Capital Facilities Foundation, Inc. and Consolidated Subsidiaries

(A Component Unit of The University of North Carolina at Greensboro)

Consolidated Financial Report
Year Ended June 30, 2013

Contents

McGladrey

Independent Auditor's Report

The Board of Directors
Capital Facilities Foundation, Inc.
Greensboro, North Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Capital Facilities Foundation, Inc. and Consolidated Subsidiaries (the Foundation), a component unit of The University of North Carolina at Greensboro, which comprise the consolidated statements of net position as of June 30, 2013 and 2012, and the related consolidated statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 audits. We conducted our audits 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital Facilities Foundation, Inc. and Consolidated Subsidiaries as of June 30, 2013 and 2012, and the changes in its consolidated financial position and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

McGladrey LLP

Greensboro, North Carolina
August 9, 2013

Introduction

The Foundation provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2013. This discussion, the following financial statements, and the related footnote disclosures have been prepared by management and comprise the Foundation's complete financial report. The financial statements, footnotes and this discussion are the responsibility of management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. However, this discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements and footnotes.

Purpose of Capital Facilities Foundation, Inc.

The purpose of the Foundation is to enhance The University of North Carolina at Greensboro's (UNCG) educational mission, including, without limitation, assisting with the acquisition, development, financing, construction, management and operation of capital assets for UNCG.

In 2009, the Foundation Board and UNCG agreed to consider opportunities for the Foundation to facilitate further campus development both within and beyond its current borders by acquiring strategic land identified by UNCG. The ability of the Foundation to act quickly on an acquisition greatly facilitates UNCG's efforts in expanding the campus by capitalizing on opportunities. It is expected that land acquisitions made by the Foundation will follow one of two paths: 1) The Foundation will go through the process of selling the property to the State/UNCG, reimbursing the Foundation for the purchase and associated costs as authorized by the State Property Office, or 2) The Foundation will partner with developers or contract to develop the property for the benefit of and master-lease to UNCG.

Addressing UNCG's Strategic Housing Plan

Actions by the UNCG Board of Trustees and the Capital Facilities Foundation Board of Directors in the fall of 2009 committed both to the pursuit of a significant expansion of UNCG-controlled student housing using the model described above. UNCG's Strategic Housing Plan (the Plan), developed in 2009, calls for UNCG to expand its provision of student housing from the current level of 25 percent – 30 percent of undergraduate enrollment to 40 percent – 50 percent, predominantly with the assistance of the Foundation to develop the facilities. Over the course of the next ten years, this could represent as few as 1,800 additional beds or as many as 4,000 additional beds, depending on enrollment.

The Plan indicates that some of the growth in student housing should take place on property traditionally known as UNCG campus property. UNCG and the Foundation entered into ground lease and master lease agreements in the spring of 2010 to construct a 400-bed housing facility (Jefferson Suites). Construction on the Jefferson Suites was complete and occupied in August 2011. The construction of this facility was financed with Build America Bonds through Bank of America. UNCG received legislative authority to purchase this facility from the Foundation so that permanent financing could be provided by the University. In July 2012, UNCG exercised the option to buy back the improvements and issued General Revenue Bonds as authorized by North Carolina General Assembly in Session Law 2011-145, section 30.7(b). At that time, UNCG discharged the Foundation's financing of the Project, under the terms of the Lease, and upon doing so, the Lease was terminated as planned. Title to the entirety of the property and the improvements made by the Foundation (The Project) is now in the State of North Carolina (The University of North Carolina at Greensboro), signifying that the Foundation's role in the Project is complete and that it was a success for UNCG and for the Foundation.

The Plan also suggests that the majority of the growth in student housing facilities should take place on property not then controlled by UNCG, calling for expansion of the campus to the south or to the west of the current campus, as called-for in the 2007 UNCG Campus Master Plan Update, to be led by the Foundation. Planning documents by the Glenwood Neighborhood as well as the City of Greensboro give guidance for the redevelopment of the Lee Street Corridor to the south and both encourage UNCG's potential influence and role in the redevelopment. For that reason, expansion efforts have been focused towards the south in the Lee Street Corridor.

