McGladrey & Pullen
Certified Public Accountants

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

Financial and Compliance Report
Year Ended June 30, 2007

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McGladrey & Pullen
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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, 2007 and 2006, 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, 2007 and 2006, 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 October 22, 2007 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
October 22, 2007

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

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, 2007. 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, the construction of a housing and parking facility on University-owned property, leased to the Foundation, for long-term use by the University. Through a competitive solicitation process, the Foundation engaged the services of Place Collegiate Development, LLC to design and construct the facility. The development contract amount for the delivery of a 400-bed, 200-space housing and parking improvement was originally $26,915,558 and was increased to $28,253,144 for necessary change orders. Also 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 including change orders.

The Foundation has a lease in place with UNCG for the University's use of the facility to house students who choose to live on campus. This lease provides UNCG with the option to buy back the improvements at any time. The Foundation will repay the loan with 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 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 academic year and is rented at 100% capacity for the upcoming 2007-08 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.

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.

	2007	2006	2005
Assets			
Cash	$ 537,593	$ 6,657,045	28,501,153
Rent receivable	251,947	-	-
Capital assets	28,972,669	-	-
Construction in progress	-	26,696,114	1,626,438
Total assets	29,762,209	33,353,159	30,127,591
Liabilities			
Accounts payable	89,410	3,077,317	539,920
Construction advance	29,500,000	29,500,000	29,500,000
Total liabilities	29,589,410	32,577,317	30,039,920
Unrestricted Net Assets	$ 172,799	$ 775,842	$ 87,671

The total assets of the Foundation as of June 30, 2006 were $33,353,159 of which most was construction in progress. The total assets of the Foundation as of June 30, 2007 are $29,762,209 with most of the assets representing the building. Total assets decreased approximately $3.6 million largely due to the settlement of prior year construction payables as well as the commencement of depreciation on the capital assets and expensing of interest payments as opposed to capitalization during the construction period. Additional information about the Foundation's capital assets can be found in Note 3 in the Notes to Financial Statements.

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. Nonoperating expenses are expenses not directly related to the normal operations of the Foundation (e.g., investment expenses).

	2007	2006	2005
Net operating loss	$ (742,595)	$ (7,524)	$ -
Nonoperating revenues	139,552	695,695	87,671
Increase (decrease) in net assets	(603,043)	688,171	87,671
Beginning, net assets	775,842	87,671	-
Ending, net assets	$ 172,799	$ 775,842	$ 87,671

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a decrease in the net assets at the end of the year that was the result of placing the facility in service and the commencement of depreciation as well as interest payments charged to expense. Prior to fiscal year 2007, depreciation was not recorded because the facility was under construction and similarly interest was capitalized as part of construction.

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 used by 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.

	2007	2006	2005
Net cash used in operating activities	$ (270,071)	$ (7,524)	(153)
Net cash provided by (used in) investing activities	139,552	695,695	(998,694)
Net cash provided by (used in) capital and related financing activities	(5,988,933)	(22,532,279)	29,500,000
Net increase (decrease) in cash	(6,119,452)	(21,844,108)	28,501,153
Beginning cash	6,657,045	28,501,153	-
Ending cash	$ 537,593	$ 6,657,045	$ 28,501,153

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. The major use of funds included in capital and related financing activities is payments for capital asset construction.

Economic Outlook

Construction was completed on August 11, 2006 and was rented at full capacity throughout the 2006-07 academic and is expected to remain rented at full capacity for the upcoming 2007-08 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 2007-08 year. In the meantime, UNCG will compensate 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, 2007 and 2006

		2007		2006
Assets (Note 4)				
Noncurrent assets:				
Cash (Note 2)	$	537,593	$	6,657,045
Rent receivable		251,947		-
Capital assets not being depreciated:				
Construction in progress (Note 3)		-		26,696,114
Capital assets, net of accumulated depreciation (Note 3):				
Building		28,339,162		-
Furnishings and equipment		533,630		-
Appliances		99,877		-
Total assets		29,762,209		33,353,159
Liabilities				
Current liabilities payable from restricted assets:				
Accounts payable		89,410		3,077,317
Construction advance (Note 4)		29,500,000		-
Noncurrent liabilities:				
Construction advance (Note 4)		-		29,500,000
Total current liabilities		29,589,410		32,577,317
Net Assets				
Unrestricted	$	172,799	$	775,842

See Notes to Financial Statements.

