

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, 2009

Contents

Independent Auditor's Report	1
Management's Discussion and Analysis	2 – 6
Financial Statements	
Statements of net assets	7
Statements of revenues, expenses, and changes in net assets	8
Statements of cash flows	9
Notes to financial statements	10 – 13

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

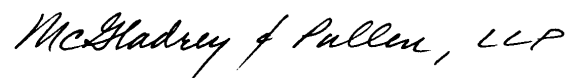
We have audited the accompanying statements of net assets of Capital Facilities Foundation, Inc. (the "Foundation"), a component unit of the University of North Carolina at Greensboro, as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows 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, 2009 and 2008, 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 12, 2009 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 and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 6 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.



Greensboro, North Carolina
August 12, 2009

Capital Facilities Foundation, Inc.

Management's Discussion and Analysis (Unaudited) Year Ended June 30, 2009

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, 2009. 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") educational mission, including, without limitation, assisting with the acquisition, development, financing, construction, management and operation of capital assets for UNCG.

From the time of its foundation until April 29, 2009, the Foundation was engaged primarily in one activity: construction of a housing and parking facility on UNCG-owned property leased to the Foundation. Under the Ground Lease and the Lease, the Foundation constructed a 400-bed student housing facility, related 200-space parking facility and other related facilities which have been occupied since August, 2006 (the "Project"). Exercising the option to buy back the improvements at any time, the Board of Governors of the University of North Carolina issued The University of North Carolina at Greensboro General Revenue Bonds, Series 2009A, on April 29, 2009, as authorized by Chapter 146 of the 2006 Session Laws of North Carolina. UNCG discharged the Foundation's financing of the Project on that date, under the terms of the Lease, and upon discharging the Foundation's financing of the Project, the Lease was terminated. Title to the Project is now in the State of North Carolina (UNCG), making the Project a success for UNCG and for the Foundation. As part of the transaction, the Foundation agreed to complete a list of facility alterations to suit the State Construction Office and State Property Office. During the summer of 2009, the Foundation will complete this list at an estimated cost of \$97,000, completing its responsibility for the Project.

Discussions by the Foundation Board and by UNCG have been under way to consider opportunities for the UNCG Foundation to facilitate further campus development beyond UNCG's 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 existing opportunities. It is expected that land acquisitions will follow one of two paths: 1) The Foundation will go through the process of selling the property to the State/UNCG, who will then reimburse the Foundation for purchase amounts 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.

Capital Facilities Foundation, Inc.

Management's Discussion and Analysis (Unaudited) Year Ended June 30, 2009

Introduction (Continued)

During the 2009 fiscal year, three property acquisition activities were engaged by the Foundation. The following three properties have been identified by UNCG in the Campus Master Plan as property suitable for acquisition for campus expansion.

1. On March 27, 2009, the Foundation purchased 1225 West Lee Street for approximately \$230,000 with the intent of exploring redevelopment possibilities or being reimbursed by the State/UNCG for the appraised value and associated acquisition costs.
2. On June 4, 2009, the Foundation purchased 121 McIver Street for approximately \$340,000 with the intent of being reimbursed by the State/UNCG for the appraised value and associated acquisition costs.

UNCG has initiated the appropriate process with the State Property Office to pursue reimbursement to the Foundation for these two properties and to take them into State of North Carolina property inventory for the benefit of UNCG.

3. On June 25, 2009, the Foundation purchased 1409 West Lee Street for approximately \$328,000 with the intent of exploring redevelopment possibilities or being reimbursed by the State/UNCG for the appraised value and associated acquisition costs.

It is the intent of UNCG to initiate the appropriate process with the State Property Office to pursue reimbursement to the Foundation for this property in the 2009-10 fiscal year and to take it into State of North Carolina property inventory for the benefit of UNCG.

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, 2009

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.

