

# McGladrey & Pullen

Certified Public Accountants

## **The UNCG Excellence Foundation, Inc.** **(A Component Unit of The University of North Carolina at Greensboro)**

Financial Report  
Year Ended June 30, 2010

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
The UNCG Excellence Foundation, Inc.  
Greensboro, North Carolina

We have audited the accompanying statements of net assets of The UNCG Excellence Foundation, Inc. (the "Foundation"), a component unit of The University of North Carolina at Greensboro, 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 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 the Foundation 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 10, 2010 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 4 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  
September 10, 2010

## The UNCG Excellence Foundation, Inc.

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

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#### *Introduction*

The UNCG Excellence 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, 2010. This discussion, along with the following financial statements and 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.

#### *Using the Financial Report*

The Foundation'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 Foundation is blended in The University of North Carolina at Greensboro (the "University") 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 30<sup>th</sup>).

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 are divided into three major categories: invested in capital assets, net of related debt; unrestricted net assets; and restricted net assets, which are reflected in two subcategories – expendable and nonexpendable. These three categories of net assets are discussed further in the footnotes to the financial statements.

	2010	2009	2008
<b>Assets</b>	<b>\$ 80,751,633</b>	<b>\$ 71,824,971</b>	<b>\$ 90,356,099</b>
<b>Liabilities</b>	<b>6,375,389</b>	<b>5,591,046</b>	<b>6,559,667</b>
<b>Net assets</b>			
Invested in capital assets	80,011	71,492	80,264
Restricted - nonexpendable	48,202,430	44,698,803	44,491,401
Restricted - expendable	20,348,396	15,725,361	31,500,364
Unrestricted	5,745,407	5,738,269	7,724,403
	<b>\$ 74,376,244</b>	<b>\$ 66,233,925</b>	<b>\$ 83,796,432</b>

## The UNCG Excellence Foundation, Inc.

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

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The total assets of the Foundation changed by approximately \$8.9 million, (\$18.5) million and (\$1.3) million for the years ended June 30, 2010, 2009 and 2008, respectively. The changes in total assets are attributable primarily to new gifts to the Foundation and investment performance.

The endowments of the Foundation are invested through The University of North Carolina at Greensboro Investment Fund, Inc. At June 30, 2010, the Foundation owns 39.4% of the pooled investments totaling \$170.8 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 0.7% in cash. 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.

#### *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 such as noncapital gifts and investment gains. Nonoperating expenses are expenses not directly related to the normal operations of the Foundation (e.g., investment expenses). Additions to the principal of permanent endowments are reported separately after nonoperating revenues and expenses.

	2010	2009	2008
Operating expenses	\$ (75,498)	\$ (150,389)	\$ (103,308)
Nonoperating revenues	7,610,043	(15,946,187)	(795,949)
Additions to permanent endowments	2,748,670	2,268,170	3,325,819
Transfers to Weatherspoon Art Foundation	(77,143)	(119,393)	(76,283)
Transfers to the University	(2,063,753)	(3,614,708)	(4,106,189)
<b>Increase (decrease) in net assets</b>	<b>8,142,319</b>	<b>(17,562,507)</b>	<b>(1,755,910)</b>
<b>Net assets:</b>			
Beginning	66,233,925	83,796,432	85,552,342
Ending	<b>\$ 74,376,244</b>	<b>\$ 66,233,925</b>	<b>\$ 83,796,432</b>

The 2010 Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in the net assets at the end of the year; the 2009 and 2008 statements reflect a decrease in the net assets at the end of the years. The increase in 2010 is due mostly to gains on endowment investments, noncapital gifts and additions to permanent endowments. The 2009 and 2008 decreases were due to losses on endowment investments. The most significant expenditures are transfers to the University for scholarships, fellowships, and departmental spending.

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

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*Statement of Cash Flows*

The final statement presented by the Foundation is the Statement of Cash Flows. This statement is divided into four sections and presents detailed information about the cash activity of the Foundation during the year. The first section deals with operating cash flows and shows the net cash used in the operating activities of the Foundation. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section reflects the cash flows from capital financing activities. The fourth section reflects the cash flows from investing activities and shows the net purchases, proceeds and earnings from investing activities.

