

McGladrey & Pullen

Certified Public Accountants

Capital Facilities Foundation, Inc. **(A Component Unit of The University of North Carolina at Greensboro)**

Financial Report
Year Ended June 30, 2008

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Independent Auditor's Report

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

We have audited the accompanying statements of net assets of Capital Facilities Foundation, Inc. (the "Foundation"), a component unit of the University of North Carolina at Greensboro, as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Facilities Foundation, Inc., as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years 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 August 14, 2008 on our consideration of the Foundation'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.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

McGladrey & Pullen, LLP

Greensboro, North Carolina
August 14, 2008

Capital Facilities Foundation, Inc.

Management's Discussion and Analysis (Unaudited) Year Ended June 30, 2008

Introduction

The Capital Facilities Foundation, Inc. (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, 2008. 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 the Capital Facilities Foundation, Inc.

The purpose of the Foundation, formed in January, 2005, is to enhance The University of North Carolina at Greensboro's ("UNCG" or "University") educational mission, including, without limitation, assisting with the acquisition, development, financing, construction, management and operation of capital assets for UNCG.

Currently, the Foundation is engaged in only one activity: ownership of a housing and parking facility constructed on University-owned property, leased to the Foundation, for long-term use by the University.

The Foundation has a lease in place with UNCG for the University's use of the facility to house students choosing to live on campus. This lease provides UNCG with the option to buy back the improvements at any time.

Through a competitive solicitation process, the Foundation selected RBC Centura as the provider of a \$29,500,000 bank loan to finance the project. The proceeds of the loan in excess of the contractual development amount are intended to fund activities related to the project, including insurance, legal, administrative fees, interest expenses, and project contingencies. The Foundation will repay the loan from RBC Centura by obtaining long-term financing secured by revenues from the lease to the University or from the proceeds of the sale if the University exercises its option to purchase the improvements. The term of the original bank loan from RBC Centura ended on May 1, 2008 and was extended for one additional year, given that the University intends to exercise its option to purchase the improvements in lieu of continuing to lease the facility.

The developer successfully completed the project in time for students to occupy the facility on August 11, 2006, marking the date that the lease payments from UNCG began. The facility was occupied to its full capacity of 400 residents and 200 parking patrons throughout the 2006-07 and 2007-08 academic year and is rented at 100% capacity for the upcoming 2008-09 academic year.

Using the Financial Report

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

Capital Facilities Foundation, Inc.

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

Statement of Net Assets

The Statement of Net Assets is a "point of time" financial statement that presents the assets, liabilities, and net assets 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 Statement of Net Assets 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 Statement of Net Assets also provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Foundation. Net assets include unrestricted net assets. The category of net assets is discussed further in the footnotes to the financial statements.

	2008	2007	2006
Assets			
Cash	\$ 1,708,845	\$ 537,593	\$ 6,657,045
Prepaid Insurance	11,281	-	-
Rent receivable	-	251,947	-
Capital assets	28,248,198	28,972,669	-
Construction in progress	-	-	26,696,114
Total assets	29,968,324	29,762,209	33,353,159
Liabilities			
Accounts payable	38,534	89,410	3,077,317
Construction advance	29,500,000	29,500,000	29,500,000
Total liabilities	29,538,534	29,589,410	32,577,317
Unrestricted Net Assets	\$ 429,790	\$ 172,799	\$ 775,842

The total assets of the Foundation as of June 30, 2007 were \$29,762,209 of which most was capital assets. The total assets of the Foundation as of June 30, 2008 are \$29,968,324 with most of the assets representing the building. Additional information about the Foundation's capital assets can be found in Note 3 in the Notes to Financial Statements.

Capital Facilities Foundation, Inc.

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are 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 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.

	2008	2007	2006
Net operating income (loss)	\$ 224,658	\$ (742,595)	\$ (7,524)
Nonoperating revenues	32,333	139,552	695,695
Increase (decrease) in net assets	256,991	(603,043)	688,171
Beginning, net assets	172,799	775,842	87,671
Ending, net assets	<u>\$ 429,790</u>	<u>\$ 172,799</u>	<u>\$ 775,842</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in the net assets at the end of the year due to the rent received from the University.

