

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

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

Year ended June 30, 2012

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Buie, Norman & Co., P.A.



**CERTIFIED
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Fayetteville State University Foundation, Inc. and its wholly owned subsidiary as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on the financial statements based on our audit. The prior year summarized comparative information has been derived from Fayetteville State University Foundation, Inc.'s 2011 financial statements and, in our report dated, September 14, 2011; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville State University Foundation, Inc. and its wholly owned subsidiary as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

September 22, 2012

FAYETTEVILLE STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2012

(With comparative totals at June 30, 2011)

	2012	2011
<u>ASSETS</u>		
Current assets:		
Cash in bank	\$ 1,444,994	\$ 1,685,843
Restricted cash in bank - Housing Foundation	1,634,311	1,340,395
Accounts receivable	4,400	12,400
Investments - Land Held	475,922	475,922
Investments	3,096,544	2,542,176
Total current assets	6,656,171	6,056,736
Property, plant and equipment:		
Furniture and equipment	1,100,733	1,100,733
Land and buildings	12,424,385	12,424,385
	13,525,118	13,525,118
Less: accumulated depreciation	4,152,702	3,856,107
Net property and equipment	9,372,416	9,669,011
Total assets	\$ 16,028,587	\$ 15,725,747
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 6,136	\$ 4,357
Current maturities of long-term debt	290,000	275,000
Total current liabilities	296,136	279,357
Long-term debt	12,730,000	13,020,000
Net assets:		
Unrestricted:		
Subsidiary - FSU Housing Foundation	(3,740,414)	(3,847,499)
Fayetteville State University Foundation	737,949	706,986
Temporarily Restricted		
Subsidiary - FSU Housing Foundation	1,634,311	1,340,395
Fayetteville State University Foundation	1,674,310	1,605,334
Permanently Restricted	2,696,295	2,621,174
Total net assets	3,002,451	2,426,390
Total liabilities and net assets	\$ 16,028,587	\$ 15,725,747

See accompanying notes to consolidated financial statements.

FAYETTEVILLE STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2012

(With comparative totals for the Year ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2012	2011
Support:					
Gifts and donations	\$ 54,250	\$ 183,765	\$ 75,121	\$ 313,136	\$ 309,209
Total support	<u>54,250</u>	<u>183,765</u>	<u>75,121</u>	<u>313,136</u>	<u>309,209</u>
Revenue:					
Interest and dividend income	616	9,851	-	10,467	20,269
Miscellaneous income	380	-	-	380	50
Rental income	-	1,776,215	-	1,776,215	1,310,420
Release from restriction	<u>1,675,506</u>	<u>(1,675,506)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>1,676,502</u>	<u>110,560</u>	<u>-</u>	<u>1,787,062</u>	<u>1,330,739</u>
Total support and revenue	<u>1,730,752</u>	<u>294,325</u>	<u>75,121</u>	<u>2,100,198</u>	<u>1,639,948</u>
Operating expenses:					
Program services	1,532,634	-	-	1,532,634	1,616,926
Management and general	25,534	-	-	25,534	45,071
Fund raising expenses	<u>34,536</u>	<u>-</u>	<u>-</u>	<u>34,536</u>	<u>170,414</u>
Total operating expenses	<u>1,592,704</u>	<u>-</u>	<u>-</u>	<u>1,592,704</u>	<u>1,832,411</u>
Increase (decrease) in net assets before other revenue and expenses	138,048	294,325	75,121	507,494	(192,463)
Other revenue (expenses):					
Net gain (loss) on investment	<u>-</u>	<u>68,567</u>	<u>-</u>	<u>68,567</u>	<u>342,064</u>
Increase (decrease) in net assets	138,048	362,892	75,121	576,061	149,601
Net assets:					
Beginning of year	<u>(3,140,513)</u>	<u>2,945,729</u>	<u>2,621,174</u>	<u>2,426,390</u>	<u>2,276,789</u>
End of year	<u>\$ (3,002,465)</u>	<u>\$ 3,308,621</u>	<u>\$ 2,696,295</u>	<u>\$ 3,002,451</u>	<u>\$ 2,426,390</u>

See accompanying notes to consolidated financial statements.