Financing for campus expansion acquisitions in pursuit of the Plan was sought through proposals from a list of interested lenders, which resulted in the establishment of a $20 million line of credit with PNC Bank (formerly RBC Bank). A multi-phase master plan was developed for acquiring property and constructing student housing facilities in the Lee Street Corridor with mixed-use components, a development now referred to as "Spartan Village".

UNCG and the Foundation entered into a master lease agreement in the fall of 2011 to construct Phase I of Spartan Village, an 870-bed housing facility with mixed use components under similar terms to those used to develop Jefferson Suites. The Foundation engaged the partnership of Lord Aeck Sargent / Teague, Freyaldenhoven & Freyaldenhoven to design Spartan Village Phase I and the joint venture of Barton Malow / Samet / SRS to build it, serving as Construction Manager at Risk. Construction on Phase I began in early spring 2012. In March 2013, fire significantly damaged one of the four buildings being constructed (the building named "Highland"), forcing the delivery time for that building to be moved to December 2013. The other three buildings under construction (named Lee, Union and Haywood) are on schedule to be complete and occupied in August 2013. This project is financed with a line of credit through SunTrust Bank. Competitive processes were utilized to select the designer, construction manager at risk and the lender.

The second phase is expected to consist of 300-600 more beds with mixed use and to be constructed from 2015 to 2017. The acquisition of land necessary to complete Phase II is approximately 98 percent under control or contract.

Other Planned Projects Located In Lee Street Corridor

In addition to student housing and its required parking, the Foundation is also facilitating the land acquisition for a student recreation center located in close proximity to the new student housing in the Lee Street Corridor. The original $20 million, non-revolving Line of Credit with PNC Bank for acquisition of property for the Mixed Use Village Student Housing was increased to allow up to an additional $10 million for land acquisition for student recreation facilities. At the same time as a result of commencing with Phase I Spartan Village, the Foundation paid-down over $12 million of the PNC Line of Credit for the associated land. The net result of the increase in the line of credit is that the current non-revolving line, which now includes capacity for acquiring land for recreation facilities, is $17.6 million. Much of this line of credit has already been used to acquire land for recreation facilities as well as for future phases of student housing, parking and mixed use space. The remaining Line of Credit is sufficient to complete the entire property assemblage.

UNCG has begun the design of the Student Recreation Center and plans to begin construction on it in 2014. It is also noteworthy that the University is constructing a pedestrian underpass to connect the current core campus with the Lee Street Corridor to the south as well as a new facility for its Public Safety and Police department adjacent to the underpass. Construction of the underpass and the police facility by UNCG began in the fall of 2012 and are expected to open during the 2013–14 academic year.

The major sources of funds included in operating activities are debt proceeds and lease revenue. The major use of funds included in operating activities is payments to vendors/suppliers, and associated costs, design and construction expenses.

Using the Financial Report

The Foundation's financial report includes three financial statements: the Consolidated Statements of Net Position; the Consolidated Statements of Revenues, Expenses and Changes in Net Position; and the Consolidated Statements of Cash Flows. The Foundation's financial statements are blended with the UNCG financial report, and therefore, are prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

Consolidated Statement of Net Position

The Consolidated Statement of Net Position is a point of time financial statement that presents the assets, liabilities, and net position of the Foundation. The purpose of this financial statement is to present to the readers of the Foundation's Financial Report a fiscal snapshot as of the end of the fiscal year (i.e., June 30th). The Consolidated Statement of Net Position presents both the current and noncurrent portions of assets and liabilities.

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the Foundation. The Consolidated Statement of Net Position also provides a picture of the net position (assets minus liabilities) and availability for expenditure by the Foundation. Net position include unrestricted net position and net investment in capital assets. These categories of net position are discussed further in the footnotes to the financial statements.

Assets	**2013**	2012	2011
Current assets and restricted cash	**$ 4,969,728**	$ 8,748,780	$ 7,403,816
Capital assets, net	**66,803,339**	58,759,616	43,946,362
Total assets	**$ 71,773,067**	$ 67,508,396	$ 51,350,178
Liabilities and Net Position			
Current liabilities	**$ 5,357,104**	$ 1,947,234	$ 3,134,215
Long-term debt	**65,427,060**	63,839,177	46,622,825
Total liabilities	**70,784,164**	65,786,411	49,757,040
Net position	**988,903**	1,721,985	1,593,138
Total liabilities and net position	**$ 71,773,067**	$ 67,508,396	$ 51,350,178

The total assets of the Foundation as of June 30, 2013, 2012 and 2011, were approximately $71.8 million, $67.5 million and $51.4 million, respectively, with most of the assets being cash, receivables, deposit and capital assets. Additional information about the Foundation's capital assets can be found in Note 3 in the Notes to Consolidated Financial Statements.