Statement of Cash Flows

The final statement presented by the Foundation is the 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 shows 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 changes in fair value of investments. The third section reflects the cash flows from capital and related financing activities and shows cash received from financing activities and spent for capital expenditures. The fourth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

	2008	2007	2006
Net cash provided by (used in) operating activities	\$ 1,228,329	\$ (270,071)	\$ (7,524)
Net cash provided by investing activities	32,333	139,552	695,695
Net cash used in capital and related financing activities	(89,410)	(5,988,933)	(22,532,279)
Net increase (decrease) in cash	1,171,252	(6,119,452)	(21,844,108)
Beginning cash	537,593	6,657,045	28,501,153
Ending cash	<u>\$ 1,708,845</u>	<u>\$ 537,593</u>	<u>\$ 6,657,045</u>

Capital Facilities Foundation, Inc.

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

The major source of funds included in operating activities is lease revenue. Major use of funds included in operating activities is payments for interest on the construction advance as well as to vendors and suppliers.

Economic Outlook

The facility was inhabited at full capacity throughout the 2006-07 and 2007-08 academic years and is rented at 100% capacity for the upcoming 2008-09 academic year. The Capital Facilities Foundation expects that UNCG will issue bonds to pay off the debt of the Foundation and take full possession of the facility during the 2008-09 academic year. In the meantime, UNCG will pay the Foundation for all expenses incurred with regard to debt service and operations through lease payments.

While it is not possible to predict ultimate results, we believe that the Foundation's overall financial condition is strong enough to weather most economic uncertainties.

Capital Facilities Foundation, Inc.

Statements of Net Assets
June 30, 2008 and 2007

	2008	2007
Assets		
Noncurrent assets:		
Cash	\$ 1,708,845	\$ 537,593
Prepaid insurance	11,281	-
Rent receivable	-	251,947
Capital assets, net of accumulated depreciation (Note 3):		
Building	27,759,196	28,339,162
Furnishings and equipment	400,223	533,630
Appliances	88,779	99,877
Total assets	29,968,324	29,762,209
Liabilities		
Interest payable	38,534	-
Construction advance (Note 4)	29,500,000	29,500,000
Current liability payable from restricted assets:		
Retainage payable	-	89,410
Total current liabilities	29,538,534	29,589,410
Net Assets		
Unrestricted	\$ 429,790	\$ 172,799

See Notes to Financial Statements.

Capital Facilities Foundation, Inc.

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	2008	2007
Revenue:		
Rental income	\$ 2,264,595	\$ 1,358,797
Operating income	<u>2,264,595</u>	<u>1,358,797</u>
Expenses:		
Operating expenses, general and administrative expenses	170,417	114,420
Depreciation expense	724,471	724,471
Interest expense	1,145,049	1,262,501
Operating expenses	<u>2,039,937</u>	<u>2,101,392</u>
Net operating income (loss)	224,658	(742,595)
Nonoperating revenues, interest income	32,333	139,552
Increase (decrease) in net assets	<u>256,991</u>	<u>(603,043)</u>
Net assets:		
Beginning	172,799	775,842
Ending	<u>\$ 429,790</u>	<u>\$ 172,799</u>

See Notes to Financial Statements.

Capital Facilities Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Rental payments received	\$ 2,516,542	\$ 1,106,850
Interest payments, net of amounts capitalized	(1,106,515)	(1,262,501)
Payments to vendors	(181,698)	(114,420)
Net cash provided by (used in) operating activities	1,228,329	(270,071)
Cash Flows Provided By Investing Activities		
Interest income	32,333	139,552
Cash Flows Used In Capital and Related Financing Activities		
Payments for construction in progress	(89,410)	(5,988,933)
Net increase (decrease) in cash	1,171,252	(6,119,452)
Cash:		
Beginning	537,593	6,657,045
Ending	<u>\$ 1,708,845</u>	<u>\$ 537,593</u>
Reconciliation of Net Operating Income (Loss) to		
Net Cash Provided By (Used in) Operating Activities		
Operating income (loss)	\$ 224,658	\$ (742,595)
Depreciation expense	724,471	724,471
Increase (decrease) in rental income receivable	251,947	(251,947)
Increase in interest payable	38,534	-
Increase in prepaid insurance	(11,281)	-
Net cash provided by (used in) operating activities	\$ 1,228,329	\$ (270,071)

See Notes to Financial Statements.

Capital Facilities Foundation, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

The Capital Facilities Foundation, Inc. (the "Foundation") exists to construct and hold residential housing for students of The University of North Carolina at Greensboro (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:

Financial statements: The accompanying 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 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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Foundation does not apply Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

Capital assets: The facility is stated at cost and will be depreciated over 50 years. Furnishings and equipment are stated at cost and depreciated over five years while appliances are depreciated over ten years.

Net assets: The Foundation's net assets are classified as follows:

Unrestricted net assets: Unrestricted net assets are not subject to externally imposed restrictions.

