary  
Fayetteville, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Fayetteville State University Foundation, Inc., and Subsidiary (a nonprofit organization), which comprise the statement of net position as of June 30, 2014, and the related statement of revenues expenses, and changes in net position and the statement of cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

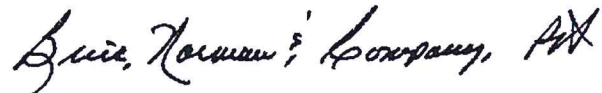
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014, on our consideration of Fayetteville State University Foundation, Inc., 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 Foundation, Inc., and Subsidiary's internal control over financial reporting and compliance.



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

November 4, 2014  
Fayetteville, North Carolina



**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC., AND SUBSIDIARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Introduction**

Fayetteville State University Foundation, Inc. (Foundation), and Subsidiary provides this overview and Management Discussion and Analysis to assist in understanding the statements and Notes to the Financial Statements presented herewith for the year ended June 30, 2014, and includes comparative data for the year ended June 30, 2013. The discussion describes important trends and events that have impacted the fiscal health of the Foundation and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the 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 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 and the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are discussed in later sections of this discussion and analysis.

The Statement of Cash Flows provides information relative to the 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 Revenue, Expenses, and Change in Net Position as adjusted for changes in the beginning and ending balance of noncash accounts on the Statement of Net Position.

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

associated risk of deposits and investments, detailed information on deposits and investments, long-term liabilities, revenues, expenses, required information on insurance against losses, commitments and contingencies, and if necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the 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 Foundation as a whole using accounting methods similar to those used in the private-sector. The Foundation includes as a subsidiary the Fayetteville State University Student Housing Foundation, LLC (Housing 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 Foundation's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2014. The combined net position for the Foundation increased \$1.96 million.

### **Summary of Net Position**

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

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



<b>Condensed Summary of Net Position</b>				
	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
<b>Assets:</b>				
Current Assets	\$ 4,548,982	\$ 3,694,223	\$ 854,759	23.14%
Noncurrent Assets:				
Capital	8,792,550	9,171,005	(378,455)	-4.13%
Investments	4,466,342	3,937,268	529,074	13.44%
Other	646,632	-	646,632	100.00%
Total Assets	<u>18,454,506</u>	<u>16,802,496</u>	<u>1,652,010</u>	9.83%
<b>Liabilities:</b>				
Current Liabilities	355,525	334,181	21,344	6.39%
Hedging Derivative Liability	2,218,503	2,338,924	(120,421)	-5.15%
Noncurrent Liabilities	12,100,000	12,425,000	(325,000)	-2.62%
Total Liabilities	<u>14,674,028</u>	<u>15,098,105</u>	<u>(424,077)</u>	-2.81%
<b>Net Position:</b>				
Net Investment in Capital Assets	-	-	-	0.00%
Restricted:				
Nonexpendable	3,725,573	2,898,465	827,108	28.54%
Expendable	4,673,564	3,851,583	821,981	21.34%
Unrestricted	(2,400,156)	(2,706,733)	306,577	-11.33%
Total Net Position	<u>\$ 5,998,981</u>	<u>\$ 4,043,315</u>	<u>\$ 1,955,666</u>	48.37%

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

As of June 30, 2014, total Foundation net position was \$5.99 million. The Foundation's largest assets are the capital assets of \$8.79 million, representing 47.44% of total assets. Current assets increased \$854 thousand or 23.14%, due to marginal increases in pledges, investments, and cash in bank. Noncurrent capital assets decreased by \$378 thousand or 4.13%, due to depreciation. Investments increased by \$529 thousand or 13.44% due to gain in market value of the foundation endowment.

The Foundation's liabilities totaled \$14.67 million at June 30, 2014. Current liabilities of \$355 thousand and noncurrent liabilities of \$12.10 million mainly consists of bonds payable. Bonds payable is the Foundation's largest liability, totaling \$12.42 million and representing 84.67% of total Foundation's liabilities. The bonds will be repaid by a lease with the University.

The Foundation's current assets of \$9.01 million covered current liabilities of \$355 thousand at a ratio of 25.35 (\$25.35 in current assets for every \$1 in current liabilities).

