

CAPITAL FACILITIES FOUNDATION, INC.

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

FINANCIAL REPORT

YEARS ENDED JUNE 30, 2018 AND 2017



CAPITAL FACILITIES FOUNDATION, INC.

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Independent Auditor's Report

To the Board of Trustees
Capital Facilities Foundation, Inc.
Greensboro, North Carolina

We have audited the accompanying financial statements of the Capital Facilities Foundation, Inc., which comprise the statement of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 6 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 24, 2018

CAPITAL FACILITIES FOUNDATION, INC.
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

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, 2018. 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 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.

In March 2016, UNCG and the Foundation entered into a master lease agreement to construct Phase II of Spartan Village, a 330-bed housing facility with approximately 26,000 square feet of retail space. Construction on Phase II began in early summer 2016. The construction of this facility was originally financed with a construction loan through PNC. In June 2018, UNCG exercised the option to buy back the improvements and issued General Revenue Bonds as authorized by North Carolina General Assembly. The University of North Carolina at Greensboro at that time discharged the Foundation's financing of the Project. Title to the entirety of the property and the improvements made by the Foundation (The Project) were transferred to the State of North Carolina (The University of North Carolina at Greensboro), signifying that the Foundation's role in the Project was complete.

CAPITAL FACILITIES FOUNDATION, INC.
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

In September of 2016, the Foundation acquired three properties to renovate and, subsequently, to accommodate the programmatic needs of the Theatre Department. The total budget for the project is \$4.4 million. When completed, this project will serve as academic space for the Theatre Department and house functions such as the scene shop, paint shop, prop storage, costume storage, lighting design and acting studio. In addition, the Foundation identified property owned by UNCG to renovate and, subsequently, to accommodate the programmatic needs of identified administrative units. The total budget for the project is \$5.0 million. When completed, this project will serve as administrative space for approximately 100 staff members who will require office space which cannot be accommodated within the existing campus facilities. The renovation of these facilities are being developed in support of space needs related to moving university staff in the existing McIver Building to allow for its demolition and construction of the new Nursing and Instructional Building. These projects were completed as of June 2018.

Using the Financial Report

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

Statements of Net Position

The 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 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 Statement of Net Position also provides a picture of the net position (assets minus liabilities) and their availability for expenditure by the Foundation.

CAPITAL FACILITIES FOUNDATION, INC.
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

Net position includes unrestricted net assets and those invested in capital assets, net of related debt. These categories of net assets are discussed further in the footnotes to the financial statements.

Assets	2018	2017	2016
Current assets	\$ 4,702,228	\$ 11,936,285	\$ 2,615,318
Capital assets, net	9,776,914	48,293,659	11,807,071
Total assets	<u>\$ 14,479,142</u>	<u>\$ 60,229,944</u>	<u>\$ 14,422,389</u>
Liabilities and Net Position			
Current liabilities	\$ 589,462	\$ 4,824,399	\$ 122,213
Long-term debt, net of current maturities	9,104,616	53,802,999	12,666,608
Deferred revenue	-	-	-
Total liabilities	<u>9,694,078</u>	<u>58,627,398</u>	<u>12,788,821</u>
Net position	<u>4,785,064</u>	<u>1,602,546</u>	<u>1,633,568</u>
Total liabilities and net position	<u>\$ 14,479,142</u>	<u>\$ 60,229,944</u>	<u>\$ 14,422,389</u>

The total assets of the Foundation as of June 30, 2018, 2017, and 2016 were approximately \$14.5 million, \$60.2 million, and \$14.5 million, respectively, with most of the assets being cash, receivables, and capital assets. Additional information about the Foundation's capital assets can be found in Note 4 in the Notes to Financial Statements.

Statements of Revenues, Expenses and Changes in Net Position

Changes in total net assets as presented on the Statement of Net Position are based on the activity presented in the 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.

	2018	2017	2016
Operating loss	\$ (569,865)	\$ (31,022)	\$ (20,844)
Nonoperating revenues	3,752,383	-	-
Increase (decrease) in net assets	3,182,518	(31,022)	(20,844)
Beginning, net position	<u>1,602,546</u>	<u>1,633,568</u>	<u>1,654,412</u>
Ending, net position	<u>\$ 4,785,064</u>	<u>\$ 1,602,546</u>	<u>\$ 1,633,568</u>

The Statements of Revenues, Expenses, and Changes in Net Position reflect an increase in net position for the year ended 2018 due to transfers from the University and a decrease in the net position at the years ended 2017 and 2016, due primarily to operating expenses and interest expense.

