

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

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

Year ended June 30, 2012

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Member AICPA, NCACPA

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Fayetteville State University Student Housing Corporation
Fayetteville, North Carolina

We have audited the accompanying consolidated statement of financial position of Fayetteville State University Student Housing Corporation 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 Corporation'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 Student Housing Corporation's 2011 financial statements and, in our report dated September 30, 2011; we expressed an unqualified opinion on those financial statements.

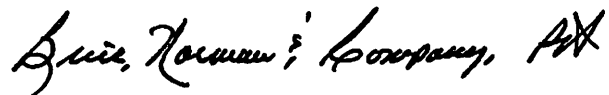
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, based on our audit the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fayetteville State University Student Housing Corporation and its wholly owned subsidiary as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2012 on our consideration of the Fayetteville State University Student Housing Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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

September 22, 2012

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

Introduction

Fayetteville State University Student Housing Corporation, Inc., and Subsidiary (SHC) 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, 2012, and includes comparative data for the year ended June 30, 2011. The discussion describes important trends and events that have impacted the fiscal health of the SHC and that may continue to exert influence in future years. This discussion has been prepared by and is the responsibility of the SHC management along with the financial statements and notes. 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 SHC as a whole. These standards were used in the preparation of this document. The statements are prepared using 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.

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

The Statement of Cash Flows provides information relative to the SHC'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 Assets as adjusted for changes in the beginning and ending balance of noncash accounts on the Statement of Net Assets.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 SHC'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 SHC as a whole using accounting methods similar to those used in the private-sector. The SHC includes as a subsidiary the Student Housing Corporation, LLC which is constructing a residence hall (Renaissance Hall) on the campus of Fayetteville State University (University). The land for Renaissance Hall is leased to the SHC for this purpose, and the beds will be leased to the University under a master lease agreement, for use as student housing.

Financial Highlights

The SHC's financial position, as a whole, remained relatively stable during the fiscal year ended June 30, 2012. The combined net assets for the SHC decreased \$31,282, but the residence hall is still under construction and no revenues have been recognized.

Summary of Net Assets

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed Summary of Net Assets				
	2012	2011	Increase/ (Decrease)	Percent Change
Assets:				
Current Assets	2,543,013	0	2,543,013	
Noncurrent Assets:				
Capital	17,543,863	1,415,349	16,128,514	1139.54%
Other	3,199,494	0	3,199,494	
Total Assets	23,286,370	1,415,349	21,871,021	1545.27%
Liabilities:				
Current Liabilities	2,602,852	1,415,549	1,187,303	83.88%
Noncurrent Liabilities	20,715,000	0	20,715,000	
Total Liabilities	23,317,852	1,415,549	21,902,303	1547.27%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	0	0	0	
Restricted:				
Nonexpendable	0	0	0	
Expendable	0	0	0	
Unrestricted	-31,482	-200	-31,282	
Total Net Assets	-31,482	-200	-31,282	

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

As of June 30, 2012, total SHC net assets were \$23.29 million. The SHC's largest assets are the capital assets of \$17.54 million, representing 75 percent of total net assets. Noncurrent capital assets increased by \$21.89 million primarily due to the increase in construction in progress for expenditures related to Renaissance Hall.

Current assets increased \$2.54 million, mainly due to an increase in cash. Other noncurrent assets increased by \$3.2 million, primarily due to an increase in restricted cash. The cash held at June 30, 2012 will be used to complete the construction of Renaissance Hall and came from the proceeds of the bond issue in August of 2011.

The SHC's liabilities totaled \$23.32 million at June 30, 2012. Noncurrent liabilities of \$20.72 million consist of bonds payable. Current liabilities increased \$2.42 million and consist primarily of accounts payable and interest payable.

Because Renaissance Hall is not complete and the bond is greater than the assets, the restricted net assets are negative and presented in the statements above as unrestricted.

