

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

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

Year ended June 30, 2018

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Buie, Norman & Co., P.A.



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INDEPENDENT AUDITOR'S 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, 2018, 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, 2018, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

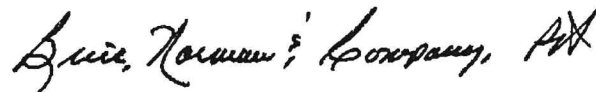
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2018, on our consideration of Fayetteville State University 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

October 16, 2018
Fayetteville, North Carolina

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

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, 2018 and includes comparative data for the year ended June 30, 2017. The discussion describes important trends and events that have impacted the fiscal health of the 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, 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 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 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, 2018. The combined net position for the Foundation increased \$987 thousand.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, 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 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 position is 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 net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net position consists primarily of the Foundation's permanent endowment funds and is only available for investment purposes. Restricted expendable net position is available for use by the Foundation but must be spent for purposes as determined by 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 Foundation for any lawful purpose of the Foundation.

	Condensed Statement of Net Position			Percent Change
	2018	2017	Increase/ (Decrease)	
Assets				
Current Assets	\$ 4,426,967	\$ 3,573,605	\$ 853,362	23.88%
Noncurrent Assets:				
Investments	6,895,890	6,089,743	806,147	13.24%
Other	9,694,715	10,575,129	(880,414)	-8.33%
Total Assets	<u>21,017,572</u>	<u>20,238,477</u>	<u>779,095</u>	3.85%
Liabilities				
Current Liabilities	586,346	284,783	301,563	105.89%
Noncurrent Liabilities	9,641,000	10,150,000	(509,000)	-5.01%
Total Liabilities	<u>10,227,346</u>	<u>10,434,783</u>	<u>(207,437)</u>	-1.99%
Net Position				
Net Investment in Capital Assets	-	-	-	0.00%
Restricted:				
Nonexpendable	3,512,985	3,307,316	205,669	6.22%
Expendable	4,380,952	4,381,199	(247)	-0.01%
Unrestricted	2,896,289	2,115,179	781,110	36.93%
Total Net Position	<u>\$ 10,790,226</u>	<u>\$ 9,803,694</u>	<u>\$ 986,532</u>	10.06%

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

As of June 30, 2018, total Foundation net position was \$10.79 million. The Foundation's largest asset is a capital lease receivable of \$10.15 million, representing 48.29% of total assets. Current assets increased \$853 thousand or 23.88%, due to an increase in cash in bank. Other noncurrent assets decreased \$880 thousand due to a decrease of the capital lease receivable and a decrease of the pledges receivable.

The Foundation's liabilities totaled \$10.22 million at June 30, 2018. Current liabilities of \$586 thousand and noncurrent liabilities of \$9.64 million consist mainly of bonds payable.

The Foundation's current assets of \$4.43 million covered current liabilities of \$586 thousand, at a ratio of 7.55 (\$7.55 in current assets for every \$1 in current liabilities).