	2010	2009	2008
Net cash used in operating activities	\$ (28,527)	\$ (99,636)	\$ (98,271)
Net cash provided by (used in) noncapital financing activities	1,311,536	(1,319,599)	(122,899)
Net cash provided by (used in) capital financing activities	(25,405)	237,970	480,705
Net cash provided by (used in) investing activities	(1,655,309)	1,194,461	(1,038,376)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(397,705)</b>	<b>13,196</b>	<b>(778,841)</b>
Cash and cash equivalents:			
Beginning	1,824,229	1,811,033	2,589,874
Ending	<u>\$ 1,426,524</u>	<u>\$ 1,824,229</u>	<u>\$ 1,811,033</u>

In 2010, 2009 and 2008, the major use of funds in noncapital financing activities is endowment return that is transferred to the University for scholarships, fellowships, and departmental spending. The major sources of funds are gifts and additions to permanent endowments. The major use of funds included in operating activities is payments to vendors and suppliers.

*Economic Outlook*

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the Foundation'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 Foundation will be able to react appropriately to currently unknown internal and external issues.

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

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.

The UNCG Excellence Foundation, Inc.

Statements of Net Assets  
June 30, 2010 and 2009

	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 857,605	\$ 862,351
Investments	334,969	328,101
Restricted cash and cash equivalents	539,624	609,571
Restricted investments	2,433,239	1,731,568
Accrued interest receivable	1,181	929
Pledges receivable, net	138,914	169,707
Endowment cash	29,295	352,307
Endowment investments	65,649,407	58,342,776
Other long-term investments	9,580,205	8,230,708
Capital assets, net	80,011	71,492
Other assets	1,093,504	1,125,115
Other receivables	13,679	346
<b>Total assets</b>	<b>80,751,633</b>	<b>71,824,971</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	843	586
Other liabilities	27,152	15,602
Deferred revenue - split interest agreements	131,736	179,243
Funds held for others	92,072	105,759
Liabilities under unitrust agreements	2,168,708	1,636,191
Annuities payable	3,954,878	3,653,665
<b>Total liabilities</b>	<b>6,375,389</b>	<b>5,591,046</b>
<b>Net Assets</b>		
Invested in capital assets, net	80,011	71,492
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	30,539,381	27,970,770
Professorships	878,196	859,251
Departmental uses	12,044,506	11,140,023
Art	1,407,944	1,407,909
Other	3,332,403	3,320,850
Expendable:		
Scholarships and fellowships	12,244,164	8,934,994
Professorships	1,273,686	1,194,526
Departmental uses	3,903,290	2,854,366
Art	480,502	374,583
Other	2,446,754	2,366,892
Unrestricted	5,745,407	5,738,269
<b>Total net assets</b>	<b>\$ 74,376,244</b>	<b>\$ 66,233,925</b>

See Notes to Financial Statements.

The UNCG Excellence Foundation, Inc.

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

	2010	2009
Expenses:		
Operating expenses:		
Transportation	\$ 9,777	\$ 11,561
Depreciation	16,886	17,867
Other administrative	48,835	120,961
<b>Operating loss</b>	<b>(75,498)</b>	<b>(150,389)</b>
Nonoperating revenues (expenses):		
Noncapital gifts, net	475,449	524,822
Investment gain (loss), net of investment expense		
2010 \$351,601; 2009 \$514,820	6,887,638	(16,021,725)
Change in value of split-interest agreements	(45,371)	(548,504)
Other nonoperating revenues	292,327	99,220
<b>Net nonoperating expenses</b>	<b>7,610,043</b>	<b>(15,946,187)</b>
<b>Gain (loss) before additions to permanent endowments and transfers to the University</b>	<b>7,534,545</b>	<b>(16,096,576)</b>
Additions to permanent endowments	2,748,670	2,268,170
Transfers to Weatherspoon Art Foundation	(77,143)	(119,393)
Transfers to the University	(2,063,753)	(3,614,708)
<b>Increase (decrease) in net assets</b>	<b>8,142,319</b>	<b>(17,562,507)</b>
Net assets:		
Beginning	66,233,925	83,796,432
Ending	<b>\$ 74,376,244</b>	<b>\$ 66,233,925</b>

See Notes to Financial Statements.