Note 2. Cash

The Foundation has a checking account at a commercial bank which is in excess of federally insured limits. The Foundation has not suffered any financial loss on these deposits.

Cash includes a bank account totaling \$1,708,845 and \$537,593 at June 30, 2008 and 2007, respectively, for which the bank balances were \$1,708,845 and \$2,702,432, respectively. A total of \$100,000 of the bank balance was covered by federal depository insurance. The remainder is uninsured.

Capital Facilities Foundation, Inc.

Notes to Financial Statements

Note 3. Capital Assets

Capital asset activity for the years ended June 30, 2008 and 2007 was as follows:

	2008			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets, being depreciated:				
Building	\$ 28,919,128	\$ -	\$ -	\$ 28,919,128
Furnishings and equipment	667,037	-	-	667,037
Appliances	110,975	-	-	110,975
Totals, capital assets being depreciated	29,697,140	-	-	29,697,140
Less accumulated depreciation for:				
Building	(579,966)	(579,966)	-	(1,159,932)
Furnishings and equipment	(133,407)	(133,407)	-	(266,814)
Appliances	(11,098)	(11,098)	-	(22,196)
Total accumulated depreciation	(724,471)	(724,471)	-	(1,448,942)
Total capital assets, net	\$ 28,972,669	\$ (724,471)	\$ -	\$ 28,248,198
	2007			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets, not being depreciated:				
Construction in progress	\$ 26,696,114	\$ -	\$ (26,696,114)	\$ -
Capital assets, being depreciated:				
Building	-	28,919,128	-	28,919,128
Furnishings and equipment	-	667,037	-	667,037
Appliances	-	110,975	-	110,975
Totals, capital assets being depreciated	-	29,697,140	-	29,697,140
Less accumulated depreciation for:				
Building	-	(579,966)	-	(579,966)
Furnishings and equipment	-	(133,407)	-	(133,407)
Appliances	-	(11,098)	-	(11,098)
Total accumulated depreciation	-	(724,471)	-	(724,471)
Totals, capital assets being depreciated, net	-	28,972,669	-	28,972,669
Total capital assets, net	\$ 26,696,114	\$ 28,972,669	\$ (26,696,114)	\$ 28,972,669

Capital Facilities Foundation, Inc.

Notes to Financial Statements

Note 4. Construction Advance and Assignment of Rentals

During April 2005, the Foundation entered into agreements with the University and the commercial bank that advanced the 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 is being constructed at a cost of \$1 per year. Under the agreements, the University is to pay the Foundation rentals for 30 years at a cost not to exceed \$2,349,000 per year for the use of the facility. The Foundation has assigned its rights to the rentals to the commercial bank. Therefore, in essence, the University will be repaying the construction advance and effectively purchasing the facility from the Foundation. The agreements allow for the University to prepay the entire loan balance without penalty. Under the terms of the agreements the University would be responsible for operating the facility upon completion. Interest capitalized during the years ended June 30, 2008 and 2007 totaled \$0 and \$194,238, respectively.

	2008			Ending Balance
	Beginning Balance	Additions	Reductions	
Construction advance	\$ 29,500,000	\$ -	\$ -	\$ 29,500,000

	2007			Ending Balance
	Beginning Balance	Additions	Reductions	
Construction advance	\$ 29,500,000	\$ -	\$ -	\$ 29,500,000

Future debt maturities and interest expense for the construction advance are as follows:

Fiscal Year Ended June 30,	Principal Amount	Interest
2009	\$ 29,500,000	\$ 1,145,049

The construction advance requires monthly interest payments due by the first of each month equal to 81% of the sum of the monthly LIBOR Base Rate plus 35 basis points (.35%), not to exceed 9.454%. The outstanding construction advance is due on May 1, 2009. The advance is collateralized by substantially all of the assets of the Foundation. The outstanding advances and interest rate at June 30, 2008 and 2007 are \$29,500,000 and \$29,500,000 and 2.35% and 4.65%, respectively.

The Foundation expects the University will pay the outstanding advance and take possession of the capital assets prior to the May 1, 2009 construction advance due date.

Notes to Financial Statements

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 University via a combination of methods, including participation in various risk pools administered by the State of North Carolina, purchase of commercial insurance and self retention of certain risks.

There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years since the Foundation's inception.

Additional details on the University's risk management programs are disclosed in the financial report of The University of North Carolina at Greensboro.

Note 6. Income Taxes

The Foundation is exempt from federal income tax under the provisions of the Internal Revenue Code Section 501(c)(3).