The SHC's current assets are less than current liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

At June 30, the SHC had a liability for bonds payable of \$20.72 million. Bonds payable is the SHC's largest liability, representing 89 percent of total SHC liabilities. The significant increase in bonds payable and total liabilities is due to the issuance of \$20,715,000 in Series 2011 tax-exempt Limited Obligation Bonds on August 11, 2011. The bonds were issued to provide funds for constructing, equipping and furnishing a new student housing facility to be located on the Fayetteville State University Campus. The bonds will be repaid by a lease with the University.

Summary of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets 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 assets as presented on the Condensed Summary of Net Assets is based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the SHC, both operating and nonoperating, the expenses paid by the SHC, operating and nonoperating, and any other revenues, expenses, and any gains and/or losses received or spent by the SHC.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the SHC. 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 SHC. Nonoperating revenues are revenues received for which goods and services are not provided. Capital grants are considered neither operating nor nonoperating revenues and are reported after "Gain (Loss) Before Other Revenues (Expenses)."

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed Summary of Revenues, Expenses, and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Lease Revenue	0	0	0	
Other Operating Revenues	0	0	0	
Total Operating Revenues	<u>0</u>	<u>0</u>	<u>0</u>	
Operating Expenses:				
Supplies and Materials	113,000	0	113,000	
Services	4,300	200	4,100	
Utilities	0	0	0	
Depreciation	308	0	308	
Total Operating Expenses	<u>117,608</u>	<u>200</u>	<u>117,408</u>	
Operating Loss	<u>-117,608</u>	<u>-200</u>	<u>-117,408</u>	
Nonoperating Revenues (Expenses):				
Investment Income	86,326	0	86,326	
Interest and Fees on Debt	0	0	0	
Other Nonoperating Revenue	<u>0</u>	<u>0</u>	<u>0</u>	
Net Nonoperating Revenues	<u>86,326</u>	<u>0</u>	<u>86,326</u>	
Increase in Net Assets	<u>-31,282</u>	<u>-200</u>	<u>-31,082</u>	
Net Assets:				
Beginning of Year	<u>-200</u>	<u>0</u>	<u>-200</u>	
End of Year	<u><u>-31,482</u></u>	<u><u>-200</u></u>	<u><u>-31,282</u></u>	

The Condensed Summary of Revenues, Expenses, and Changes in Net Assets shows a decrease in net assets of \$.03 million for the fiscal year. There was no income for this fiscal year because the building was not completed and the lease period had not begun. Expectations are for the net assets to increase as Renaissance Hall is completed and lease receipts are collected.

Capital Assets

Capital projects for the fiscal year 2012 included the construction of Renaissance Hall, with expenditures related to this project of \$17.54 million for the year.

The SHC strives to provide students with a quality place to reside. Student input for the design and quality construction were factors in a successful project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Concluded)

The total capital assets, net of accumulated depreciation, at June 30, 2012 were \$17.54 million. For more detailed information about asset holdings, see Note 7 of the Notes to the Financial Statements.

Outstanding commitments on construction contracts totaled \$2.31 million for the year ending June 30, 2012.

Long-Term Debt Activities

On August 10, 2011 Fayetteville State University Housing, LLC sold \$20,715,000 in Series 2011 tax-exempt Limited Obligation Bonds. The bonds were issued to provide funds for constructing, equipping and furnishing a new student housing facility to be located on the Fayetteville State University Campus. As shown in the table below, the SHC increased its long-term debt by \$20,715,000 during fiscal year 2012.

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>
Bonds Payable	\$ 20,715,000.00	\$ 0.00	\$ 20,715,000.00
Total Long-Term Liabilities	<u><u>\$ 20,715,000.00</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 20,715,000.00</u></u>

For detailed information about long-term debt, see Note 8 and Note 10 of the Notes to the Financial Statements.

Factors Impacting Future Periods

Management believes that the SHC is positioned to provide excellent housing services to students attending the University. Renaissance Hall was completed and occupied in August, 2012, with positive comments from students. This building was also a 'green initiative' and was submitted for a LEED (Leadership in Energy and Environmental Design) certification of Silver. In addition, Renaissance Hall won the Residential Green Building Award at the US Green Building Council Green Gala held in Charlotte in October, 2012.

**FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION
CONSOLIDATED STATEMENT OF NET ASSETS**
June 30, 2012
(With comparative totals at June 30, 2011)

	2012	2011
<u>ASSETS</u>		
Current Assets:		
Restricted cash - Housing Foundation	\$ 2,543,013	\$ -
Accrued interest receivable	3,446	-
Total current assets	2,546,459	-
Noncurrent Assets:		
Restricted cash - Housing Foundation	3,196,048	-
Property and equipment:		
Equipment	12,300	-
Construction in Process	17,531,871	1,415,349
Total property and equipment	17,544,171	1,415,349
Less: accumulated depreciation	308	-
Net property and equipment	17,543,863	1,415,349
Total Noncurrent Assets	20,739,911	1,415,349
Total Assets	23,286,370	1,415,349
 <u>LIABILITIES</u>		
Current liabilities:		
Accounts payable - trade	2,306,714	183,706
Accrued interest	236,298	-
Due to Fayetteville State University	59,840	1,231,843
Total current liabilities	2,602,852	1,415,549
Noncurrent Liabilities:		
Bonds Payable	20,715,000	-
Total Noncurrent Liabilities	20,715,000	-
Total Liabilities	23,317,852	1,415,549
 <u>NET ASSETS</u>		
Net assets:		
Invested in Capital Assets, Net of Related Debt	-	-
Restricted for:		
Capital Projects	-	-
Unrestricted	(31,482)	(200)
Total Net Assets	\$ (31,482)	\$ (200)

See accompanying notes to financial statements.

FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS

For the Fiscal Year ended June 30, 2012
(With comparative totals for the Year ended June 30, 2011)

	Total	
	2012	2011
Revenues		
Operating Revenues:		
Revenue	\$ -	\$ -
Total revenues	-	-
Expenses:		
Operating Expenses:		
Fees	1,050	200
Accounting and auditing	3,250	-
Supplies	113,000	-
Depreciation	308	-
Total operating expenses	117,608	200
Operating income (loss)	(117,608)	(200)
Nonoperating Revenues (Expenses)		
Investment income (net of investment expense of \$-0-)	86,326	-
Net Nonoperating Revenues	86,326	-
Increase (decrease) in net assets	(31,282)	(200)
Net Assets - Beginning of year	(200)	-
Net Assets - End of year	\$ (31,482)	\$ (200)

See accompanying notes to financial statements.

**FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS**
For the Fiscal Year ended June 30, 2012
(With comparative totals for the Year ended June 30, 2011)

	2012	2011
Cash flows from operating activities:		
Payments to Vendors and Suppliers	\$ (117,300)	\$ (200)
Net cash provided by (used in) operating activities	(117,300)	(200)
 Cash flow from Capital Financing and related financing activities		
Equipment purchases	(12,300)	-
Construction in process	(13,757,216)	(1,231,643)
Advances from (payments to) Fayetteville State University	(1,172,003)	1,231,843
Proceeds from issuance of bonds	20,715,000	-
Net cash provided by financing activities	5,773,481	200
 Cash flows from investing activities:		
Interest income	82,880	-
Net cash provided investing activities	82,880	-
 Net increase in cash	5,739,061	-
 Cash:		
Beginning of year	-	-
End of year	\$ 5,739,061	\$ -
 Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities		
Operating income (loss)	(117,608)	(200)
Adjustment to reconcile operating (loss) to net cash (used)		
Depreciation	308	-
Net Cash Provided by (Used) by Operating Activities	(117,300)	(200)
 Reconciliation of Cash and Cash Equivalents		
Current Assets:		
Restricted Cash - Housing Foundation	2,543,013	-
Noncurrent Assets:		
Restricted Cash - Housing Foundation	3,196,048	-
	\$ 5,739,061	\$ -

See accompanying notes to financial statements.