FAYETTEVILLE STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2012
(With Comparative totals for the Year ended June 30, 2011)

	Program Services	Management and General	Fund Raising	Total Expenses	
				2012	2011
Contributions to FSU	\$ 156,234	\$ -	\$ 3,881	\$ 160,115	\$ 299,052
Depreciation	296,595	-	-	296,595	297,303
Fees and taxes	6,194	14,893	-	21,087	18,449
Dues	-	-	-	-	-
Insurance	-	900	1,084	1,984	900
Interest expense	407,830	-	-	407,830	428,612
LOC standby commissions	178,128	-	-	178,128	178,776
Other current services	-	2,125	12,529	14,654	11,925
Printing	-	-	-	-	1,857
Postage	-	-	-	-	19
Professional fees	6,000	4,250	-	10,250	8,500
Public relations	-	-	15,000	15,000	107,997
Property taxes	-	1,116	-	1,116	1,116
Rental operating costs	480,688	-	-	480,688	402,754
Salaries	-	-	-	-	1,432
Supplies	448	360	462	1,270	11,302
Travel	517	1,890	1,580	3,987	62,417
Total expenses	\$ 1,532,634	\$ 25,534	\$ 34,536	\$ 1,592,704	\$1,832,411

See accompanying notes to consolidated financial statements.

FAYETTEVILLE STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended June 30, 2012
(With comparative totals for the Year ended June 30, 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 576,061	\$ 149,601
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized gain on investments	(68,567)	(342,064)
Depreciation	296,595	297,303
(Increase) decrease in:		
Accounts receivable	8,000	16,474
Increase (decrease) in:		
Accounts payable	1,779	382
Funds held for others	-	(35,723)
	-	(35,723)
Net cash provided by operating activities	813,868	85,973
Cash flows from investing activities:		
Proceeds from sale of investment	14,199	9,091
Purchase of investments	(500,000)	-
Net cash provided by (used in) investing activities	(485,801)	9,091
Cash flows from financing activities:		
Principal payments of long-term debt	(275,000)	(260,000)
Net cash used in financing activities	(275,000)	(260,000)
Net increase (decrease) in cash and cash equivalents	53,067	(164,936)
Cash and cash equivalents:		
Beginning of year	3,026,238	3,191,174
End of year	\$ 3,079,305	\$ 3,026,238

See accompanying notes to consolidated financial statements.

FAYETTEVILLE STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - ORGANIZATIONAL STRUCTURE AND PURPOSE

Fayetteville State University Foundation, Inc. (the 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

This summary of significant accounting policies of Fayetteville State University Foundation, Inc. is presented to assist in understanding the Foundation's financial statements. The financial statements and notes 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 and have been consistently applied in the preparation of the financial statements.

Basis of Consolidation

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

Basis of Accounting

The consolidated financial statements of the Foundation are prepared on the accrual basis of accounting recognizing revenues when earned and expenses when incurred. Support that is restricted by the donor is reported as an increase in unrestricted net assets 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 temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily or permanently restricted net assets are reclassified to unrestricted net assets.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Donated assets are recorded at their estimated fair market value at the date of donation. Repairs and maintenance are expensed as incurred and betterments and improvements are capitalized. Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives. Depreciation of all assets within the Fayetteville State University Housing Foundation subsidiary is shown as an expense on the Foundation's consolidated income statement.

FAYETTEVILLE STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the age of past due balances. As of June 30, 2012 and 2011, all accounts were considered collectible; therefore there is no allowance for doubtful accounts.

Investments

Investments are valued at market. Donated investments are reflected at market value at the time of the donation.

Income Taxes

Fayetteville State University Foundation, Inc. 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, the Internal Revenue Service has 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, 2012.

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 2008.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

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.

Statements of Cash Flows

The Foundation presents its cash flow statements using the indirect method. For purposes of cash flow presentation, the Foundation considers currency on hand and demand deposits with financial institutions to be cash.

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, 2012, management determined that no indicators of impairment existed.