Capital Facilities Foundation, Inc.

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
Revenue:		
Rental Income	$ 1,358,797	$ -
Operating income	1,358,797	-
Expenses:		
Operating expenses, general and administrative expenses	114,420	7,524
Depreciation expense	724,471	-
Interest expense	1,262,501	-
Operating expenses	2,101,392	7,524
Operating loss	(742,595)	(7,524)
Nonoperating revenues, interest income	139,552	695,695
Increase (decrease) in net assets	(603,043)	688,171
Net assets:		
Beginning	775,842	87,671
Ending	$ 172,799	$ 775,842

See Notes to Financial Statements.

Capital Facilities Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2007 and 2006

		2007		2006
Cash Flows From Operating Activities				
Rental payments received	$	1,106,850	$	-
Interest payments, net of amounts capitalized		(1,262,501)		-
Payments to vendors		(114,420)		(7,524)
Net cash used in operating activities		(270,071)		(7,524)
Cash Flows Provided By Investing Activities				
Interest income		139,552		695,695
Cash Flows Used In Capital and Related Financing Activities				
Payments for construction in progress		(5,988,933)		(22,532,279)
Net decrease in cash		(6,119,452)		(21,844,108)
Cash:				
Beginning		6,657,045		28,501,153
Ending	$	537,593	$	6,657,045
Reconciliation of Operating Loss to Net Cash Used In Operating Activities				
Operating loss	$	(742,595)	$	(7,524)
Depreciation expense		724,471		-
Increase in rent receivable		(251,947)		-
Net cash used in operating activities	$	(270,071)	$	(7,524)

See 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 ("BTA") 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 $537,593 and $6,657,045 at June 30, 2007 and 2006, respectively, for which the bank balances were $2,702,432 and $6,657,045, respectively. A total of $100,000 of the bank balance was covered by federal depository insurance. The remainder is uninsured.

Note 3. Capital Assets

Capital asset activity for the years ended June 30, 2007 and 2006 was as follows:

	2007			
	Beginning Balance	Increases	Decreases	Ending Balance
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	-	28,972,669	-	28,972,669
Total capital assets, net	$ 26,696,114	$ 28,972,669	$(26,696,114)	$ 28,972,669

	2006			
	Beginning Balance	Reclassifications	Increases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ 1,626,438	$ 25,069,676	$ -	$ 26,696,114

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. Under the terms of the agreements the Foundation is required to use 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, 2007 and 2006 totaled $194,238 and $1,125,252, respectively.

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

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
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
2008	$ 29,500,000	$ 1,143,125

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, 2008. The advance is collateralized by substantially all of the assets of the Foundation. The outstanding advances and interest rate at June 30, 2007 and 2006 are $29,500,000 and $29,500,000 and 4.65% and 4.68%, respectively.

The Foundation expects the University will pay the outstanding advance and take possession of the capital assets prior to the May 1, 2008 construction advance due date.

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).

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the Capital Facilities Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 22, 2007. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

Rental Income

We noted during our audit that rental income had not been recognized in accordance with the Use Agreement between UNCG and the Foundation. The Use Agreement requires rental payments equal to interest payments on the construction advance and other reasonable and customary expenses and fees of the Foundation. As a result an adjustment was recorded for approximately $252,000 in additional rental income. We recommend that the Foundation create procedures that ensure that income under the Use Agreement is appropriately recognized at year-end.

Accruals

We also noted through our audit procedures that interest payable was not recorded in the financial statements. An adjustment of approximately $75,000 was proposed, but not recorded, to adjust the interest expense account for presentation in the financial statements.

Capitalization of Interest

During our audit, we noted that interest costs were incurred during construction of the building. In accordance with Financial Accounting Standards Board ("FASB") Statement No. 34, *Capitalization of Interest Cost*, "interest capitalization shall continue until the entire asset is substantially complete and ready for use." We noted that a portion of the interest incurred prior to completion of the project was expensed and not capitalized. As a result, an adjustment for approximately $79,000 was proposed, but not recorded, to adjust the accounts in accordance with accounting principles generally accepted in the United States of America. We recommend that someone other than the preparer of the financial statements review them to ensure accuracy.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Directors, management, The University of North Carolina at Greensboro and the State Auditor of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Greensboro, North Carolina
October 22, 2007