### **Summary of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or 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 Summary of Net Position is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the Foundation, both operating and nonoperating, the expenses paid by the Foundation, operating and non-operating, and any other revenues, expenses, and any gains and/or losses received or spent by the Foundation.

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

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

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
<b>Operating Revenues</b>				
Operating Revenues	\$ 1,881,188	\$ 1,826,396	\$ 54,792	3.00%
Commissions	9,379	-	9,379	100.00%
Total Revenues	<u>1,890,567</u>	<u>1,826,396</u>	<u>64,171</u>	3.51%
<b>Operating Expenses:</b>				
Rental Operating Costs	568,188	546,647	21,541	3.94%
Fees and Professional Services	12,427	16,494	(4,067)	-24.66%
Services	49,873	80,020	(30,147)	-37.67%
Depreciation	298,162	297,379	783	0.26%
Total Operating Expenses	<u>928,650</u>	<u>940,540</u>	<u>(11,890)</u>	-1.26%
Operating Income	<u>961,917</u>	<u>885,856</u>	<u>76,061</u>	8.59%
<b>Nonoperating Revenues (Expenses):</b>				
Investment Income	535,638	370,602	165,036	44.53%
Noncapital Gifts	369,452	175,987	193,465	109.93%
Financing Fees	(156,663)	(157,166)	503	-0.32%
University Support	(198,002)	(35,812)	(162,190)	452.89%
Interest Expense	(383,784)	(404,010)	20,226	-5.01%
Other Nonoperating Revenue	-	3,237	(3,237)	-100.00%
Net Nonoperating Revenues	<u>166,641</u>	<u>(47,162)</u>	<u>213,803</u>	-453.34%
Additions to Endowments	827,108	202,170	624,938	309.12%
Increase in Net Position	<u>1,955,666</u>	<u>1,040,864</u>	<u>914,802</u>	87.89%
<b>Net Position:</b>				
Beginning of Year	4,043,315	3,002,451	1,040,864	34.67%
End of Year	<u>\$ 5,998,981</u>	<u>\$ 4,043,315</u>	<u>\$ 1,955,666</u>	48.37%

The Condensed Summary of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$1.95 million for the fiscal year. The Housing Foundation has entered into a lease agreement with Fayetteville State University for the lease of 341 units to be paid on a semester basis. The rental fee for the year ended June 30, 2014 is \$1,881,188. A new lease was entered into with a term of ten years beginning May 16, 2011. Rent is to increase annually not to exceed the increase in the Consumer Price Index for the preceding year and in no case more than 3%. Operating revenues increased \$54 thousand or 3% in fiscal year 2014 due to this annual rent increase.



In FY14 the Housing Foundation collected commissions back pay from Mac-Gray Campus Solutions. Mac-Gray is a Laundry Company that the Housing Foundation has contracted with to provide laundry services to UPA residence hall. Back pay commissions were generated through collections from the Washers and Dryers from December 2008 through February 2014.

Operating expenses decreased \$11 thousand or 1.26%, mainly due to a decrease in service expenses. The Foundation's fees and professional services declined as a result of the auditing expense being classified as a service. The total services declined primarily due to the fact that the Foundation did not pay the annual \$15 thousand dollars for the scoreboard, athletics assumed the responsibility in FY14. The Foundation also saw a decline in travel related expenses.

The foundation's Endowment is invested with Commonfund Investment firm. In FY14 the investment increased \$165 thousand dollars or 44.53% due to favorable market conditions. Noncapital gifts grew \$193 thousand or 109.93% due to an increase in non-endowed scholarship gifts. University support increased by \$162 thousand or 452.89% in direct relation to the increase in noncapital gifts.

Additions to endowments increased \$624 thousand or 309.12% due to an increase in gifts, pledges and investment income.

There was no new capital projects for the fiscal year 2014, minor repairs were completed for UPA.

### Long-Term Debt Activities

The Foundation incurred long-term debt to finance the construction, equipping, and furnishing of UPA. As shown in the table below, the Foundation's long-term debt is \$12,425,000 as of June 30, 2014. For detailed information about long-term debt, see Note 7 of the Notes to the Financial Statements.