	2009	2008	2007
Assets			
Cash	\$ 2,175,335	\$ 1,708,845	\$ 537,593
Prepaid insurance	58,738	11,281	-
Sales tax receivable	41,682	-	-
Rent receivable	-	-	251,947
Capital assets	-	28,248,198	28,972,669
Real estate inventory	901,151	-	-
Total assets	3,176,906	29,968,324	29,762,209
Liabilities			
Payables	231,683	38,534	89,410
Construction advance	-	29,500,000	29,500,000
Total liabilities	231,683	29,538,534	29,589,410
Net Assets			
Invested in capital assets, net of related debt	-	(1,251,802)	(527,331)
Unrestricted net assets	2,945,223	1,681,592	700,130
Total net assets	\$ 2,945,223	\$ 429,790	\$ 172,799

The total assets of the Foundation as of June 30, 2008 and 2007 were approximately \$30,000,000 of which most of the assets represented the Project. The total assets of the Foundation as of June 30, 2009 are \$3,176,906 with most of the assets being cash and real estate held for sale to UNCG or for development. 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, 2009

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.

	2009	2008	2007
Net operating income (loss)	\$ 652,217	\$ 224,658	\$ (742,595)
Nonoperating revenues	1,863,216	32,333	139,552
Increase (decrease) in net assets	2,515,433	256,991	(603,043)
Beginning, net assets	429,790	172,799	775,842
Ending, net assets	\$ 2,945,223	\$ 429,790	\$ 172,799

The Statements of Revenues, Expenses, and Changes in Net Assets reflect an increase in the net assets at the end of the year due to the rent received from UNCG during the 2008 and 2009 fiscal years as well as the subsequent sale of the building in 2009. The Statement of Revenues, Expenses, and Changes in Net Assets reflects a decrease in net assets in fiscal 2007 primarily due to the excess of depreciation and interest costs over rent received.

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.

	2009	2008	2007
Net cash provided by (used in) operating activities	\$ 1,355,466	\$ 1,228,329	\$ (270,071)
Net cash provided by investing activities	12,175	32,333	139,552
Net cash used in capital and related financing activities	(901,151)	(89,410)	(5,988,933)
Net increase (decrease) in cash	466,490	1,171,252	(6,119,452)
Beginning cash	1,708,845	537,593	6,657,045
Ending cash	\$ 2,175,335	\$ 1,708,845	\$ 537,593

Capital Facilities Foundation, Inc.

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009**

Statement of Cash Flows (Continued)

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, real property acquisition and payments for interest.

Economic Outlook

The Foundation expects to facilitate further campus expansion by acquiring strategic land identified by UNCG, capitalizing on existing opportunities. The Foundation will go through the process of selling acquired property to the State and 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 the Foundation's overall financial condition is strong enough to weather most economic uncertainties.

Capital Facilities Foundation, Inc.

Statements of Net Assets
June 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash (Note 2)	\$ 2,175,335	\$ 1,708,845
Prepaid insurance	58,738	11,281
Sales tax receivable	41,682	-
Real estate inventory	901,151	-
Total current assets	3,176,906	1,720,126
Capital assets, net of accumulated depreciation (Note 3):		
Building	-	27,759,196
Furnishings and equipment	-	400,223
Appliances	-	88,779
Total assets	3,176,906	29,968,324
Liabilities		
Interest payable	-	38,534
Other payable	231,683	-
Construction advance	-	29,500,000
Total current liabilities	231,683	29,538,534
Commitment (Note 6)		
Net Assets		
Investment in capital assets, net of related debt	-	(1,251,802)
Unrestricted	2,945,223	1,681,592
Total net assets	\$ 2,945,223	\$ 429,790

See Notes to Financial Statements.

Capital Facilities Foundation, Inc.

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009	2008
Revenue:		
Rental income	\$ 1,945,830	\$ 2,264,595
Operating income	1,945,830	2,264,595
Expenses:		
Operating expenses, general and administrative expenses	312,030	170,417
Depreciation expense	599,239	724,471
Interest expense	382,344	1,145,049
Operating expenses	1,293,613	2,039,937
Net operating income	652,217	224,658
Nonoperating revenues:		
Interest income	12,175	32,333
Gain on sale of capital assets	1,851,041	-
	1,863,216	32,333
Increase in net assets	2,515,433	256,991
Net assets:		
Beginning	429,790	172,799
Ending	\$ 2,945,223	\$ 429,790

See Notes to Financial Statements.