The UNCG Excellence Foundation, Inc.

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

	2010	2009
Cash Flows Used In Operating Activities		
Payments to vendors and suppliers	\$ (28,527)	\$ (99,636)
Cash Flows From Noncapital Financing Activities		
Noncapital gifts	1,493,153	814,138
Additions to permanent endowments	2,613,648	2,268,166
Payments to annuitants	(946,695)	(767,022)
Other receipts	292,327	99,220
Transfers to the Weatherspoon Art Foundation	(77,143)	(119,393)
Transfers to the University	(2,063,753)	(3,614,708)
<b>Net cash (used in) provided by noncapital financing activities</b>	<b>1,311,536</b>	<b>(1,319,599)</b>
Cash Flows From Capital Financing Activities		
Acquisition of capital assets	(25,405)	(9,095)
Proceeds from the sale of other assets	-	247,065
<b>Net cash provided by (used in) capital financing activities</b>	<b>(25,405)</b>	<b>237,970</b>
Cash Flows From Investing Activities		
Interest on investments	203,081	148,937
Net sales (purchases) of investments	(1,858,390)	1,045,524
<b>Net cash provided by (used in) investing activities</b>	<b>(1,655,309)</b>	<b>1,194,461</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(397,705)</b>	<b>13,196</b>
Cash and cash equivalents:		
Beginning	1,824,229	1,811,033
Ending	<b>\$ 1,426,524</b>	<b>\$ 1,824,229</b>

(Continued)

The UNCG Excellence Foundation, Inc.

Statements of Cash Flows (Continued)  
Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of Operating Loss to		
Net Cash Provided By (Used In) Operating Activities		
Operating loss	\$ (75,498)	\$ (150,389)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	16,886	17,867
Changes in assets and liabilities:		
Decrease in other assets	31,611	39,561
(Increase) decrease in other receivables	(13,333)	373
Increase (decrease) in accounts payable and accrued liabilities	257	(529)
Increase (decrease) in other liabilities	11,550	(6,519)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (28,527)</b>	<b>\$ (99,636)</b>
Supplementary Schedule of Noncash Investing, Capital and Noncapital Financing Activities		
Change in fair value of investments for realized and unrealized gains	\$ 6,325,660	\$ (16,614,714)
Change in value of split-interest agreements	\$ (45,371)	\$ (548,504)
Liabilities assumed through split-interest agreements	\$ 1,031,076	\$ 318,851
Noncash receipt of land	\$ 210,023	\$ 10,000
Reconciliation of Cash and Cash Equivalent Balances		
Cash and cash equivalents	\$ 857,605	\$ 862,351
Restricted cash and cash equivalents	539,624	609,571
Endowment cash and cash equivalents	29,295	352,307
<b>Total cash and cash equivalent balances</b>	<b>\$ 1,426,524</b>	<b>\$ 1,824,229</b>

See Notes to Financial Statements.

## The UNCG Excellence Foundation, Inc.

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

The UNCG Excellence Foundation, Inc. (the "Foundation") exists to aid and promote excellence in education for the exclusive benefit 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 is a component unit of the University; therefore, 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 a single column in the basic financial statements.

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.

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 follows all GASB pronouncements as well as all 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 Foundation's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Foundation's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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 Foundation 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. Because these net assets are internally designated rather than externally restricted, the Board of Directors has the right to decide at any time to expend the principal.

## Notes to Financial Statements

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

Cash and cash equivalents: In addition to cash in bank accounts and undeposited receipts, this classification includes all short-term investments, such as savings accounts, money market accounts, as well as amounts on deposit with the State Treasurer.