CAPITAL FACILITIES FOUNDATION, INC.
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2018

Statements 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 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 Statement of Revenues, Expenses, and Changes in Net Position.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net cash provided by (used in) operating activities	\$ 448,245	\$ (909,004)	\$ (265,509)
Net cash provided by investing activities	32,974	-	-
Net cash provided by (used in) capital and related financing activities	<u>(6,623,548)</u>	<u>9,275,486</u>	<u>(99,300)</u>
Net increase (decrease) in cash	(6,142,329)	8,366,482	(364,809)
Beginning cash	<u>10,709,558</u>	<u>2,343,076</u>	<u>2,707,885</u>
Ending cash	<u><u>\$ 4,567,229</u></u>	<u><u>\$ 10,709,558</u></u>	<u><u>\$ 2,343,076</u></u>

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 and the UNCG Campus Master 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.
Statements of Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current Assets:		
Cash (Note 2)	\$ 4,567,229	\$ 10,709,558
Receivables	134,999	1,226,727
Total current assets	<u>4,702,228</u>	<u>11,936,285</u>
Capital assets, nondepreciable (Notes 4 and 5)	882,251	46,973,514
Capital assets, net of accumulated depreciation (Notes 4 and 5)	<u>8,894,663</u>	<u>1,320,145</u>
	<u>9,776,914</u>	<u>48,293,659</u>
 Total assets	 <u>\$ 14,479,142</u>	 <u>\$ 60,229,944</u>
<u>Liabilities and Net Position</u>		
Current Liabilities:		
Accounts payable	\$ -	\$ 320
Construction payable	311,525	4,538,987
Accrued expenses	57,127	39,101
Current maturities on long-term debt (Note 5)	<u>220,810</u>	<u>245,991</u>
Total current liabilities	<u>589,462</u>	<u>4,824,399</u>
Long-term debt, net of current maturities (Note 5)	8,993,199	53,802,999
Funds held for others	<u>111,417</u>	<u>-</u>
 Total liabilities	 <u>9,694,078</u>	 <u>58,627,398</u>
Net Position:		
Investment in capital assets, net of related debt	562,905	-
Unrestricted	<u>4,222,159</u>	<u>1,602,546</u>
Total net position	<u>4,785,064</u>	<u>1,602,546</u>
 Total liabilities and net position	 <u>\$ 14,479,142</u>	 <u>\$ 60,229,944</u>

CAPITAL FACILITIES FOUNDATION, INC.
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue:		
Rental income	\$ 462,119	\$ 442,344
Operating income	<u>462,119</u>	<u>442,344</u>
Expenses:		
Operating expenses, general and administrative expenses	350,628	435,194
Depreciation expense	186,485	38,172
Gain on disposal of fixed asset	(277,809)	-
Interest expense	772,680	-
Operating expenses	<u>1,031,984</u>	<u>473,366</u>
Operating loss	(569,865)	(31,022)
Nonoperating revenues	32,974	-
Transfers from the University	<u>3,719,409</u>	<u>-</u>
Increase (decrease) in net assets	3,182,518	(31,022)
Net Position:		
Beginning	<u>1,602,546</u>	<u>1,633,568</u>
Ending	<u>\$ 4,785,064</u>	<u>\$ 1,602,546</u>

CAPITAL FACILITIES FOUNDATION, INC.
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Other income	\$ 462,119	\$ (512,751)
Reimbursement of sales tax payments	1,008,133	119,803
Interest payments, net of amounts capitalized	(790,706)	-
Payments to vendors	(231,301)	(516,056)
Net cash provided by (used in) operating activities	<u>448,245</u>	<u>(909,004)</u>
Cash flows from investing activities:		
Interest income	32,974	-
Net cash provided by investing activities	<u>32,974</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	-	41,382,382
Proceeds from sale of capital assets	50,000,000	-
Acquisition and construction of capital assets	(15,619,393)	(32,106,896)
Payments on long-term debt	(44,834,981)	-
Transfers from the University	3,719,409	-
Increase in funds held for others	111,417	-
Net cash provided by (used in) capital and related financing activities	<u>(6,623,548)</u>	<u>9,275,486</u>
Net increase (decrease) in cash	(6,142,329)	8,366,482
Cash, Beginning	10,709,558	2,343,076
Cash, Ending	<u>\$ 4,567,229</u>	<u>\$ 10,709,558</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (569,865)	\$ (31,022)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	186,485	38,172
Gain on disposal of fixed asset	(277,809)	-
Decrease in prepaid expenses	-	610
(Increase) decrease in receivables	1,091,728	(955,095)
Decrease in accounts payable	(320)	(770)
Increase in accrued expenses	18,026	39,101
Net cash provided by (used in) operating activities	<u>\$ 448,245</u>	<u>\$ (909,004)</u>
Supplemental schedule of noncash capital and financing activities:		
Acquisition of capital assets financed through payables	<u>\$ 311,525</u>	<u>\$ 4,417,864</u>