Capital Facilities Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities		
Rental payments received	\$ 1,945,830	\$ 2,516,542
Interest payments	(420,878)	(1,106,515)
Payments to vendors	(169,486)	(181,698)
Net cash provided by operating activities	1,355,466	1,228,329
Cash Flows Provided By Investing Activities		
Interest income	12,175	32,333
Cash Flows From Capital and Related Financing Activities		
Proceeds from sale of capital assets	29,500,000	-
Payments for construction in progress	-	(89,410)
Payments for purchase of real estate	(901,151)	-
Payments on construction advance	(29,500,000)	-
Net cash used in capital and related financing activities	(901,151)	(89,410)
Net increase in cash	466,490	1,171,252
Cash:		
Beginning	1,708,845	537,593
Ending	\$ 2,175,335	\$ 1,708,845
Reconciliation of Net Operating Expenses to Net Cash Provided By Operating Activities		
Operating income	\$ 652,217	\$ 224,658
Depreciation expense	599,239	724,471
Decrease in rental income receivable	-	251,947
Increase in sales tax receivable	(41,682)	-
Increase (decrease) in interest payable	(38,534)	38,534
Increase in other payable	231,683	-
(Increase) decrease in prepaid insurance	(47,457)	(11,281)
Net cash provided by operating activities	\$ 1,355,466	\$ 1,228,329

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 enhance The University of North Carolina at Greensboro's (the "University") 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:

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.

Real estate inventory: Real estate inventory held for resale is recorded at the lower of cost or estimated fair value. Cost is determined by acquisition price, if purchased, and at estimated fair value at the date of contribution, if contributed. Subsequent land improvements are added to real estate inventory. Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties that is other than in a forced or liquidation sale.

Capital assets: Capital assets are stated at cost less accumulated depreciation. The facility is depreciated over 50 years, furnishings and equipment are depreciated over five years, and appliances are depreciated over ten years.

Net assets: The Foundation's net assets are classified as invested in capital assets, net of related debt and unrestricted.

Reclassification: The Foundation's policy is to reclassify certain amounts reported in prior years' financial statements when necessary for conformity with classifications adopted in the current year. These reclassifications did not have an effect on the prior year's change in net assets or total net assets.

Capital Facilities Foundation, Inc.

Notes to Financial Statements

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 \$2,175,335 and \$1,708,845 at June 30, 2009 and 2008, respectively, for which the bank balances were \$2,175,350 and \$1,708,845, respectively. A total of \$250,000 and \$100,000 of the bank balance was covered by federal depository insurance at June 30, 2009 and 2008, respectively. The remainder is uninsured.

Note 3. Capital Assets

Capital asset activity for the years ended June 30, 2009 and 2008 was as follows:

	2009			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets, not being depreciated:				
Real estate	\$ -	\$ 901,151	\$ -	\$ 901,151
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	(1,159,932)	(478,818)	1,638,750	-
Furnishings and equipment	(266,814)	(111,173)	377,987	-
Appliances	(22,196)	(9,248)	31,444	-
Total accumulated depreciation	(1,448,942)	(599,239)	2,048,181	-
Totals, capital assets being depreciated, net	28,248,198	(599,239)	(27,648,959)	-
Total capital assets, net	\$ 28,248,198	\$ 301,912	\$(27,648,959)	\$ 901,151

Capital Facilities Foundation, Inc.

Notes to Financial Statements

Note 3. Capital Assets (Continued)

	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)
Totals, capital assets being depreciated, net	\$ 28,972,669	\$ (724,471)	\$ -	\$ 28,248,198

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. 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 University and Foundation exercised this option in April of 2009, which resulted in a gain on sale to the University of approximately \$1,851,000.

	2009			Ending Balance
	Beginning Balance	Additions	Reductions	
Construction advance	\$ 29,500,000	\$ -	\$ 29,500,000	\$ -

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

Capital Facilities Foundation, Inc.

Notes to Financial Statements

Note 4. Construction Advance and Assignment of Rentals (Continued)

The construction advance required 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 was paid on April 29, 2009.

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).