Consolidated Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the Consolidated Statement of Net Position are based on the activity presented in the Consolidated Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues earned by the Foundation, both operating and nonoperating, and the expenses incurred by the Foundation, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by the Foundation.

Nonoperating revenues are revenues earned for which goods and services are not provided.

	2013	2012	2011
Operating loss	**$ (396,036)**	$ (769,624)	$ 677,417
Transfer to UNCG	**(454,679)**	-	-
Nonoperating revenues	**117,633**	898,471	319,160
Increase (decrease) in net position	**(733,082)**	128,847	(358,257)
Beginning, net position	**1,721,985**	1,593,138	1,951,395
Ending, net position	**$ 988,903**	$ 1,721,985	$ 1,593,138

The Consolidated Statements of Revenues, Expenses, and Changes in Net Position reflect an increase in the net position at the end of 2012 due primarily to interest income. For the years ended 2013 and 2011, net position decreased due to operating expenses and interest expense.

Consolidated Statement of Cash Flows

The final statement presented by the Foundation is the Consolidated Statement of Cash Flows. This statement is divided into four parts and presents detailed information about the cash activity of the Foundation during the year. The first part deals with operating cash flows and reflects the net cash provided by (used in) the operating activities of the Foundation. The second section reflects cash flows from investing activities. This section reflects the interest income earned on invested cash. The third section reflects the cash flows from capital and related financing activities and reflects cash received from financing activities and amounts spent for capital expenditures. The fourth section reconciles the net cash provided by (used in) operating activities to the operating income or loss reflected on the Consolidated Statement of Revenues, Expenses, and Changes in Net Position.

	2013	2012	2011
Net cash provided by (used in) operating activities	**$ (197,662)**	$ 175,582	$ (1,125,365)
Net cash provided by investing activities	**147,708**	152,569	313,947
Net cash provided by capital and related financing activities	**886,533**	950,809	1,191,765
Net increase in cash	**836,579**	1,278,960	380,347
Beginning, cash	**3,422,250**	2,143,290	1,762,943
Ending, cash	**$ 4,258,829**	$ 3,422,250	$ 2,143,290

Consolidated Statement of Cash Flows (Continued)

The major source of funds included in operating activities is rental income from leases with UNCG. The major uses of funds included in operating activities are payments to vendors/suppliers, and payments for interest expense to lenders. The major sources of funds included in capital and related financing activities are borrowings under long-term debt agreements. The major uses of funds included in capital and related financing activities are the acquisition and purchase of capital assets and payments on long-term debt.

Economic Outlook

The Foundation expects to facilitate further campus expansion by acquiring strategic land identified by the University, capitalizing on opportunities in pursuit of the UNCG Strategic Housing Plan. The Foundation will go through the process of being reimbursed for purchase amounts and associated costs or the Foundation will develop the property for the benefit of and master-lease to UNCG.

We believe that with the support and strong ties to UNCG, the Foundation's overall financial condition is able to weather most economic uncertainties.

Capital Facilities Foundation, Inc. and Consolidated Subsidiaries

Consolidated Statements of Net Position
June 30, 2013 and 2012

Assets	**2013**	2012
Current Assets		
Cash (Note 2)	**$ 2,008,829**	$ 1,172,250
Prepaid expenses	**16,188**	45,011
Sales tax receivable	**694,711**	140,600
Other receivables	**-**	30,789
Real estate purchase deposit	**-**	5,110,130
Total current assets	**2,719,728**	6,498,780
Restricted Cash (Note 2)	**2,250,000**	2,250,000
Capital Assets, nondepreciable (Notes 3 and 4)	**62,654,770**	22,975,644
Capital Assets, net of accumulated depreciation (Notes 3 and 4)	**4,148,569**	35,783,972
	66,803,339	58,759,616
Total assets	**$ 71,773,067**	$ 67,508,396
Liabilities and Net Position		
Current Liabilities		
Accounts payable	**$ 10,276**	$ 55,820
Construction payable	**5,346,828**	1,891,414
Total current liabilities	**5,357,104**	1,947,234
Long-Term Debt (Note 4)	**65,427,060**	63,839,177
Total liabilities	**70,784,164**	65,786,411
Commitments (Note 6)		
Net Position		
Net investment in capital assets	**278,004**	216,400
Unrestricted	**710,899**	1,505,585
Total net position	**988,903**	1,721,985
Total liabilities and net position	**$ 71,773,067**	$ 67,508,396

See Notes to Consolidated Financial Statements.