At June 30, the Foundation had a liability for bonds payable of \$10.15 million. Bonds payable is the Foundation's largest liability, representing 99.24% of total Foundation's 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 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 Statement of Revenues, Expenses, and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Operating Revenues				
Operating Revenues	\$ 1,670,431	\$ 1,877,992	\$ (207,561)	-11.05%
Sales and Services	8,507	32,762	(24,255)	-74.03%
Total Revenues	<u>1,678,938</u>	<u>1,910,754</u>	<u>(231,816)</u>	-12.13%
Operating Expenses				
Rental Operating Costs	-	445,571	(445,571)	-100.00%
Salaries and Benefits	126,378	-	126,378	100.00%
Supplies and Materials	169,032	-	169,032	100.00%
Utilities	235,040	-	235,040	100.00%
Fees and Professional Services	-	36,804	(36,804)	-100.00%
Services	402,801	112,412	290,389	258.33%
Depreciation	-	179,492	(179,492)	-100.00%
Total Operating Expenses	<u>933,251</u>	<u>774,279</u>	<u>158,972</u>	20.53%
Operating Income	<u>745,687</u>	<u>1,136,475</u>	<u>(390,788)</u>	-34.39%
Nonoperating Revenues (Expenses)				
Gain on sale of property	-	2,042,659	(2,042,659)	-100.00%
Investment Income (Loss)	971,723	716,411	255,312	35.64%
Bond Closing Costs	-	(233,042)	233,042	-100.00%
Noncapital Gifts	15,911	112,091	(96,180)	-85.81%
Financing Fees	-	(314,322)	314,322	-100.00%
University Support	(662,473)	(472,671)	(189,802)	40.16%
Interest Expense	<u>(291,000)</u>	<u>(369,167)</u>	<u>78,167</u>	-21.17%
Net Nonoperating Revenues (Expenses)	<u>34,161</u>	<u>1,481,959</u>	<u>(1,447,798)</u>	-97.69%
Additions to Endowments	<u>206,684</u>	<u>200,985</u>	<u>5,699</u>	2.84%
Increase in Net Position	986,532	2,819,419	(1,832,887)	-65.01%
Net Position				
Beginning of Year	9,803,694	6,984,275	2,819,419	40.37%
End of Year	<u>\$ 10,790,226</u>	<u>\$ 9,803,694</u>	<u>\$ 986,532</u>	10.06%

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shows an increase in net position of \$987 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%.

Total operating revenues decreased \$232 thousand or 12.13% in fiscal year 2018, due to a portion of the lease payment being reclassified as investment income.

Operating expenses increased \$159 thousand or 20.53% due primarily to additional repairs taking place at UPA. Service costs increased \$290 thousand or 258.33% due to

increased general service and maintenance costs. Depreciation decreased \$179 thousand or 100.00% due to the reclassification of the lease agreement in FY17 from operating to capital.

The Foundation’s Endowment is invested with UNC Management Company. In FY18 our investment income increased \$255 thousand or 35.64% due primarily to market returns of 12.00% for the fiscal year. Noncapital gifts decreased by \$96 thousand or 85.81% due to write-offs for pledges that were not fulfilled. University support increased by \$190 thousand or 40.16% due to an increase in general scholarship giving.

Additions to endowments increased \$6 thousand or 2.84% due to an increase in gifts designated to Endowed Scholarships.

There were no new capital projects for the fiscal year 2018, however there was an increase in deferred maintenance repairs completed, as well as repairs and renovations associated with the flooding that occurred in one UPA phase in FY17 were completed in FY18.

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 \$10,150,000 as of June 30, 2018. For detailed information about long-term debt, see Note 9 of the Notes to the Financial Statements.

	2018	2017	Increase/ (Decrease)
Total Long-Term Liabilities- Bonds Payable	\$ 10,150,000.00	\$ 10,150,000.00	\$ -

Factors Impacting Future Periods

The Foundation is committed to ensuring UPA, operated through the Housing Foundation, is a top choice among students. 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. 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, 2018
(With comparative totals at June 30, 2017)

	2018	2017
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 2,441,036	\$ 1,869,050
Restricted cash	1,388,574	1,328,469
Accrued interest receivable	48,765	47,970
Current portion of Pledges receivable - net of discount of \$1,564	39,592	328,116
Current Portion of Capital Lease	509,000	-
Total current assets	4,426,967	3,573,605
Noncurrent Assets:		
Capital lease receivable	9,641,000	10,150,000
Pledges receivable - net of discount and allowance for uncollectable pledges of \$13,295	53,715	425,129
Endowment Investments	6,419,968	5,613,821
Investments - Land Held	475,922	475,922
Total noncurrent Assets	16,590,605	16,664,872
Total Assets	21,017,572	20,238,477
 <u>LIABILITIES</u>		
Current liabilities:		
Accounts payable - trade	28,581	204,768
Due to Fayetteville State University	-	32,045
Interest payable	48,765	47,970
Long-Term Liabilities - Current Portion (Note 8)	509,000	-
Total current liabilities	586,346	284,783
Noncurrent Liabilities:		
Long-Term Liabilities, Net (Note 8)	9,641,000	10,150,000
Total Noncurrent Liabilities	9,641,000	10,150,000
Total Liabilities	10,227,346	10,434,783
 <u>NET POSITION</u>		
Net position:		
Restricted for:		
Nonexpendable:		
Fayetteville State University Foundation	3,512,985	3,307,316
Expendable:		
Fayetteville State University Foundation	4,380,952	4,381,199
Unrestricted:		
Fayetteville State University Foundation	507,500	508,091
Subsidiary - FSU Housing Foundation	2,388,789	1,607,088
Total Net Position	\$ 10,790,226	\$ 9,803,694