Investments: Investments are stated at fair value. Equity securities, mutual funds, bonds and U. S. Treasury notes are stated at quoted value as of June 30, 2010 and 2009. Investment in the investment pool is determined on a market unit valuation basis.

Split interest agreements: The Foundation accepts gifts subject to split interest agreements. These gifts may be in the form of annuities, life income agreements or charitable remainder trusts. The terms of the agreements are the lifetimes of the respective distribution recipients. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuitant or trust beneficiary. The projected future distributions are recorded as annuities payable and liabilities under unitrust agreements on the statement of net assets.

Capital assets: Capital assets consist of vehicles, which are stated at cost. Depreciation is determined by the straight-line method and is based on a 5-year estimated useful life. Depreciation expense amounted to \$16,886 and \$17,867 in fiscal years 2010 and 2009, respectively.

Reclassifications: The Foundation's policy is to reclassify amounts reported in prior year financial statements when necessary for conformity with the classification of similar amounts reported in the current year financial statements. When made, such reclassifications do not affect the change in net assets or total net assets.

### Note 2. Deposits

Deposits include bank accounts totaling \$409,932 and \$824,229 at June 30, 2010 and 2009, respectively, for which the bank balance was \$423,991 and \$821,201, respectively. Of the bank balances, \$250,000 was covered by federal depository insurance with the remaining balance being uncollateralized for each year.

In addition, the Foundation, in accordance with North Carolina General Statutes, deposits cash with the State Treasurer of North Carolina. At June 30, 2010 and 2009, the Foundation's portion of cash deposited with the State Treasurer was \$1,016,592 and \$1,000,000, 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.

The UNCG Excellence Foundation, Inc.

Notes to Financial Statements

**Note 3. Investments**

Investments consist of the following:

	Fair Value	
	2010	2009
Investment pool	\$ 67,294,891	\$ 59,446,978
Assets held under annuity trust agreements	4,694,440	4,094,062
Assets held under unitrust agreements	4,576,991	3,751,618
Adelaide Fortune Holderness Fund	976,112	817,666
Pooled life income fund	308,775	385,028
Cash value of life insurance contracts	368,481	355,115
H. Michael Weaver Investment Fund	146,611	137,802
	<u>\$ 78,366,301</u>	<u>\$ 68,988,269</u>

The above investments, exclusive of the cash value of life insurance contracts and the investment pool, are diversified as follows:

	Fair Value	
	2010	2009
Cash and cash equivalents	\$ 188,816	\$ 224,292
Mutual funds	9,484,252	5,025,304
Corporate securities:		
Corporate bonds	-	51,437
Common stocks	1,029,861	3,885,142
	<u>\$ 10,702,929</u>	<u>\$ 9,186,175</u>

The investment pool is managed and invested by The University of North Carolina at Greensboro Investment Fund, Incorporated. The UNCG Excellence Foundation, Inc., 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 rates of return were gains and losses of 10.8% and (20.7%), respectively. 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 Foundation owned 23,076.87 and 22,637.39 units, respectively.

The UNCG Excellence Foundation, Inc.

Notes to Financial Statements

**Note 3. Investments (Continued)**

The Foundation realized net gains of \$420,350 and net losses of \$1,723,728 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 change in the fair value of investments. The net change in the fair value of investments during the years ended June 30, 2010 and 2009 was \$5,905,310 and \$(14,890,986), respectively. This amount takes 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 \$8,718,082 and \$2,812,772, respectively.

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.

Investment earnings are distributed based on policy administered by The Board of Directors of The University of North Carolina at Greensboro Investment Fund, Inc. 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 UNCG Excellence Foundation, Inc.

Notes to Financial Statements

Note 3. Investments (Continued)

At June 30, 2010 and 2009, the Foundation held the following investments, measured at fair value, which are subject to credit and interest rate risk.