Capital Facilities Foundation, Inc. and Consolidated Subsidiaries

Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Revenue:		
Rental income	**$ 333,343**	$ 1,834,065
Operating income	**333,343**	1,834,065
Expenses:		
Operating expenses, general and administrative expenses	**197,143**	1,341,107
Depreciation expense	**128,212**	494,805
Loss on sale of capital assets	**85,976**	5,920
Interest expense	**318,048**	761,857
Operating expenses	**729,379**	2,603,689
Operating loss	**(396,036)**	(769,624)
Nonoperating revenues, interest income	**117,633**	898,471
Transfer to UNCG	**(454,679)**	-
Increase (decrease) in net position	**(733,082)**	128,847
Net position:		
Beginning	**1,721,985**	1,593,138
Ending	**$ 988,903**	$ 1,721,985

See Notes to Consolidated Financial Statements.

Capital Facilities Foundation, Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Rental income	**$ 333,343**	$ 1,834,065
Interest payments, net of amounts capitalized	**(358,197)**	(757,155)
Payments to vendors	**(172,808)**	(1,384,469)
Net cash used in operating activities	**(197,662)**	(307,559)
Cash Flows Provided By Investing Activities		
Interest receipts	**147,708**	152,569
Cash Flows From Capital and Related Financing Activities		
Borrowings on line of credit	**3,130,511**	8,354,057
Proceeds from issuance of long-term debt	**35,567,502**	21,707,329
Capital contribution from UNCG	**-**	750,000
Proceeds from sale of capital assets	**299,400**	413,254
Acquisition and construction of capital assets	**(32,000,750)**	(16,393,859)
Withdrawal of financing proceeds on deposit with UNCG	**-**	4,558,333
Deposit on real estate purchase	**-**	(5,110,130)
Payment on long-term debt	**(1,000,000)**	(500,000)
Payments on line of credit	**(5,110,130)**	(12,345,034)
Net cash provided by capital and related financing activities	**886,533**	1,433,950
Net increase in cash	**836,579**	1,278,960
Cash:		
Beginning	**3,422,250**	2,143,290
Ending	**$ 4,258,829**	$ 3,422,250
Reconciliation of Operating Loss to Net Cash Used In Operating Activities		
Operating loss	**$ (396,036)**	$ (769,624)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	**128,212**	494,805
Loss on sale of capital assets	**85,976**	5,920
(Increase) decrease in prepaid expenses	**28,823**	(28,254)
Decrease in receivables	**907**	26,808
Increase (decrease) in interest payable	**(40,149)**	5,974
Decrease in accounts payable	**(5,395)**	(43,188)
Net cash used in operating activities	**$ (197,662)**	$ (307,559)
Supplemental Schedule of Noncash Capital and Financing Activities		
Transfer of capital assets to UNCG and extinguishment of related debt	**$ 31,000,000**	$ -
Transfer of capital assets to UNCG	**454,679**	-
Net transfer of capital assets to UNCG	**$ 31,454,679**	$ -
Acquisition of capital assets financed through payables	**$ 3,455,414**	$ (1,146,767)
Acquisition of capital assets utilizing deposit on real estate	**$ 5,110,130**	$ -
Interest receivable	**$ -**	$ 29,882

See Notes to Consolidated Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

The Capital Facilities Foundation, Inc. (the Foundation) and its two wholly owned LLCs exist to enhance The University of North Carolina at Greensboro's (the University or UNCG) educational mission, including assisting with the acquisition, development, financing, construction, management and operation of capital assets for the University. Although legally separate from the University, the Foundation is reported as if it were part of the University because its sole purpose is to benefit the University. The Foundation's financial statements are blended with those of the University.

Significant accounting policies relative to the Foundation are:

Principles of consolidation: The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Financial statements: The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The full scope of the Foundation's activities is considered to be a single business-type activity and, accordingly, is reported within the basic financial statements of the University.