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, 2018
(With comparative totals for the Year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
Revenue:		
Operating Revenue:		
Rental income	\$ 1,670,431	\$ 1,877,992
Sales and services	8,507	32,762
Total operating revenue	<u>1,678,938</u>	<u>1,910,754</u>
Expenses:		
Operating Expenses:		
Depreciation	-	179,492
Fees	-	5,929
Professional services	-	30,875
Rental operating costs	-	445,571
Salaries and Benefits	126,378	-
Supplies and Materials	169,032	-
Utilities	235,040	-
Other current services	402,801	112,412
Total operating expenses	<u>933,251</u>	<u>774,279</u>
Operating income (loss)	<u>745,687</u>	<u>1,136,475</u>
Nonoperating Revenues (Expenses)		
Noncapital Gifts	15,911	112,091
University support	(662,473)	(472,671)
Gain on sale of property	-	2,042,659
Investment income, net of investment expense of \$30,315 and \$27,033	971,723	716,411
Bond closing costs	-	(233,042)
Financing fees	-	(314,322)
Interest and fees on Capital Debt and Leases	<u>(291,000)</u>	<u>(369,167)</u>
Net Nonoperating Revenues (Expenses)	<u>34,161</u>	<u>1,481,959</u>
Additions to endowments	<u>206,684</u>	<u>200,985</u>
Increase in Net Position	986,532	2,819,419
Net Assets:		
Net Position - Beginning of year	<u>9,803,694</u>	<u>6,984,275</u>
Net Position - End of year	<u>\$ 10,790,226</u>	<u>\$ 9,803,694</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, 2018
(With comparative totals for the Year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from Operating Activities:		
Received from Rents and Sales and Services	\$ 1,678,938	\$ 1,910,754
Payments to Vendors and Suppliers	<u>(1,110,324)</u>	<u>(364,994)</u>
Net Cash Provided by Operating Activities	<u>568,614</u>	<u>1,545,760</u>
Cash Flows from Noncapital Financing Activities:		
Additions to Permanent Endowments	206,684	200,985
Noncapital Gifts	675,848	430,848
University Support	<u>(662,473)</u>	<u>(472,671)</u>
Net cash provided by noncapital financing activities	<u>220,059</u>	<u>159,162</u>
Cash flows from Capital and Related Financing Activities:		
Repayment of Due to Fayetteville State University	(32,045)	-
Issuance of Bonds payable	-	10,150,000
Principal paid on Capital Debt and Leases	-	(11,760,000)
Financing fees	-	(314,322)
Bond closing costs	-	(233,042)
Interest and Fees paid on Capital Debt and Leases	<u>(290,205)</u>	<u>(321,197)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(322,250)</u>	<u>(2,478,561)</u>
Cash Flows from Investing Activities:		
Interest on Investments	313,668	77,035
Transfer to Endowment Investments	<u>(148,000)</u>	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>165,668</u>	<u>77,035</u>
Net Increase (Decrease) in Cash and Cash Equivalents	632,091	(696,604)
Cash:		
Cash and Cash Equivalents July 1, 2017 and 2016	<u>3,197,519</u>	<u>3,894,123</u>
Cash and Cash Equivalents June 30, 2018 and 2017	<u>\$ 3,829,610</u>	<u>\$ 3,197,519</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, 2018
(With comparative totals for the Year ended June 30, 2017)

