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, 2012

Contents

McGladrey

Independent Auditor's Report

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

We have audited the accompanying consolidated statements of net assets of Capital Facilities Foundation, Inc. and Consolidated Subsidiaries (the Foundation), a component unit of the University of North Carolina at Greensboro, as of June 30, 2012 and 2011, and the related consolidated 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated financial statements referred to above present fairly, in all material respects, the respective consolidated financial position of Capital Facilities Foundation, Inc. and Consolidated Subsidiaries as of June 30, 2012 and 2011, and the respective changes in its consolidated financial position and its consolidated 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 15, 2012, on our consideration of the Foundation's internal control over financial reporting and 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.

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 15, 2012

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, 2012. 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, the Foundation being reimbursed 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 both the UNCG Board of Trustees and the Capital Facilities Foundation Board of Directors in the fall of 2009 committed 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 little as 1,800 additional beds or as many as 4,000 additional beds, depending on enrollment.

The Plan indicated 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 and master lease agreements (the Lease) in the spring of 2010 to construct a 400-bed housing facility (known as New Residence Hall in its early stages but formally named later as Jefferson Suites). Construction on the Jefferson Suites began in late spring 2010 and was completed and occupied in August 2011. The construction of this facility was financed with Build America Bonds through Bank of America. In July 2012, UNCG exercised the option to buy back the improvements and issue General Revenue Bonds as authorized by The North Carolina General Assembly in Session Law 2011-145, section 30.7(b). Funds received from UNCG will, at that time, be used to discharge the Foundation's financing of Jefferson Suites, under the terms of the Lease, and upon doing so, the Lease will be terminated. Title to the entirety of the property and the improvements made by the Foundation will be to the State of North Carolina (The University of North Carolina at Greensboro), which will signify that the Foundation's role in the development of Jefferson Suites is complete and that it was a success for UNCG and for the Foundation.

The Plan also suggested that the majority of the growth in student housing facilities should take place on property not currently owned by UNCG at the time the Plan was written. The Plan called 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. Although the Plan called for the expansion to take place to the south or to the west of campus, subsequent efforts have been focused on the south in the Lee Street Corridor. Planning documents by the Glenwood Neighborhood as well as the City of Greensboro give guidance for the redevelopment of the Lee Street Corridor and both encourage UNCG's potential influence and role in the redevelopment. 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 a financial institution lender. A multi-phase master plan was developed for acquiring property and constructing student housing facilities 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. Construction on Phase I began in early spring 2012 and is on schedule to be complete and occupied in August 2013. This project is financed with a construction advance through a financial institution lender. Competitive processes were utilized to select the designer, construction manager at risk, and the lender.

Phase II is expected to consist of 600 additional beds with mixed use spaces and be constructed from 2014 to 2016. The acquisition of land necessary to complete Phase II is approximately 75 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 $17.6 million non-revolving line of credit with a financial institution lender for acquisition of property for the mixed use Spartan Village student housing was increased to allow up to an additional $10 million for land acquisition for student recreation facilities. As a result of commencing construction on Phase I of Spartan Village, with its separate financing, the Foundation reduced over $12 million of the line of credit for the associated land. The remaining line of credit (under $8 million) is expected to be sufficient to complete the Phase II property assemblage. 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. UNCG desires to begin construction on the student recreation center in late 2013. It is also noteworthy that UNCG is planning the construction of 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 are expected to begin in the fall of 2012.

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 asset acquisition and construction expenses.

Using The Financial Report

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

Consolidated Statement Of Net Assets

The Consolidated 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 Consolidated 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 Consolidated 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 and invested in capital assets, net of related debt. These categories of net assets are discussed further in the footnotes to the financial statements.

Assets	**2012**	2011	2010
Current assets	**$ 8,748,780**	$ 7,403,816	$ 30,722,722
Capital assets, net	**58,759,616**	43,946,362	4,970,436
Total assets	**67,508,396**	51,350,178	35,693,158
Liabilities			
Current liabilities	**1,947,234**	3,134,215	573,205
Long-term debt	**63,839,177**	46,622,825	33,168,558
Total liabilities	**65,786,411**	49,757,040	33,741,763
Total net assets	**$ 1,721,985**	$ 1,593,138	$ 1,951,395

The total assets of the Foundation as of June 30, 2012, 2011, and 2010 were approximately $67.5 million, $51.4 million, and $35.7 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 Assets

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

	2012	2011	2010
Operating loss	**$ (769,624)**	$ 677,417	$ (1,082,657)
Nonoperating revenues	**898,471**	319,160	88,829
Increase (decrease) in net assets	**128,847**	(358,257)	(993,828)
Beginning, net assets	**1,593,138**	1,951,395	2,945,223
Ending, net assets	**$ 1,721,985**	$ 1,593,138	$ 1,951,395

The Consolidated Statements of Revenues, Expenses, and Changes in Net Assets reflect an increase in the net assets at the end of 2012 due primarily to interest income. For the years ended 2011 and 2010, net assets 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 Assets.

