

McGladrey & Pullen

Certified Public Accountants

The Endowment Fund of The University of North Carolina at Greensboro

Financial Report
06.30.2010

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

The Board of Trustees
The Endowment Fund of
The University of North Carolina at Greensboro
Greensboro, North Carolina

We have audited the accompanying statements of net assets of The Endowment Fund of The University of North Carolina at Greensboro (the "Fund"), as of June 30, 2010 and 2009, 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 Fund'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 the Fund as of June 30, 2010 and 2009, and the changes in its net assets 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 September 1, 2010 on our consideration of the Fund'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.

The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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
September 1, 2010

The Endowment Fund of
The University of North Carolina at Greensboro

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2010

Introduction

The Endowment Fund of The University of North Carolina at Greensboro (the "Endowment Fund") provides the following management discussion and analysis ("MD&A") as an overview of the financial activities for the fiscal year ended June 30, 2010. This discussion, along with the following financial statements and related footnote disclosures, has been prepared by management and comprise the Endowment Fund'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.

Using the Financial Report

The Endowment Fund's financial report includes three financial statements: the statements of net assets; the statements of revenues, expenses and changes in net assets; and the statements of cash flows. The Endowment Fund is a part of the UNGC financial report and therefore is prepared in accordance with Governmental Accounting Standards Board ("GASB") principles.

Statements 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 Endowment Fund. The purpose of this financial statement is to present to the readers of the Endowment Fund's financial report a fiscal snapshot as of the end of its fiscal year (i.e., June 30th).

From the data presented, readers of these statements are able to determine the assets available to continue the operations of the Endowment Fund. The statements of net assets also provide a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Endowment Fund. Net assets are divided into two major categories: unrestricted net assets; and restricted net assets, which are reflected in two subcategories – expendable and nonexpendable. These two categories of net assets are discussed further in the footnotes to the financial statements.

	2010	2009	2008
Assets	<u>\$ 94,416,200</u>	<u>\$ 85,192,371</u>	<u>\$ 98,363,082</u>
Net assets:			
Restricted:			
Nonexpendable	50,286,328	48,201,708	45,041,272
Expendable	37,517,074	30,458,876	45,024,136
Unrestricted	6,612,798	6,531,787	8,297,674
Total net assets	<u>\$ 94,416,200</u>	<u>\$ 85,192,371</u>	<u>\$ 98,363,082</u>

**The Endowment Fund of
The University of North Carolina at Greensboro**

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2010**

Statements of Net Assets (Continued)

The total assets of the Endowment Fund increased (decreased) by approximately \$9.2 million, \$(13.2) million and \$655,000 for the years ended June 30, 2010, 2009 and 2008, respectively. The increases in total assets for 2010 and 2009 are attributable primarily to new gifts to the Fund and investment performance, whereas the decrease in 2009 is largely due to investment performance.

The Endowment Fund invests in the University of North Carolina at Greensboro Investment Fund. The Endowment Fund owns 55.0% of the pooled investments totaling approximately \$171 million. The University Investment Fund pool assets are diversified with 77.4% equities (of which 42.7% are in hedge fund and alternative investments), 21.9% bonds, and .7% in cash and short-term investments. The University Investment Fund pool assets decreased by approximately \$18.5 million for the year. The Fund returned 10.8% for the fiscal year, underperforming the 13.7% return of a passive benchmark consisting of 80% S&P 500 Index plus 20% Barclays Capital Aggregate Bond Index, outperforming the 10.3% return of a passive benchmark consisting of 80% MSCI World Index plus 20% Barclays Capital Aggregate Bond and underperforming the 11.7% return of a custom benchmark based on the Investment Fund's target asset allocation.

The Fund has twenty-nine managers and a highly diversified approach to investing with an emphasis on asset allocation by the Board of Directors. This includes five managers with alternative investment styles and eight non-marketable alternative partnerships in which funds were invested to give the Fund a more diverse allocation.

Statements of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the statements of net assets are based on the activity presented in the statements of revenues, expenses and changes in net assets. The purpose of this statement is to present the revenues earned by the Endowment Fund, both operating and nonoperating, and the expenses incurred by the Fund, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by the Fund.