Investment Type	2010				Fair Value
	Investment Maturities (in Years)				
	Less Than 1	1 to 5	6 to 10	More Than 10	
Money market funds	\$ 67,162	\$ -	\$ -	\$ -	\$ 67,162
Mutual bond fund	-	-	3,720,611	-	3,720,611
	<u>\$ 67,162</u>	<u>\$ -</u>	<u>\$ 3,720,611</u>	<u>\$ -</u>	<u>\$ 3,787,773</u>
Allocation	1.8%	0.0%	98.2%	0.0%	100.0%

  

Investment Type	2009				Fair Value
	Investment Maturities (in Years)				
	Less Than 1	1 to 5	6 to 10	More Than 10	
Money market funds	\$ 70,092	\$ -	\$ -	\$ -	\$ 70,092
Mutual bond fund	-	-	3,135,937	-	3,135,937
Domestic corporate bonds	51,437	-	-	-	51,437
	<u>\$ 121,529</u>	<u>\$ -</u>	<u>\$ 3,135,937</u>	<u>\$ -</u>	<u>\$ 3,257,466</u>
Allocation	3.7%	0.0%	96.3%	0.0%	100.0%

Credit risk and interest rate risk: 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 Foundation'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.

The UNCG Excellence Foundation, Inc.

Notes to Financial Statements

**Note 3. Investments (Continued)**

Credit risk: The Foundation's investments in U. S. Treasury notes and money market funds are unrated. The Foundation's annuity investments are rated by Standard & Poor's and Moody's Rating Services as follows:

Investment Type	2010				
	Credit Rating				Fair Value
	AAA	AA	A	BBB	
Money market funds	\$ 67,162	\$ -	\$ -	\$ -	\$ 67,162
Mutual bond fund	-	3,720,611	-	-	3,720,611
	<u>\$ 67,162</u>	<u>\$ 3,720,611</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,787,773</u>
Allocation	1.8%	98.2%	0.0%	0.0%	100.0%

  

Investment Type	2009				
	Credit Rating				Fair Value
	AAA	AA	A	BBB	
Money market funds	\$ 70,092	\$ -	\$ -	\$ -	\$ 70,092
Mutual bond fund	-	3,135,937	-	-	3,135,937
Domestic corporate bonds	-	25,321	26,117	-	51,437
	<u>\$ 70,092</u>	<u>\$ 3,161,258</u>	<u>\$ 26,117</u>	<u>\$ -</u>	<u>\$ 3,257,466</u>
Allocation	2.2%	97.0%	0.8%	0.0%	100.0%

**Note 4. Pledges to the Foundation**

As of June 30, 2010 and 2009, outstanding pledges to the Foundation totaled \$1,235,224 and \$3,089,421, respectively. Of the total pledges, \$1,082,504 and \$2,906,264, respectively, are endowment fund pledges and \$138,914 and \$169,707, respectively, are current fund pledges, net of discounts and allowances for doubtful accounts. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment fund pledges are not recorded and recognized until received due to the passage of the restrictions associated with the pledges. Pledges that are expected to be collected and available for expenditures, that are both verifiable and measurable, are reported on the accompanying financial statements as part of pledges receivable. In accordance with accounting principles generally accepted in the United States of America, the original amount pledged has been discounted based on a projected interest rate for the outstanding periods. There is a \$7,636 and \$9,115 allowance for doubtful accounts reported in the statement of financial position as of June 30, 2010 and 2009, respectively. The pledges receivable are due over the next four years as follows: \$100,714; \$35,202; \$11,989 and \$4,815.

## Notes to Financial Statements

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### Note 5. Endowments and Quasi Endowments

Foundation endowments consist of donor-restricted funds established to support scholarships and fellowships, endowed professorships, departmental uses and various other purposes. The Foundation's Board of Directors 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 Directors 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 Foundation'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 \$791,856 and \$2,133,751 as of June 30, 2010 and 2009, respectively. This excess was the result of unfavorable market fluctuations.

### Note 6. Administrative Expenses

Certain administrative costs related to the Foundation, 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 from services arising between the University and the Foundation.

### Note 7. 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.

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

### Note 8. Income Taxes

The Foundation is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.