	2014	2013	Increase/ (Decrease)
Total Long-Term Liabilities- Bonds Payable	\$ 12,425,000	\$ 12,730,000	\$ (305,000)

### Factors Impacting Future Periods

The Foundation has embarked upon The Fund for FSU. This is a five year capital campaign with a goal of \$25 million. Funding will be mainly utilized for scholarships. The Foundation is also committed to ensuring UPA, operated through the Housing Foundation, is a top choice among students residing on the campus of the University. The execution of a lease of all 341 units, which is effective until May 15, 2021 with an option to renew for five additional years, provides the resources necessary to maintain UPA as the housing of choice for students attending the University. Considering these factors, management believes that the Foundation is well positioned to fulfill its mission.

**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC. AND SUBSIDIARY**  
CONSOLIDATED STATEMENT OF NET POSITION  
June 30, 2014  
(With comparative totals at June 30, 2013)

	2014	2013
<b><u>ASSETS</u></b>		
Current Assets:		
Cash in bank	\$ 781,779	\$ 478,467
Restricted cash	3,558,522	3,143,510
Accounts receivable	-	-
Current portion of Pledges receivable - net of discount of \$8,243	208,681	72,246
Total current assets	4,548,982	3,694,223
Noncurrent Assets:		
Restricted cash - Housing Foundation	-	-
Pledges receivable - net of discount allowance for uncollectable pledges of \$162,868	646,632	80,293
Endowment Investments	3,990,420	3,461,346
Investments - Land Held	475,922	475,922
Capital Assets nondepreciable: Land	708,888	708,888
Capital Assets depreciable:		
Furniture and equipment	1,116,408	1,116,408
Buildings	11,715,497	11,715,497
Total capital assets: depreciable	12,831,905	12,831,905
Less: accumulated depreciation	4,748,243	4,450,081
Total capital assets: depreciable net	8,083,662	8,381,824
Total noncurrent Assets	13,905,524	13,108,273
Total Assets	18,454,506	16,802,496
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Accumulated Decrease in Fair Value of Hedging	2,218,503	2,338,924
Total Deferred Outflows of Resources	2,218,503	2,338,924
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable - trade	30,525	29,181
Current portion of long-term debt	325,000	305,000
Total current liabilities	355,525	334,181
Noncurrent Liabilities:		
Hedging Derivative Liability	2,218,503	2,338,924
Long-term debt	12,100,000	12,425,000
Total Noncurrent Liabilities	14,318,503	14,763,924
Total Liabilities	14,674,028	15,098,105
<b><u>NET POSITION</u></b>		
Net position:		
Net investment in Capital Assets	-	-
Restricted for:		
Nonexpendable:		
Fayetteville State University Foundation	3,725,573	2,898,465
Expendable:		
Fayetteville State University Foundation	2,786,868	2,134,786
Subsidiary - FSU Housing Foundation	1,886,696	1,716,797
Unrestricted:		
Fayetteville State University Foundation	708,170	703,596
Subsidiary - FSU Housing Foundation	(3,108,326)	(3,410,329)
Total Net Position	\$ 5,998,981	\$ 4,043,315

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

**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC. AND SUBSIDIARY**  
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION

For the Fiscal Year ended June 30, 2014  
(With comparative totals for the Year ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Revenue:		
Operating Revenue:		
Rental income	\$ 1,881,188	\$ 1,826,396
Commissions	9,379	-
Total operating revenue	<u>1,890,567</u>	<u>1,826,396</u>
Expenses:		
Operating Expenses:		
Depreciation	298,162	297,379
Fees	6,427	6,244
Professional services	6,000	10,250
Rental operating costs	568,188	546,647
Other current services	49,873	80,020
Total operating expenses	<u>928,650</u>	<u>940,540</u>
Operating income (loss)	<u>961,917</u>	<u>885,856</u>
Nonoperating Revenues (Expenses)		
Noncapital gifts	369,452	175,987
University support	(198,002)	(35,812)
Investment income, net of investment expense of \$18,996 and \$16,677	535,638	370,602
Financing fees	(156,663)	(157,166)
Interest and fees on Capital Debt and Leases	(383,784)	(404,010)
Other nonoperating revenue	-	3,237
Net Nonoperating Revenues (Expenses)	<u>166,641</u>	<u>(47,162)</u>
Additions to endowments	<u>827,108</u>	<u>202,170</u>
Increase in Net Position	1,955,666	1,040,864
Net Assets:		
Net Position - Beginning of year	<u>4,043,315</u>	<u>3,002,451</u>
Net Position - End of year	<u>\$ 5,998,981</u>	<u>\$ 4,043,315</u>