FAYETTEVILLE STATE UNIVERSITY
STUDENT HOUSING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - ORGANIZATIONAL STRUCTURE AND PURPOSE

Fayetteville State University Student Housing Corporation (the Corporation) is a separate and distinct entity from Fayetteville State University (the University). It was chartered by the State of North Carolina and has its own Board of Directors. Its purpose is to construct, equip, furnish and manage the debt for residential housing facilities for the students of Fayetteville State University.

Fayetteville State University Student Housing Corporation and Fayetteville State University Housing, LLC are governed by a board consisting of six appointed Directors. Because the elected Directors of the Board are appointed by the University, and the purpose of the Corporation is to benefit Fayetteville State University, the Corporation's financial statements are blended into those of the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Cash and Cash Equivalents

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

Receivables

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

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 Assets

Certain resources are reported as restricted assets because restriction on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operation and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources legally segregated for the payment of principal and interest as required by debt covenants.

Noncurrent Long-Term Liabilities

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

Revenues and Expense Recognition

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

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

Basis of Consolidation

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

Basis of Accounting

The consolidated financial statements of the Corporation are prepared using the economic resource measurement focus and the accrual basis of accounting by recognizing revenues when earned and expenses when an obligation has been incurred, regardless of the timing of the cash flows. Support that is restricted by the donor is reported as an increase in unrestricted net 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.

Income Taxes

Fayetteville State University Student Housing Corporation received its 501c(3) status effective December 7, 2010.

Fayetteville State University Student Housing Corporation files federal Form 990, *Return of Organization Exempt from Income Tax*, on a fiscal year basis beginning July 1 and ending June 30. The Corporation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC); therefore, no provision for income taxes has been made in the accompanying financial statements. In addition, it has been determined that the Corporation is not a "private foundation" within the meaning of §509(a) of the IRC. There was no unrelated business income during the fiscal year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

On December 3, 2010, the Corporation adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Corporation has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Corporation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Corporation's financial condition, results of operations or cash flows. Accordingly, the Corporation has not recorded any reserves, or related accruals for interest and penalties for income tax positions at June 30, 2012.

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

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Lived Assets

Accounting for the Impairment or Disposal of Long-Lived Assets requires that long-lived assets be held and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of June 30, 2012, management determined that no indicators of impairment existed.

NOTE 3 - NET ASSETS

The Corporation reports four classes of net assets: invested in capital assets, net of related debt, restricted net assets-nonexpendable, restricted net assets-expendable, and unrestricted net assets. At June 30, 2012 there were no restricted assets-nonexpendable, restricted net assets-expendable and no invested in capital assets, net of related debt.

Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt represents the Corporation'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 invested in capital assets, net of related debt.

Restricted Net Assets - Nonexpendable

Nonexpendable restricted net assets 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 Assets - Expendable

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

Unrestricted Net Assets

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

NOTE 4 - SUBSIDIARY INFORMATION

In December 2010, Fayetteville State University Student Housing Corporation formed a wholly owned subsidiary named Fayetteville State University Housing, LLC whose purpose is to construct, equip, furnish, and manage the debt for residential housing facilities for students of Fayetteville State University.

NOTE 5 - DEPOSITS AND INVESTMENTS

The Corporation is required by *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, to disclose significant concentrations of credit risk regardless of the degree of risk.

At June 30, 2012 the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$5,739,061 which represents the Corporation's investments with Bank of New York, the trustee for the 2011 bonds. The Bank of New York 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 1.5 years as of June 30, 2012. 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.

NOTE 6 - DUE TO FAYETTEVILLE STATE UNIVERSITY

At June 30, 2012, Fayetteville State University had advanced money to the wholly owned subsidiary Fayetteville State University Housing, LLC. As of June 30, 2012, the amount due is \$59,840. The maximum advance is not to exceed \$1,600,000. Repayment will be made with proceeds from limited obligation bonds.