Basis of accounting: The consolidated financial statements of the Foundation have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of when the related cash flows take place.

Capital assets: Capital assets are stated at cost less accumulated depreciation. Buildings are depreciated over 50 years. Equipment is depreciated over 10 years if the individual piece is valued over $5,000.

Net position: The Foundation's net position is classified as follows:

Restricted: Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The Foundation had no restricted net position at June 30, 2013 or 2012.

Unrestricted: Represents the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net investment in capital assets: Represents capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Reclassification: The Foundation's policy is to reclassify certain amounts reported in prior year's financial statements when necessary for conformity with classifications adopted in the current year. These reclassifications have no effect on the prior year's change in net position or total net position.

Recent accounting pronouncements: The Foundation implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position.

Note 2. Cash

The Foundation holds checking and money market accounts at commercial banks, the balances of which may, at times, be in excess of federally insured limits. The Foundation has not suffered any financial loss on these deposits.

Cash includes deposits with a carrying amount of $4,258,829 and $3,422,250 at June 30, 2013 and 2012, respectively, for which the bank balances were $7,102,889 and $3,956,229, respectively.

Included in cash was a money market deposit with a commercial bank that is also financing a construction advance. This bank requires that the amount held in the money market be maintained until all loan amounts are repaid. The amount held under this agreement was $2,250,000 at June 30, 2013 and 2012.

Note 3. Capital Assets

Capital asset activity for the years ended June 30, 2013 and 2012, was as follows:

	2013			
	Beginning Balance	**Increases**	**Decreases**	**Ending Balance**
Capital assets, nondepreciable:				
Real estate	**$ 14,600,126**	**$ 2,088,811**	**$ (754,215)**	**$ 15,934,722**
Construction in progress	**8,375,518**	**38,344,530**	**-**	**46,720,048**
	22,975,644	**40,433,341**	**(754,215)**	**62,654,770**
Capital assets, depreciable:				
Building	**36,441,812**	**-**	**(31,927,938)**	**4,513,874**
Totals, capital assets being depreciated	**36,441,812**	**-**	**(31,927,938)**	**4,513,874**
Less accumulated depreciation for:				
Building	**(657,840)**	**(128,212)**	**420,747**	**(365,305)**
Total accumulated depreciation	**(657,840)**	**(128,212)**	**420,747**	**(365,305)**
Totals, capital assets being depreciated, net	**35,783,972**			**4,148,569**
Total capital assets, net	**$ 58,759,616**			**$ 66,803,339**

	2012			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Real estate	$ 11,044,369	$ 3,974,931	$ (419,174)	$ 14,600,126
Construction in progress	28,743,850	8,375,518	(28,743,850)	8,375,518
	39,788,219	12,350,449	(29,163,024)	22,975,644
Capital assets, depreciable:				
Building	4,321,178	32,120,634	-	36,441,812
Totals, capital assets being depreciated	4,321,178	32,120,634	-	36,441,812
Less accumulated depreciation for:				
Building	(163,035)	(494,805)	-	(657,840)
Total accumulated depreciation	(163,035)	(494,805)	-	(657,840)
Totals, capital assets being depreciated, net	4,158,143			35,783,972
Total capital assets, net	$ 43,946,362			$ 58,759,616

Note 4. Long-Term Debt

Summaries of changes in the long-term debt for the years ended June 30, 2013 and 2012, are as follows:

	2013			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
Construction Advance 1	**$ 31,000,000**	**$ -**	**$ (31,000,000)**	**$ -**
Line of credit	**10,131,848**	**3,130,511**	**(5,110,130)**	**8,152,229**
Construction Advance 2	**21,707,329**	**35,567,502**	**-**	**57,274,831**
Note payable	**1,000,000**	**-**	**(1,000,000)**	**-**
Total long-term debt	**$ 63,839,177**	**$ 38,698,013**	**$ (37,110,130)**	**$ 65,427,060**

	2012			
	Beginning Balance	Additions	Reductions	Ending Balance
Construction Advance 1	$ 31,000,000	$ -	$ -	$ 31,000,000
Line of credit	14,122,825	8,354,057	(12,345,034)	10,131,848
Construction Advance 2	-	21,707,329	-	21,707,329
Note payable	1,500,000	-	(500,000)	1,000,000
Total long-term debt	$ 46,622,825	$ 30,061,386	$ (12,845,034)	$ 63,839,177