	2018	2017
Reconciliation of net operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 745,687	\$ 1,136,475
Adjustment to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	-	179,492
Changes in assets and liabilities:		
Accrued Interest Receivable	(795)	-
Accrued Interest Payable	795	-
Accounts payable	(177,073)	197,748
Due to Fayetteville State University	-	32,045
Net cash provided by operating activities	\$ 568,614	\$ 1,545,760
Noncash investing, noncapital, capital & financing activities:		
Change in fair value of investments	\$ 658,146	\$ 592,147
Reconciliation of Cash and Cash Equivalents		
Current Assets:		
Cash and cash equivalents	2,441,036	1,869,050
Restricted cash and cash equivalents	1,388,574	1,328,469
	\$ 3,829,610	\$ 3,197,519

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

**FAYETTEVILLE STATE UNIVERSITY
FOUNDATION, INC., AND SUBSIDIARY**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The 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 SUBSIDIARY**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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 501(c)(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, 2018.

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 2014.

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 SUBSIDIARY**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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, 2018, 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 liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted Net Position - Nonexpendable

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

Restricted Net Position - Expendable

Expendable restricted net position 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. During the prior year the Series 2001 bonds were refunded and replaced with Series 2017 Student Housing Facilities Revenue Refunding Bond for \$10,150,000. Repayment of debt will be from rental revenue. Balances from the June 30, 2018 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, 2018 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. The Foundation maintains balances in one bank. The balance in the bank are secured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2018, the bank balance totaled \$1,797,639; \$1,547,639 of which was uninsured.

**FAYETTEVILLE STATE UNIVERSITY
FOUNDATION, INC., AND SUBSIDIARY**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are presented in the financial statements at fair market value. Investments earned realized and unrealized gains (losses) of \$687,577 during the year ended June 30, 2018, and incurred management fees of \$30,315. Investments within the account are composed of the following:

	Cost	Market	Unrealized Appreciation
UNC Investment Fund, LLC	\$ 3,820,445	\$ 6,419,968	\$ 2,617,522

UNC Investment Fund, LLC - At June 30, 2018, the Foundation's investments include \$6,419,968 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 and is not subject to any regulation oversight. 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, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$2,031,971, which represents the 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 1.4 years as of June 30, 2018. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Investments also include donated land. At June 30, 2018, land value totaled \$475,922.

NOTE 6 - FAIR VALUE MEASUREMENTS

To the extent available, the Foundation's investments are recorded at fair value as of June 30, 2018. GASB Statement No. 72, Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

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

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

**FAYETTEVILLE STATE UNIVERSITY
FOUNDATION, INC., AND SUBSIDIARY**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes the Housing Foundation's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2018:

	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Other Securities				
Investment in Real Estate	\$ 475,922	-	-	475,922
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	2,031,971			
UNC Investment Fund	6,419,968			
Total Investments by Fair Value Level	<u>8,451,939</u>			
Total Investments Measured at Fair Value	<u>\$ 8,927,861</u>			

Short-Term Investment Fund - Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB72. The University's position in the pool is measured and reported at fair value.

UNC Investment Fund - Ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month and in accordance with the UNC Investment Fund's operation procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB72. The University's position in the pool is measured and reported at fair value.

Investments in Real Estate - The Foundation currently holds parcels of land for resale valued at \$475,922. This investment is classified in Level 3. The real estate was donated to the Foundation to be sold. The fair value is initially determined by donor appraisal. The investment is periodically measured at fair value by comparing it to comparative sales, county property tax values and/or tentative asking prices.

NOTE 7 - OBLIGATION BONDS

In October, 2001 Fayetteville State University Housing Foundation, LLC sold \$14,950,000 in Series 2001 tax-exempt Revenue Bonds. These bonds 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.