Cash in bank - Housing Foundation

Cash in bank - Housing Foundation consists of amounts reserved for the debt service reserve fund, required operation and maintenance fund, and other funds as stipulated by the loan agreement relating to bond revenue received from the North Carolina Student Housing Facilities Department. Cash also consists of funds reserved for resident security deposits as required by the management agreement. Cash at June 30, 2012 and 2011 was \$1,340,395 and \$1,521,770, respectively.

NOTE 3 - FINANCIAL STATEMENT PRESENTATION

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. At June 30, 2012 and 2011, permanently restricted net assets amounted to \$2,696,295 and \$2,621,174, and consist of endowed scholarships. Temporarily restricted net assets consist of restricted donations. Temporarily restricted net assets also include interest, dividends and market gains on permanently restricted net assets which have not been disbursed. At June 30, 2012 and 2011, temporarily restricted assets available for scholarships amounted to \$1,674,310 and \$1,605,334. Temporarily restricted net assets also include cash in the FSU Housing Foundation restricted for debt service and security deposits net of security deposit liability. At June 30, 2012 and 2011 temporarily restricted net assets FSU Housing Foundation was \$1,634,311 and \$1,340,395. In addition, the Foundation presents a statement of cash flows.

FAYETTEVILLE STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2012

NOTE 4 - CONTRIBUTIONS

Accounting for Contributions Received and Contributions Made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. For the year ended June 30, 2012 and 2011, temporarily restricted donations were \$183,764 and \$143,292, and permanently restricted donations were \$75,121 and \$37,276.

NOTE 5 - CREDIT CONCENTRATION

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, 2012, the Foundation had \$1,642,815 deposited with the State of North Carolina through the State Treasurer's office. The Foundation maintains balances in one local bank. The balances in the local bank are secured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2012, the bank balance totaled \$1,634,311; \$1,384,311 of which was uninsured. At June 30, 2011 the bank balance totaled \$1,383,423; \$1,133,423 of which was uninsured.

NOTE 6 - INVESTMENTS

Investments are presented in the financial statements at fair market value. Investments earned realized and unrealized gains of \$68,567 during the year ended June 30, 2012, and incurred management fees of \$14,892. Investments within the account are composed of the following:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Appreciation</u>
UNC Investment fund	<u>\$ 3,004,324</u>	<u>\$ 3,096,544</u>	<u>\$ 92,220</u>

Investments also include donated land. At June 30, 2012 land value totaled \$475,922.

FAYETTEVILLE STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that the Foundation would receive upon selling an asset or paid to transfer a liability at the reporting date. Fair value standards established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are those that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the asset or liability developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities;

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, and fair value is determined through the use of other valuation methodologies;

Level 3 - Valuations based on inputs that are not observable and significant to the overall fair value measurement, including the plan's trustee own assumptions in determining the fair value of assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls in based on the lowest level input that is significant to the fair value measurement in its entirety. As of June 30, 2012, the Foundation's assets measured the fair value on a recurring basis were all classified as Level 1 investments.

NOTE 8 - 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, 2012 and 2011 balance sheets of the subsidiary have been included in the Foundation's consolidated statement of financial position. In addition, balances from the subsidiary's statement of activities for the years ended June 30, 2012 and 2011 are included in the Foundation's consolidated statement of activities.

NOTE 9 - SALE OF LAND

The Foundation had no land sales during the year ended June 30, 2012.

FAYETTEVILLE STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2012

NOTE 10 - LONG-TERM DEBT

Long-term debt at June 30, 2012 consisted of a North Carolina Student Housing Facilities Revenue Bond with a balance of \$13,295,000, secured by real property. The 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. The buildings are used as housing for students of Fayetteville State University.

Maturities of long term debt are as follows:

<u>Year ending June 30,</u>	
2013 (included in current maturities)	290,000
2014	305,000
2015	325,000
2016	340,000
2017	360,000
2018 and after	<u>11,400,000</u>
	<u><u>\$ 13,020,000</u></u>

NOTE 11 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the years ended June 30, 2012 and 2011 for interest was \$407,830 and \$428,612. All interest paid during 2012 and 2011 was expensed.

NOTE 12 - STUDENT HOUSING REVENUES AND RELATED RECEIVABLES

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 \$1,773,200. 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 13 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 22, 2012, which is the date the financial statements were issued. No reportable subsequent events were noted.