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 Endowment Fund (e.g., investment expenses). Additions to the principal of permanent endowments are reported separately after nonoperating revenues and expenses.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net nonoperating revenue (loss)	\$ 8,751,959	\$ (19,239,552)	\$ (1,245,240)
Additions to permanent endowments	3,414,045	9,294,432	3,859,186
Transfers from The UNCG Excellence Foundation	38,590	530,660	1,473,546
Transfers to The UNCG Excellence Foundation	-	(36,940)	-
Transfers from the UNCG Human Environmental Sciences Foundation	-	16,936	-
Transfers to the University	(2,980,765)	(3,736,247)	(3,406,016)
Increase (decrease) in net assets	9,223,829	(13,170,711)	681,476
Beginning net assets	85,192,371	98,363,082	97,681,606
Ending net assets	<u>\$ 94,416,200</u>	<u>\$ 85,192,371</u>	<u>\$ 98,363,082</u>

The Endowment Fund of
The University of North Carolina at Greensboro

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2010

Statements of Revenues, Expenses and Changes in Net Assets (Continued)

The 2010 statement of revenues, expenses and changes in net assets reflects an increase in net assets due to investment earnings, additions to permanent endowments and transfers from the UNCG Excellence Foundation, which are partially offset by the amount of transfers to the University. In the 2009 fiscal year, net assets decreased due to investment losses, transfers to the UNCG Excellence Foundation and to the University, partially offset by additions to permanent endowments along with transfers from UNCG Excellence Foundation and the UNCG Human Environmental Sciences Foundation. In the 2008 fiscal year, net assets at the end of the year increased due to additions to permanent endowments and a transfer from the UNCG Excellence Foundation offsetting transfers to the University and investments losses.

Statements of Cash Flows

The final statement presented by the Endowment Fund is the statement of cash flows. This statement is divided into two parts and presents detailed information about the cash activity of the Fund during the year. The first section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The second section reflects the cash flows from investing activities and shows purchases, proceeds, and earnings from investing activities.

	2010	2009	2008
Net cash provided by noncapital financing activities	\$ 433,280	\$ 5,696,315	\$ 465,124
Net cash used in investing activities	(967,312)	(5,082,542)	(415,842)
Net increase (decrease) in cash	(534,032)	613,773	49,282
Beginning cash	663,055	49,282	-
Ending cash	<u>\$ 129,023</u>	<u>\$ 663,055</u>	<u>\$ 49,282</u>

In 2010, 2009 and 2008, the major sources of cash included in noncapital financing activities are endowment gifts, which are partially offset by transfers to the University. The major use of cash included in investing activities is the purchase of investments.

Economic Outlook

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the Endowment Fund's financial position or results of operations during fiscal year 2010-11 beyond those unknown variations having a global effect on virtually all types of business operations. We will maintain a close watch over resources so that the Fund will be able to react to currently unknown internal and external issues.

Management will continue to employ the Endowment Fund's long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the Endowment Fund's operations from temporary market volatility.

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

The Endowment Fund of
The University of North Carolina at Greensboro

Statements of Net Assets
June 30, 2010 and 2009

	2010	2009
Assets		
Restricted cash	\$ 129,023	\$ 663,055
Other assets	400,329	517,184
Endowment investments	93,886,848	84,012,132
Total assets	94,416,200	85,192,371
Net Assets		
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	25,150,408	23,807,001
Endowed professorships	14,725,102	14,197,491
Departmental uses	8,031,078	7,817,739
Other	2,274,194	2,273,931
Loans	105,546	105,546
Expendable:		
Scholarships and fellowships	22,472,950	18,739,831
Endowed professorships	8,894,359	6,253,514
Departmental uses	5,601,901	4,945,256
Loans	533,637	508,506
Other	14,227	11,769
Unrestricted	6,612,798	6,531,787
	\$ 94,416,200	\$ 85,192,371

See Notes to Financial Statements.

The Endowment Fund of
The University of North Carolina at Greensboro

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
<hr/>		
Nonoperating revenue:		
Investment earnings (losses)	\$ 9,006,959	\$ (19,377,682)
Other expense	(255,000)	-
	<hr/>	
Gains/(losses) before additions to permanent endowments and transfers	8,751,959	(19,377,682)
Additions to endowments	3,414,045	9,432,562
Transfers from The UNCG Excellence Foundation	38,590	530,660
Transfers to The UNCG Excellence Foundation	-	(36,940)
Transfers from The UNCG Human Environmental Sciences Foundation	-	16,936
Transfers to the University	(2,980,765)	(3,736,247)
	<hr/>	
Increase (decrease) in net assets	9,223,829	(13,170,711)
Net assets:		
Beginning	85,192,371	98,363,082
Ending	\$ 94,416,200	\$ 85,192,371
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See Notes to Financial Statements.