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

Annual requirements to pay principal and interest on the long-term obligations at June 30, 2018 are as follows:

	Annual Requirements	
	Principal	Interest
<u>Year ended June 30:</u>		
2019	\$ 509,000	\$ 282,989
2020	524,000	268,937
2021	539,000	253,028
2022	554,000	237,405
2023	570,000	221,338
2024 and after	7,454,000	1,234,147
Total	<u>\$ 10,150,000</u>	<u>\$ 2,497,844</u>

**FAYETTEVILLE STATE UNIVERSITY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - HOUSING FOUNDATION, LLC LEASE AGREEMENT

Effective February 15, 2017, the State of North Carolina entered a lease agreement with Fayetteville State University Housing Foundation, LLC, whereby the State will lease the capital assets from Fayetteville State University Housing Foundation, LLC, for a period ending November 1, 2039. The lease includes a purchase option of \$1 plus the amount then necessary to pay the Bank any amount remaining outstanding with respect to the Advance under the Bond Purchase and Loan Agreement. The lease has been classified as a capital lease. As a result there is sale of assets in exchange for the capital lease receivable. The 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%.

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, 2018.

<u>Year Ended</u>	<u>Amount</u>
2019	\$ 791,989
2020	792,937
2021	792,028
2022	791,405
2023	791,338
2024 and after	8,688,147
Total minimum	<u>12,647,844</u>
Amount Representing Interest at 2.82%	<u>2,497,844</u>
Present Value of Future Lease Payments	<u>\$ 10,150,000</u>

NOTE 9 - LONG-TERM LIABILITIES

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

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>	<u>Current Portion</u>
Revenue Bonds Payable	\$ 10,150,000	\$ -	\$ -	\$ 10,150,000	\$ 509,000

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

<u>Purpose</u>	<u>Series</u>	<u>Interest Rate/ Ranges</u>	<u>Final Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Principal Paid Through June 30, 2018</u>	<u>Principal Outstanding June 30, 2018</u>
Revenue Bonds Payable: Student Housing Project	2017	2.820%	11/01/2033	\$ 10,150,000	\$ -	\$ 10,150,000

NOTE 10 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the year ended June 30, 2018 was \$290,205. Accrued interest at June 30, 2018 was \$48,765. All interest was expensed.

**FAYETTEVILLE STATE UNIVERSITY
FOUNDATION, INC., AND SUBSIDIARY**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 - 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, 2018 are reported as follows:

Total promises to give	\$	108,166
Less:		
Allowance for uncollectable pledges		(6,491)
Discount to present value		(8,368)
		(14,859)
Promises to give restricted for endowed scholarships, net	\$	93,307

Of the total promises to give at June 30, 2018, \$41,156 is due within one year, with the remaining \$67,010 over the next four years. Decrease of the present value discount included as an increase in contribution revenue amounted to \$52,168 for the year ended June 30, 2018.

NOTE 12 - 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 13 - COMMITMENTS AND CONTINGENCIES

The Foundation has outstanding commitments for accounts payable of \$28,581 and no other outstanding commitments.

NOTE 14 - 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, 2018 are as follows:

	Restricted Net Position - Expendable	Restricted Net Position - Nonexpendable	Total
Balance at June 30, 2017	\$ 2,828,903	\$ 3,307,316	\$ 6,136,219
Contributions	1,015	205,669	206,684
Interest income	6,394	-	6,394
Appreciation	687,577	-	687,577
Fees	(30,315)	-	(30,315)
Program expenditures	(178,334)	-	(178,334)
Balance at June 30, 2018	\$ 3,315,240	\$ 3,512,985	\$ 6,828,225

NOTE 15 RESTRICTED NET POSITION - EXPENDABLE

Restricted net position - expendable includes the following:

Endowment restricted net assets	\$ 3,315,240
Other non endowment net assets	1,065,712
Total restricted net position - expendable	\$ 4,380,952

NOTE 16 - 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.

Buie, Norman & Co., P.A.



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

The Board of Directors
Fayetteville State University 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, 2018, and the related statement of revenues, expenses, and changes in net position, and statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2018.

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.

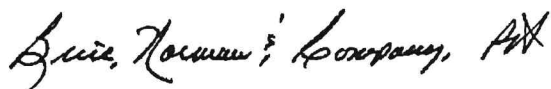
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

October 16, 2018
Fayetteville, North Carolina