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



**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the Fiscal Year ended June 30, 2014  
(With comparative totals for the Year ended June 30, 2013)

	2014	2013
Cash flows from Operating Activities:		
Received from Rents and Commissions	\$ 1,890,567	\$ 1,826,396
Payments to Vendors and Suppliers	(629,805)	(620,573)
Net cash provided by operating activities	1,260,762	1,205,823
Cash flows from Noncapital Financing Activities:		
Additions to permanent endowments	-	54,031
Noncapital gifts	493,786	175,987
University support	(198,002)	(35,811)
Other receipts	-	3,237
Other expenditures	(18,335)	(16,221)
Net cash provided by noncapital financing activities	277,449	181,223
Cash flows from Capital and Related Financing Activities:		
Purchase of capital assets	-	(15,675)
Principal paid on Capital Debt and Leases	(305,000)	(290,000)
Financing fees	(156,663)	(157,166)
Interest and fees paid on Capital Debt and Leases	(383,784)	(404,010)
Net cash used by capital and related financing activities	(845,447)	(866,851)
Cash flows from Investing Activities:		
Proceeds from sale of investment(s)	18,335	16,221
Interest on investments	7,225	6,256
Purchase of investments	-	-
Net cash provided (used) by investing activities	25,560	22,477
Net increase (decrease) in cash	718,324	542,672
Cash:		
Cash and cash equivalents - beginning of year	3,621,977	3,079,305
Cash and cash equivalents - end of year	\$ 4,340,301	\$ 3,621,977

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



**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the Fiscal Year ended June 30, 2014  
(With comparative totals for the Year ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Reconciliation of net operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 961,917	\$ 885,856
Adjustment to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	298,162	297,379
Changes in assets and liabilities:		
Accounts payable	763	22,588
Net cash provided by operating activities	<u>\$ 1,260,842</u>	<u>\$ 1,205,823</u>
Noncash investing, noncapital, capital & financing activities:		
Change in fair value of investments	<u>\$ 529,074</u>	<u>\$ 381,023</u>
Reconciliation of Cash and Cash Equivalents		
Current Assets:		
Cash and cash equivalents	781,779	478,467
Restricted cash and cash equivalents	3,558,522	3,143,510
Noncurrent Assets:		
Restricted Cash - Housing Foundation	-	-
	<u>\$ 4,340,301</u>	<u>\$ 3,621,977</u>

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

**FAYETTEVILLE STATE UNIVERSITY**  
**FOUNDATION, INC. AND ITS SUBSIDIARY**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2014

NOTE 1 - ORGANIZATIONAL STRUCTURE AND PURPOSE

Fayetteville State University Foundation, Inc. (Foundation) is a separate and distinct entity from Fayetteville State University. It was chartered by the State of North Carolina and has its own board of directors. Its purpose is to raise and disburse funds for programs that will further the educational purposes of Fayetteville State University.

The Foundation, through a wholly owned subsidiary, The Fayetteville State University Housing Foundation, LLC, operates a student housing facility.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statement - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the 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 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 consolidated financial statements of the Foundation are prepared using the economic resource measurement focus and the accrual basis of accounting by recognizing revenues when earned and expenses when an obligation has been incurred, regardless of the timing of the cash flows. Support that is restricted by the donor is reported as an increase in unrestricted net position if the restriction expires within the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in restricted net position depending on the nature of the restriction. When a restriction expires, restricted net position are reclassified to unrestricted net position.

**Cash and Cash Equivalents**

This classification includes cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

**Receivables**

Receivables are recorded net of estimated uncollectible amounts.

**Capital Assets**

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

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

**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC. AND ITS SUBSIDIARY**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Depreciation**

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

**Restricted Position**

Certain resources are reported as restricted position 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 Foundation classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the 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 Foundation, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

**Basis of Consolidation**

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

**Income Taxes**

Fayetteville State University Foundation received its 501c(3) status in 1969.