**The Endowment Fund of
The University of North Carolina at Greensboro**

**Statements of Cash Flows
Years Ended June 30, 2010 and 2009**

	2010	2009
Cash Flows From Noncapital Financing Activities		
Additions to permanent endowments and noncapital gifts	\$ 3,414,045	\$ 9,432,562
Transfers to the University	<u>(2,980,765)</u>	<u>(3,736,247)</u>
Net cash provided by noncapital financing activities	<u>433,280</u>	<u>5,696,315</u>
Cash Flows Used In Investing Activities		
Net purchase of investments and related fees	<u>(967,312)</u>	<u>(5,082,542)</u>
Net increase (decrease) in cash	(534,032)	613,773
Cash:		
Beginning	<u>663,055</u>	49,282
Ending	<u>\$ 129,023</u>	<u>\$ 663,055</u>
Supplementary Schedule of Noncash Investing, Capital and Financing Activities		
Change in fair value of investments for realized and unrealized gains	<u>\$ 8,100,732</u>	<u>\$ (20,028,833)</u>
Receipt of investments in settlement due from The UNCG Excellence Foundation, Inc.	<u>\$ 38,590</u>	<u>\$ 530,660</u>
Transfer of investments in settlement due to The UNCG Excellence Foundation, Inc.	<u>\$ -</u>	<u>\$ (36,940)</u>
Receipt of investments in settlement due from The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated	<u>\$ -</u>	<u>\$ 16,936</u>

See Notes to Financial Statements.

**The Endowment Fund of
The University of North Carolina at Greensboro**

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Endowment Fund of The University of North Carolina at Greensboro (the “Fund”) includes the endowments and similar funds of The University of North Carolina at Greensboro (the “University”) and exists to supplement state appropriations to the end that the University may improve and increase its functions, may enlarge its areas of service, and may become more useful to a greater number of people. These financial statements include the accounts of the Fund only and none of the other funds of the University or its affiliated organizations. The Fund is a part of the University; therefore, the Fund’s financial statements are included with those of the University.

A summary of the Fund’s significant accounting policies follows:

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 Fund’s activities is considered to be a single business-type activity (“BTA”) and, accordingly, is reported within a single column in the basic financial statements.

Basis of accounting: The financial statements of the Fund 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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Fund follows all GASB pronouncements as well as Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements.

Net assets: The Fund’s net assets are classified as follows:

Restricted net assets – nonexpendable: Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted net assets – expendable: Expendable restricted net assets include resources in which the Fund is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties. Expendable net assets also include amounts of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure by the governing board.

Unrestricted net assets: Unrestricted net assets include resources derived from unrestricted gifts and earnings on those gifts. Similar net assets are quasi-endowment net assets (net assets functioning as endowment) which the Board of Directors has determined are to be retained and invested. Since these net assets are internally designated rather than externally restricted, the Board of Trustees has the right to decide at any time to expend the principal.

**The Endowment Fund of
The University of North Carolina at Greensboro**

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Cash with State Treasurer: In accordance with North Carolina General Statutes, the Fund deposits its cash with the State Treasurer of North Carolina. At June 30, 2010 and 2009, the Fund's portion of cash deposited with the State Treasurer was \$129,023 and \$663,055, respectively. It is the State Treasurer's policy and practice for the deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State.

Investments: Investments are stated at fair value. Investment in the investment pool is determined on a market unit valuation basis.

Reclassifications: The Fund's policy is to reclassify accounts reported in prior year financial statements when necessary for conformity with classifications adopted in the current year.

Note 2. Investments

Investments consist of the following:

	Fair Value	
	2010	2009
Investment pool	<u>\$ 93,886,848</u>	<u>\$ 84,012,132</u>

The investment pool is managed and invested by The University of North Carolina at Greensboro Investment Fund, Incorporated. The UNCG Excellence Foundation, The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The Endowment Fund of The University of North Carolina at Greensboro, The Alumni Association of The University of North Carolina at Greensboro and The Associated Campus Ministries of The University of North Carolina at Greensboro are the sole members of The University of North Carolina at Greensboro Investment Fund, Incorporated.

Assets and ownership interests of the investment pool are determined on a market unit valuation basis. The original basis was \$1,000.00 per unit. For the years ended June 30, 2010 and 2009, the total rate of return was a gain of 10.8% and a loss of 20.7%. As of June 30, 2010 and 2009, total units of 58,556.93 and 57,979.34 had a market value of \$2,916.78 and \$2,626.04 per unit, and the Fund owned 32,195.99 units and 31,991.99 units, respectively.