	2012	2011	2010
Net cash provided by (used in) operating activities	**$ 175,582**	$ (1,125,365)	$ (688,781)
Net cash provided by investing activities	**152,569**	313,947	88,829
Net cash provided by capital and related financing activities	**950,809**	1,191,765	187,560
Net increase (decrease) in cash	**1,278,960**	380,347	(412,392)
Beginning cash	**2,143,290**	1,762,943	2,175,335
Ending cash	**$ 3,422,250**	$ 2,143,290	$ 1,762,943

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 UNCG, 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 Assets
June 30, 2012 And 2011

Assets	**2012**	2011
Current Assets		
Cash (Note 2)	**$ 1,172,250**	$ 2,143,290
Prepaid expenses	**45,011**	16,757
Sales tax receivable	**140,600**	623,741
Receivable from UNCG (Note 4)	**-**	4,562,431
Other receivables	**30,789**	57,597
Real estate purchase deposit (Note 6)	**5,110,130**	-
Total current assets	**6,498,780**	7,403,816
Restricted cash (Note 2)	**2,250,000**	-
Capital assets, nondepreciable (Notes 3 and 4)	**22,975,644**	39,788,219
Capital assets, net of accumulated depreciation (Notes 3 and 4)	**35,783,972**	4,158,143
	58,759,616	43,946,362
Total assets	**67,508,396**	51,350,178
Liabilities		
Current Liabilities		
Accounts payable	**55,820**	93,034
Construction payable	**1,891,414**	3,041,181
Total current liabilities	**1,947,234**	3,134,215
Long-term debt (Note 4)	**63,839,177**	46,622,825
Total liabilities	**65,786,411**	49,757,040
Commitments (Note 6)		
Net Assets		
Invested in capital assets, net of related debt	**216,400**	74,354
Unrestricted	**1,505,585**	1,518,784
Total net assets	**$ 1,721,985**	$ 1,593,138

See Notes To Consolidated Financial Statements.

Capital Facilities Foundation, Inc. and Consolidated Subsidiaries

Consolidated Statements Of Revenues, Expenses, And Changes In Net Assets
Years Ended June 30, 2012 And 2011

	2012	2011
Revenue:		
Rental income	**$ 1,834,065**	$ 181,453
Gain on sale of capital assets	**-**	10,545
Operating income	**1,834,065**	191,998
Expenses:		
Operating expenses, general and administrative expenses	**1,341,107**	261,506
Depreciation expense	**494,805**	123,957
Loss on sale of capital assets	**5,920**	-
Interest expense	**761,857**	483,952
Operating expenses	**2,603,689**	869,415
Operating loss	**(769,624)**	(677,417)
Nonoperating revenues, interest income	**898,471**	319,160
Increase (decrease) in net assets	**128,847**	(358,257)
Net assets:		
Beginning	**1,593,138**	1,951,395
Ending	**$ 1,721,985**	$ 1,593,138

See Notes To Consolidated Financial Statements.

Capital Facilities Foundation, Inc. and Consolidated Subsidiaries

Consolidated Statements Of Cash Flows
Years Ended June 30, 2012 And 2011

		2012		2011
Cash Flows From Operating Activities				
Rental income	$	1,834,065	$	181,453
Interest payments, net of amounts capitalized		(757,155)		(449,777)
Payments to vendors		(901,328)		(857,041)
Net cash provided by (used in) operating activities		175,582		(1,125,365)
Cash Flows Provided By Investing Activities				
Interest income		152,569		313,947
Cash Flows From Capital and Related Financing Activities				
Borrowings on line of credit		8,354,057		13,582,800
Proceeds from issuance of long-term debt		21,707,329		-
Capital contribution from UNCG		750,000		-
Proceeds from sale of capital assets		413,254		173,084
Acquisition and construction of capital assets		(16,877,000)		(36,744,175)
Withdrawal of financing proceeds on deposit with UNCG		4,558,333		24,308,589
Deposit on real estate purchase		(5,110,130)		-
Payment on long-term debt		(500,000)		-
Payments on line of credit		(12,345,034)		(128,533)
Net cash provided by capital and related financing activities		950,809		1,191,765
Net increase in cash		1,278,960		380,347
Cash:				
Beginning		2,143,290		1,762,943
Ending	$	3,422,250	$	2,143,290
Reconciliation of Operating Loss to				
Net Cash Provided By (Used In) Operating Activities				
Operating loss	$	(769,624)	$	(677,417)
Adjustments to reconcile operating loss to				
net cash provided by (used in) operating activities:				
Depreciation expense		494,805		123,957
(Gain) loss on sale of capital assets		5,920		(10,545)
(Increase) decrease in prepaid expenses		(28,254)		43,236
(Increase) decrease in receivables		509,949		(647,359)
Increase in interest payable		5,974		34,175
Increase (decrease) in accounts payable		(43,188)		8,588
Net cash provided by (used in) operating activities	$	175,582	$	(1,125,365)
Supplemental Schedule of Noncash Capital and Financing Activities				
Construction of capital assets financed through payables	$	1,891,414	$	3,041,181
Interest receivable	$	29,882	$	33,979