Fayetteville State University Foundation files federal Form 990, *Return of Organization Exempt from Income Tax*, on a fiscal year basis beginning July 1 and ending June 30. The Foundation 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 Foundation 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 July 1, 2010, the Foundation adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Foundation has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Foundation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Foundation's financial condition, results of operations or cash flows. Accordingly, the Foundation has not recorded any reserves, or related accruals for interest and penalties for income tax positions at June 30, 2014.

The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Foundation believes it is no longer subject to income tax examinations for years prior to 2010.

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



**FAYETTEVILLE STATE UNIVERSITY**  
**FOUNDATION, INC. AND ITS SUBSIDIARY**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2014

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.

**Long-Lived Assets**

*Accounting for the Impairment or Disposal of Long-Lived Assets* requires that long-lived assets be held and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of June 30, 2014, management determined that no indicators of impairment existed.

NOTE 3 - NET POSITION

The Foundation reports four classes of net position: net investment in capital assets, restricted net position-nonexpendable, restricted net position-expendable, and unrestricted net position.

**Net Investment in Capital Assets**

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

**Restricted Net Position - Nonexpendable**

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

**Restricted Net Position - Expendable**

Expendable restricted net position include resources for which the Foundation is legally or contractually obligated to spend in accordance with restriction imposed by external parties.

**Unrestricted Net Position**

Unrestricted net position include resources derived from unrestricted gifts and interest income.

NOTE 4 - SUBSIDIARY INFORMATION

In August 2001, Fayetteville State University Foundation formed a wholly owned subsidiary named The Fayetteville State University Housing Foundation, LLC whose purpose is to own and manage off-campus housing for students of Fayetteville State University. The Foundation issued \$14,950,000 in tax-exempt revenue bonds in October 2001 to finance the purchase and construction of several housing units. Repayment of debt will be from rental revenue. Balances from the June 30, 2014 statement of net position of the subsidiary have been included in the Foundation's consolidated statement of net position. In addition, balances from the subsidiary's statement of revenues, expenses, and changes in net position for the year ended June 30, 2014 are included in the Foundation's consolidated statement of revenues, expenses, and changes in net position.

NOTE 5 - DEPOSITS AND INVESTMENTS

*Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, requires the Foundation to disclose significant concentrations of credit risk regardless of the degree of risk. At June 30, 2014, the Foundation had \$2,411,715 deposited with the State of North Carolina through the State Treasurer's office. The Foundation maintains balances in two banks. The balances in the banks are secured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2014, the bank balance totaled \$1,928,586; \$1,636,696 of which was uninsured.

**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC. AND ITS SUBSIDIARY**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2014

NOTE 5 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are presented in the financial statements at fair market value. Investments earned realized and unrealized gains of \$547,410 during the year ended June 30, 2014, and incurred management fees of \$18,996. Investments within the account are composed of the following:

	Cost	Market	Unrealized Appreciation
UNC Investment Fund, LLC	\$ 2,974,620	\$ 3,990,420	\$ 1,015,800

UNC Investment Fund, LLC - At June 30, 2014, the Foundation's investments include \$3,990,420 which represents the Foundation's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from the UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

At June 30, 2014 the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,886,696 which represents the Housing Foundation's investments with US Bank, the trustee for the 2001 bonds. US Bank holds these funds in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2014. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Domestic and international capital markets may experience significant volatility with respect to certain securities. As a result, significant fluctuations in the fair value of investments may have occurred subsequent to June 30, 2014.

Investments also include donated land. At June 30, 2014, land value totaled \$475,922.

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Non depreciable:				
Land	\$ 708,888	\$ -	\$ -	\$ 708,888
Capital Assets, Depreciable:				
Land and buildings	11,715,497	-	-	11,715,497
Furniture and equipments	1,116,408	-	-	1,116,408
Total Capital Assets, Depreciable	12,831,905	-	-	12,831,905
Less Accumulated Depreciation:				
Furniture and equipment	1,101,517	1,567	-	1,103,084
Land and building	3,348,564	296,595	-	3,645,159
Total Accumulated Depreciation	4,450,081	298,162	-	4,748,243
Total Capital Assets, Depreciable, net	8,381,824	(298,162)	-	8,083,662
Total Capital Assets	\$ 9,090,712	\$ (298,162)	\$ -	\$ 8,792,550