The Fund realized a net gain of \$1,076,524 and a net loss of \$1,580,513 from the sale of investments for the years ended June 30, 2010 and 2009, respectively. The calculation of realized gains and losses is independent of the calculation of the increase in the fair value of investments. The respective net increase and net decrease in the fair value of investments during the years ended June 30, 2010 and 2009 was \$7,279,208 and \$18,448,319. These amounts take into account all changes in the fair value (including purchases and sales) that occurred during the period. The cumulative unrealized gain on investments held at June 30, 2010 and 2009 is \$11,250,281 and \$3,971,073, respectively.

**The Endowment Fund of
The University of North Carolina at Greensboro**

Notes to Financial Statements

Note 2. Investments (Continued)

The University of North Carolina at Greensboro Investment Fund, Incorporated investment pool is diversified as follows:

	Fair Value	
	2010	2009
Short-term investments	\$ 1,145,122	\$ 8,491,996
Corporate securities:		
Common stocks	7,893,993	7,085,525
International	945,443	732,498
Mutual funds:		
International equity	30,846,137	28,904,979
Inflation hedging	10,971,575	2,498,948
Fixed income	29,307,798	25,332,925
Fixed income global	8,166,502	8,563,558
Partnerships:		
Hedge funds	44,329,001	38,664,641
Real estate securities	4,767,890	7,681,162
US equities	20,008,499	17,038,958
Venture capital	12,488,910	7,283,528
	<u>\$ 170,870,870</u>	<u>\$ 152,278,718</u>

Investments in the investment pool are stated at fair value. Equity securities and mutual funds are stated at quoted value. Investments in partnerships are stated at net unit value based on the fair value of the partnerships' assets (determined based on values supplied by pricing services, market quotations and other pricing sources believed to be reliable). The Fund invested in partnerships during the period that place funds with various managers who invest primarily in derivatives. These partnerships consist primarily of a broadly diversified group of equity long/short managers with a small allocation to distressed and merger arbitrage managers. Detailed information regarding the derivative investments is not available to the Fund.

Credit risk: The Fund does not have a formal policy regarding credit risk.

Interest rate risk: The Fund does not have a formal investment policy that limits the investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

**The Endowment Fund of
The University of North Carolina at Greensboro**

Notes to Financial Statements

Note 2. Investments (Continued)

Although the Fund does not have a formal policy addressing credit and interest rate risks, the Investment Fund, which accounts for 100% of the Fund's investments at June 30, 2010 and 2009, does have a policy addressing those risks. The policy governing the investments in the investment pool is as follows:

Investment Fund credit risk and interest rate risks: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Interest rate risk is the risk of a debt investment's exposure to fair value fluctuations arising from changing interest rates. The Fund's formal policy limits the majority of fixed income holdings to those investments that have a high quality rating (AA or better) and those with a sufficient duration (4 years or more) to provide effective protection in a deflationary environment.

Investment earnings are distributed based on policy administered by The University of North Carolina Investment Fund, Incorporated. Any excess return over the established policy is reinvested by the Fund. For the years ended June 30, 2010 and 2009, 4.25% of the average market value at December 31 of the three previous years was distributed. The Investment Fund makes distributions directly to the University on the Endowment Fund's behalf.

Note 3. Pledges Receivable

As of June 30, 2010 and 2009, outstanding endowment pledges to the Fund total \$2,412,075 and \$3,291,278, respectively. In accordance with GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded and recognized until received due to the passage of the restrictions associated with the pledges.

Note 4. Endowments and Quasi Endowments

Fund endowments consist of donor-restricted funds established to support scholarships and fellowships, endowed professorships, departmental uses and various other purposes. The Fund's Board of Trustees also maintains various other board-designated endowments (quasi endowments), which are designated for long-term investment.

If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA"), authorized by the North Carolina General Assembly in March 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the Fund's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the book value of the original gift amount. The excess of book value over market value of these funds are reported in expendable or unrestricted net assets, which were \$573,857 and \$1,447,238 as of June 30, 2010 and 2009, respectively. This excess was the result of unfavorable market fluctuations.

**The Endowment Fund of
The University of North Carolina at Greensboro**

Notes to Financial Statements

Note 5. Administrative Expenses

Certain administrative costs related to the Fund, including accounting services, fund-raising expenses and gift receipting services, have been absorbed by the University. It is not possible to determine the amount of such costs and no allocation has been made between the other funds of the University and the Endowment Fund.

Note 6. Risk Management

The Fund 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.

Additional details on the University's risk management programs are disclosed in the financial report of the University.

Note 7. Income Taxes

The Fund is exempt from federal income tax under the provisions of the Internal Revenue Code Section 115.