Construction Advance 1

During April 2010, the Foundation entered into agreements with the University and a commercial bank that advanced construction funds. The Foundation used the construction advance to construct student housing on the University's campus. The Foundation entered into a 30-year lease agreement with the University to lease the land on which the facility was constructed at a cost of $1 per year. Under the agreements, the University was to pay the Foundation rentals for 30 years at a cost not to exceed $2,650,000 per year for the use of the facility. Under the lease, the University was authorized, at any time during the lease, to purchase the Project for the amount required to discharge the obligations of the Foundation with respect to the financing of the project.

Construction Advance 1 required monthly interest payments due by the first of each month equal to the monthly LIBOR Base Rate plus 85 basis points (.85 percent), not to exceed 12.0 percent (1.08 percent at June 30, 2012). The entire balance of this advance was initially drawn and was on deposit with the University in order to take advantage of the Build America Bond program; the amount on deposit with the University was recorded as a receivable from UNCG. The assignment of rents and the constructed facility served as security for the construction advance.

UNCG paid $31,000,000 to the commercial bank on July 12, 2012. As part of this payoff, the Project was transferred from the Foundation to UNCG, which resulted in a loss of $88,216 for the Foundation. The ground lease was also terminated at this time.

Land Line of Credit

The line of credit allowed borrowings up to $20,000,000 and subsequent to amendment in February 2012, $17,654,967, of which $8,152,229 and $10,131,848 is outstanding at June 30, 2013 and 2012, respectively. This line of credit requires monthly interest payments due by the first of each month equal to the monthly LIBOR Rate plus 200 basis points (two percent) with a minimum of three percent (three percent at June 30, 2013 and 2012). The line of credit is due January 2015, and is secured by property purchased using the line of credit.

Note 4. Long-Term Debt (Continued)

Construction Advance 2

Construction Advance 2 was entered into on November 1, 2011, with a bank permitting advances up to $67,000,000. The Foundation is using the construction advance to construct another student housing project on the Foundation's land adjacent to the University. The construction advance carries interest equal to 75 percent of the sum of the one-month LIBOR and 124 basis points (1.24 percent) or 1.073 percent and 1.11 percent at June 30, 2013 and 2012, respectively. Under the agreements, the University is to pay the Foundation rentals for 30 years at a cost not to exceed $5,155,227 per year for the use of the facility. Base rentals and additional rentals required under the agreement are paid directly to the bank by the University. Under the lease, the University was authorized, at any time during the lease, to purchase the Project for the amount required to discharge the obligations of the Foundation with respect to the financing of the project. The assignment of rents and the constructed facility serve as security for Construction Advance 2. Construction Advance 2 is due November 2, 2016.

Note Payable

The note payable is in the amount of $1,000,000 received from an unrelated private foundation. The note provided for quarterly interest-only payments at 4.5 percent and was due on the sooner to occur of receipt of other funding sufficient to discharge the debt associated with the note payable designated for acquisition of property and construction of facilities by the Foundation or December 31, 2014. The note was paid in full on March 31, 2013.

The annual requirements to pay principal and interest on long-term debt at June 30, 2013, are as follows:

Fiscal Year	Principal	Interest
2014	$ -	$ 858,840
2015	8,152,229	741,917
2016	-	614,273
2017	57,274,831	208,147
	$ 65,427,060	$ 2,423,177

Note 5. Risk Management

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; and natural disasters. These exposures to loss are handled through the purchase of commercial insurance and self retention of certain risks.

Additional details on the University's risk management programs are disclosed in the financial report of UNCG.

Note 6. Commitments

The Foundation had entered into agreements to construct a student housing facility on the University's campus. The total costs associated with the facility are estimated at $67 million, of which approximately $57.2 million had been incurred at June 30, 2013.

Note 7. Income Taxes

The Foundation is exempt from federal income tax under the provisions of the Internal Revenue Code Section 501(c)(3). The subsidiaries are single member limited liability companies owned by the Foundation. The Foundation and its single member LLCs are exempt from federal and state income taxes except for income generated from unrelated business activities. Neither the Foundation nor any of the LLCs have identified any unrelated business income in current or past years.