**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC. AND ITS SUBSIDIARY**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 7 - OBLIGATION BONDS**

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

Annual requirements are as follows:

<u>Year ended June 30:</u>	Annual Requirements	
	Principal	Interest
2015	\$ 325,000	\$ 396,783
2016	340,000	386,405
2017	360,000	375,547
2018	380,000	364,051
2019	400,000	351,916
2020 and after	10,620,000	3,252,347
Total	\$ 12,425,000	\$ 5,127,049

The Housing Foundation has entered into an interest rate swap arrangement to lock in the interest rate on 90% of the bond at 3.45%. The remainder of the bond is at a variable interest rate based on the BMA index.

**NOTE 8 - STUDENT HOUSING LEASE AGREEMENT**

The FSU Housing Foundation, LLC has entered into a lease agreement with Fayetteville State University for the lease of 341 units to be paid on a semester basis. The rental fee for the year is \$1,881,188. A new lease was entered into with a term of ten years beginning May 16, 2011. Rent is to increase annually not to exceed the increase in the Consumer Price Index for the preceding year and in no case more than 3%.

**NOTE 9 - LONG-TERM LIABILITIES**

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

	Balance	Additions	Reductions	Balance
	July 1, 2013			June 30, 2014
Revenue Bond Payable	\$ 12,730,000	\$ -	\$ 305,000	\$ 12,425,000

Current portion of long-term debt at June 30, 2014 is \$325,000.

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014
Student Housing Project				\$ 14,950,000	\$ 2,525,000
Total Revenue Bonds (principal only)				\$ 14,950,000	\$ 2,525,000

**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC. AND ITS SUBSIDIARY**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 9 - LONG-TERM LIABILITIES (CONTINUED)**

In connection with the long-term debt the Housing Foundation has a direct-pay letter of credit in the amount of \$12,631,675 with Wells Fargo Bank, National Association. The direct-pay letter of credit serves as a credit enhancement to the bonds and expires July 14, 2015. Short-term debt activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Draws	Repayments	Balance June 30, 2014
Direct-pay letter of credit	\$ -	\$ 383,784	\$ 383,784	\$ -

**NOTE 10 - DERIVATIVE INSTRUMENT**

Type	Notional Amount	Change in Fair Value		Fair Value at June 30, 2014	
		Classification	Increase (decrease)	Classification	Asset (Liability)
Hedging Derivative Instrument				Hedging	
Cash Flow Hedge: Pay fixed, receive variable interest rate	\$11,182,500	Deferred Outflow of Resources	\$ (120,421)	Derivative Liability	\$ (2,218,503)
Total Derivative Instruments			\$ (120,421)		\$ (2,218,503)

The Hedging derivative instrument held at June 30, 2014 is as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date
Pay-fixed, receive variable interest rate swap	Hedge Cash flows for 2001 Bonds	\$ 11,182,500	10/1/2001	11/1/2033

Terms

Pay 3.45%, Receive 67% of 1-month USD-LIBOR-BBA

The fair value of the pay-fixed, receive-variable interest rate swap was estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

**Interest Rate Risk:** The Foundation is exposed to interest rate risk on the interest rate swap. The fair value of this instrument is highly sensitive to interest rate changes. As the London Interbank Offered Rate (LIBOR) increases, the Foundation's net payment on the swap decreases.

**Basis Risk:** The Foundation is exposed to basis risk on the pay fixed interest rate swap because the variable-rate payments received by the Foundation on the hedging derivative is based on a deferent rate than the Foundation pays on its 2001 Series variable rate debt. As of June 30, 2014, the interest rate on the Foundation's pay-fixed interest rate swap is benchmarked to 67% of 1 month LIBOR, which is 0.13%. The variable-interest rate paid on the Foundation's debt is not benchmarked to a reference rate but is reset weekly by the remarketing agent based upon market conditions and the University's credit rating. At June 30, 2014 the interest rate upon the demand bond was 0.06%.

**Termination Risk:** The Foundation or its counterparty may terminate the pay-fixed, receive-variable interest rate swap if the other party fails to perform under the terms of the contract.