NOTE 7 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Construction in Process	\$ 1,415,349	\$16,116,522	\$ -	\$ 17,531,871
Total Capital Assets, Nondepreciable	1,415,349	16,116,522	-	17,531,871
Capital Assets, Depreciable:				
Equipment	\$ -	\$ 12,300	\$ -	\$ 12,300
Total Capital Assets, Depreciable	-	12,300	-	12,300
Less Accumulated Depreciation:				
Equipment	-	308	-	308
Total Accumulated Depreciation	-	308	-	308
Total Capital Assets, Depreciable	-	11,992	-	11,992
Capital Assets, Net	\$ 1,415,349	\$16,128,514	\$ -	\$ 17,543,863

NOTE 8 - OBLIGATION BONDS

On August 10, 2011 Fayetteville State University Housing, LLC sold \$20,715,000 in Series 2011 tax-exempt Limited Obligation Bonds. These bonds are dated August 24, 2011, and bear interest from that date. Interest will be paid semiannually on April 1 and October 1, starting on April 1, 2012. The principal on the bonds will be paid annually on April 1, starting on April 1, 2014. The maturity of the bonds will be from 2014 to 2043 and were issued at coupon rates ranging from 2% to 5%. The issuance of the bonds was to provide funds for the construction, equipping and furnishing a new student housing facility to be located on the Fayetteville State University campus. The construction will take place through Fayetteville State University Housing, LLC (an affiliate of Fayetteville State University), and be repaid from a lease with the University.

Annual requirements are as follows:

Year ended June 30:	Annual Requirements	
	Principal	Interest
2013	\$ -	\$ 945,194
2014	230,000	945,194
2015	235,000	940,594
2016	310,000	933,544
2017	385,000	924,244
2018 and after	19,555,000	17,416,424
Total	\$ 20,715,000	\$ 22,105,194

NOTE 9 - STUDENT HOUSING LEASE AGREEMENT

Fayetteville State University has requested the State of North Carolina enter into a lease agreement with Fayetteville State University Housing, LLC, whereby the State will lease the real property on which the project will be constructed for a period of thirty two years. A lease agreement was entered into effective August 24, 2012.

NOTE 10 - LONG-TERM LIABILITIES

A. A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
Revenue Bond Payable	\$ -	\$ 20,715,000	\$ -	\$ 20,715,000

Current portion of long-term debt at June 30, 2012 is \$-0-.

B. The Corporation 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, 2012
Revenue Bonds Payable:					
Student Housing Project	2011	2% to 5%	04/01/2043	\$ 20,715,000	\$ -
Total Revenue Bonds (principal only)				\$ 20,715,000	-

NOTE 11 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the year ended June 30, 2012 was \$569,742. Accrued interest at June 30, 2012 was \$236,298. All interest was capitalized.

NOTE 12 - RISK MANAGEMENT

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

At June 30, 2012, the residence hall was under construction and covered by contractors insurance. Once the building is accepted, insurance coverage will be purchased.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Corporation has outstanding commitments on construction contracts of \$1,711,047 and no other outstanding commitments.

NOTE 14 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 22, 2012, which is the date the date the financial statements were issued.



Member AICPA, NCACPA

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 Student Housing Corporation
Fayetteville, North Carolina

We have audited the financial statements of Fayetteville State University Student Housing Corporation and its wholly owned subsidiary as of and for the year ended June 30, 2012, and have issued our report thereon dated September 22, 2012. 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.

Internal Control Over Financial Reporting

Management of Fayetteville State University Student Housing Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Fayetteville State University Student Housing Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Fayetteville State University Student Housing Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fayetteville State University Student Housing Corporation's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

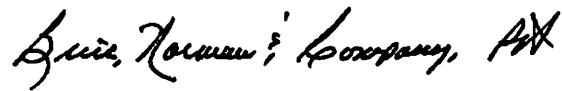
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fayetteville State University Student Housing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which

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 (Concluded)

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*.

This report is intended solely for the information and use of management of Fayetteville State University Student Housing Corporation, the Board of Directors, management of Fayetteville State University, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



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

September 22, 2012