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.

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: 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 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 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 assets or total net assets.

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 a bank account totaling $3,422,250 and $2,143,290 at June 30, 2012 and 2011, respectively, for which the bank balances were $3,956,229 and $2,155,542, 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 amounts held under this agreement at June 30, 2012 and 2011, were $2,250,000 and $0, respectively.

Note 3. Capital Assets

Capital asset activity for the years ended June 30, 2012 and 2011, was as follows:

	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**

	2011			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Real estate	$ 2,240,593	$ 8,966,315	$ (162,539)	$ 11,044,369
Construction in progress	2,508,401	26,235,449	-	28,743,850
	4,748,994	35,201,764	(162,539)	39,788,219
Capital assets, depreciable:				
Building	260,520	4,060,658	-	4,321,178
Totals, capital assets being depreciated	260,520	4,060,658	-	4,321,178
Less accumulated depreciation for:				
Building	(39,078)	(123,957)	-	(163,035)
Total accumulated depreciation	(39,078)	(123,957)	-	(163,035)
Totals, capital assets being depreciated, net	221,442			4,158,143
Total capital assets, net	$ 4,970,436			$ 43,946,362

Note 4. Long-Term Debt

A summary of changes in the long-term debt for the years ended June 30, 2012 and 2011, are as follows:

	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**
Notes 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**

	2011			
	Beginning Balance	Additions	Reductions	Ending Balance
Construction Advance 1	$ 31,000,000	$ -	$ -	$ 31,000,000
Line of credit	668,558	13,582,800	(128,533)	14,122,825
Notes payable	1,500,000	-	-	1,500,000
Total long-term debt	$ 33,168,558	$ 13,582,800	$ (128,533)	$ 46,622,825

Construction Advance 1

During April 2010, the Foundation entered into agreements with the University and a commercial bank that advanced construction funds. The Foundation is using 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 $2,650,000 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 requires 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 and 1.04 percent at June 30, 2012 and 2011, respectively). 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 serve 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 $10,131,848 and $14,122,825 is outstanding at June 30, 2012 and 2011, 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 (2.00 percent) with a minimum of 3.00 percent (3.00 percent at June 30, 2012 and 2011, respectively). 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 commercial bank that advanced construction funds. The Foundation is using the construction advance to construct another student housing project 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 $5,155,227 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 for Construction Advance 2. Construction Advance 2 is due November 2, 2016.

Notes Payable

The two notes payable are in the amounts of $1,000,000 and $500,000 received from two unrelated private foundations. The notes provide for quarterly interest only payments at 4.5 percent and are due on the sooner to occur of receipt of other funding sufficient to discharge the debt associated with the notes payable designated for acquisition of property and construction of facilities by the Foundation or December 31, 2014. The $500,000 note was paid in full on June 29, 2012.

The annual requirements to pay principal and interest on long-term debt at June 30, 2012, is as follows:

Fiscal Year	Principal	Interest
2013	$ -	$ 924,661
2014	31,000,000	896,761
2015	11,131,848	421,959
2016	-	240,734
2017	21,707,329	81,564
	$ 63,839,177	$ 2,565,679

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 $8.4 million had been incurred at June 30, 2012.

As of June 30, 2012, the Foundation made a deposit of $5,451,152 to purchase real estate. This property was purchased for this amount on July 10, 2012.

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.

Note 8. Subsequent Event

In July 2012, the Foundation sold a piece of real estate included in capital assets, nondepreciable, for approximately $300,000. The Foundation purchased the property for approximately $600,000. The transaction resulted in the Foundation recognizing a contribution to UNCG in the amount of approximately $300,000.