**FAYETTEVILLE STATE UNIVERSITY  
FOUNDATION, INC. AND ITS SUBSIDIARY**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 10 - FINANCING FEES**

Included in bonds payable is a variable rate demand bond issue. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University's remarketing or paying agents. With regards to the bond, the University has entered into a take-out agreement, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

The Housing Foundation pays an annual financing fee of 1.3% quarterly to Wells Fargo Bank for the remarketing of the bond debt and standby commission fee. The amount paid for the year ended June 30, 2014 was \$156,663. Under an irrevocable letter of credit issued by Wells Fargo, National Association, the trustee is entitled to draw amounts sufficient to pay principal and interest on the bonds and amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase.

If the remarketing agent is unable to resell any bonds that are "put" within 90 days of the "put" date, the University has a take-out agreement with Wells Fargo Bank, National Association to convert the amount of bonds "put" to an installment loan payable over a five-year period bearing an adjustable interest rate equal to the bank's prime lending rate plus 1.5%. The take-out agreement expires on letter of credit expiration date. Per the take-out agreement, the structure of the installment loan cannot allow the bond principal to be retired faster than originally prescribe in the bond indenture amortization schedule.

**NOTE 11 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid for interest during the year ended June 30, 2014 was \$383,784.

**NOTE 12 - PROMISES TO GIVE**

Promises to give receivable in years exceeding one year from the Foundation's fiscal year end date are adjusted to fair value using a risk-adjusted interest rate factor determined at June 30 of the year in which the pledge was received. The interest rate, so determined, that was used for this purpose is 4%. Unconditional promises to give at June 30, 2014 are reported as follows:

Total promises to give	\$	1,026,424
Less:		
Allowance for uncollectable pledges		(61,585)
Discount to present value		(109,526)
Promises to give restricted for endowed scholarships, net	\$	<u>855,313</u>

Of the total promises to give at June 30, 2014, \$216,924 is due within one year, with the remaining \$809,500 over the next four years. Amortization of the present value discount included in contribution revenue amounted to \$2,854 for the year ended June 30, 2014.

**NOTE 13 - RISK MANAGEMENT**

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

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

The Foundation has outstanding commitments for accounts payable of \$30,525 and no other outstanding commitments.



**FAYETTEVILLE STATE UNIVERSITY**  
**FOUNDATION, INC. AND ITS SUBSIDIARY**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2014

NOTE 15 - ENDOWMENT SPENDING POLICY AND REINVESTED ENDOWMENT INCOME

Investment and spending of endowment net assets are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them be contract or donor agreements.

The composition of endowment net position and changes in net position as of June 30, 2014 are as follows:

	Restricted Net Position - Expendable	Restricted Net Position - Nonexpendable	Total
Balance at June 30, 2013	\$ 1,626,930	\$ 2,898,465	\$ 4,525,395
Contributions	-	827,108	827,108
Interest income	3,794	-	3,794
Appreciation	547,410	-	547,410
Fees	(18,996)	-	(18,996)
Program expenditures	(45,948)	-	(45,948)
Balance at June 30, 2014	<u>\$ 2,113,190</u>	<u>\$ 3,725,573</u>	<u>\$ 5,838,763</u>

NOTE 16 RESTRICTED NET POSITION - EXPENDABLE

Restricted net position - expendable includes the following;

Endowment restricted net assets	\$ 2,113,190
Other non endowment net assets	673,678
Total restricted net position - expendable	<u>\$ 2,786,868</u>

NOTE 17 - SUBSEQUENT EVENTS

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



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

The Board of Directors  
Fayetteville State University Foundation, Inc., 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 Foundation, Inc., and Subsidiary (a nonprofit organization), which comprise the statement of net position as of June 30, 2014, and the related statement of revenues, expenses, and changes in net position, and statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Fayetteville State University Foundation, Inc., 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 Foundation, Inc., 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.

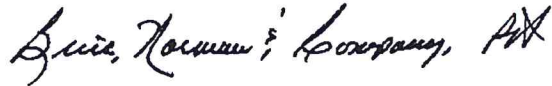


**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Fayetteville State University Foundation, Inc., 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

November 4, 2014  
Fayetteville, North Carolina