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" 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:

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 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.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Buildings are depreciated over 50 years. Other structures are depreciated over 25 years. Equipment is depreciated over 10 years if the individual piece is valued over \$5,000.

Net Assets

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

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 bank accounts totaling \$4,567,229 and \$10,709,558 at June 30, 2018 and 2017, respectively, for which the bank balances were \$4,892,059 and \$10,712,498, respectively.

CAPITAL FACILITIES FOUNDATION, INC.**Notes to Financial Statements**

NOTE 5 - LONG-TERM DEBT

A summary of changes in the long-term debt for the years ended June 30, 2018 and 2017, are as follows:

	2018			
	Beginning Balance	Additions	Reductions	Ending Balance
Improvement advance	\$ 9,460,000	\$ -	\$ (245,991)	\$ 9,214,009
Construction advance	44,588,990	-	(44,588,990)	-
Total long-term debt	<u>\$ 54,048,990</u>	<u>\$ -</u>	<u>\$ (44,834,981)</u>	<u>\$ 9,214,009</u>

	2017			
	Beginning Balance	Additions	Reductions	Ending Balance
Improvement advance	\$ -	\$ 9,460,000	\$ -	\$ 9,460,000
Construction advance	12,666,608	31,922,382	-	44,588,990
Total long-term debt	<u>\$ 12,666,608</u>	<u>\$ 41,382,382</u>	<u>\$ -</u>	<u>\$ 54,048,990</u>

Construction advance

During March 2016, the Foundation entered into agreements with the University and a commercial bank that advanced construction funds for student housing on the Foundation's land adjacent to the University. Under the agreements, the University is to pay the Foundation rentals for 30 years at a cost not to exceed \$4,000,000 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 assignment of rents and the constructed facility serve as security of the Construction Advance. The Advance is due September 1, 2018. The Advance was paid off during the year under audit.

Improvement advance

During May 2017, the Foundation entered into agreements with the University and a commercial bank that advanced construction funds. The Foundation is using the construction advance to renovate facilities for use by The University of North Carolina at Greensboro for the Theater Department and for administrative support. Under master lease agreements, the University is to pay the Foundation rentals for 30 years at a cost not to exceed \$740,000 per year for the use of the facilities. 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 the Construction Advance. The construction loan had \$9,214,009 outstanding at June 30, 2018. This advance requires bi-annual principal and interest payments due by the first of October and April. The interest payments will be paid at a fixed interest rate of 2.48% for the first 10 years.

CAPITAL FACILITIES FOUNDATION, INC.**Notes to Financial Statements**

NOTE 5 - LONG-TERM DEBT (Continued)

The annual requirements to pay principal and interest on long-term debt at June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 220,810	\$ 228,507
2020	226,286	223,031
2021	231,898	217,419
2022	237,649	211,668
2023	243,543	205,775
2024-2027	8,053,823	761,184
	<u>\$ 9,214,009</u>	<u>\$ 1,847,584</u>

NOTE 6 - 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 7 - INCOME TAXES

The Foundation is exempt from federal income tax under the provisions of the Internal Revenue Code Section 501(c)(3). The Foundation is exempt from federal and state income taxes except for income generated from unrelated business activities. The Foundation has not identified any unrelated business income in current or past years.

CAPITAL FACILITIES FOUNDATION, INC.

Time and Costs for the Audit

Years Ended June 30, 2018 and 2017

The Capital Facilities Foundation, Inc.'s audit was conducted in approximately 40 hours at a total cost of \$5,250 and \$4,950 for the years ended June 30, 2018 and 2017, respectively.