

THE UNIVERSITY OF NORTH CAROLINA
AT GREENSBORO HUMAN ENVIRONMENTAL
SCIENCES FOUNDATION, INCORPORATED

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014



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**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
HUMAN ENVIRONMENTAL SCIENCES FOUNDATION, INCORPORATED
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Independent Auditor's Report

Members of the Board

The University of North Carolina at Greensboro

Human Environmental Sciences Foundation, Incorporated

Greensboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated (the "Foundation"), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of changes in net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Management's Discussion and Analysis on pages 3 - 4 is presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic and historical context. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 6, 2015

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
HUMAN ENVIRONMENTAL SCIENCES FOUNDATION, INCORPORATED
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

Introduction

The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated (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, 2015. 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 two financial statements: the statements of net position and the statements of changes in net position. The Foundation is blended in The University of North Carolina at Greensboro's (the "University") financial report and therefore is prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

Statement of Net Position

The statement of net position is a point of time financial statement that presents the assets, liabilities, and net position of the Foundation. The purpose of this financial statement is to present to the readers of the Foundation's financial report a fiscal snapshot as of the end of the fiscal year (i.e., June 30th).

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets	<u>\$ 9,340,631</u>	<u>\$ 9,487,089</u>	<u>\$ 8,289,384</u>
Net position			
Restricted:			
Nonexpendable	\$ 4,447,615	\$ 4,313,940	\$ 4,087,342
Expendable	3,267,758	3,475,695	2,725,386
Unrestricted	<u>1,625,258</u>	<u>1,697,454</u>	<u>1,476,656</u>
Total net position	<u>9,340,631</u>	<u>9,487,089</u>	<u>8,289,384</u>
Total liabilities and net position	<u>\$ 9,340,631</u>	<u>\$ 9,487,089</u>	<u>\$ 8,289,384</u>

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
HUMAN ENVIRONMENTAL SCIENCES FOUNDATION, INCORPORATED
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

Statement of Net Position (Continued)

Total net position of the Foundation decreased by approximately \$146,000 for the year ended June 30, 2015 and increased by approximately \$1,198,000 and \$729,000 for the years ended June 30, 2014 and 2013, respectively. The decrease in net assets in 2015 is a result of spending for fiscal year 2014 being more than was earned in 2015 while the increases in 2014 and 2013 are attributable primarily to investment performance and new gifts to the Foundation.

The Foundation invests in the University of North Carolina at Greensboro Investment Fund, Inc. (the "Investment Fund"). The pooled investments total approximately \$248.6 million at June 30, 2015. The total assets of the Fund decreased by approximately \$3.1 million for the year. The Investment Fund gained .3 percent for the fiscal year, underperforming the 1.6 percent gain of a passive benchmark consisting of 85 percent MSCI World Index plus 15 percent Barclays Capital Aggregate Bond Index and outperforming the 0.1 percent gain of a custom benchmark based on the Investment Fund's target asset allocation.

Statement of Changes in Net Position

Changes in total net position as presented on the statement of net position are based on the activity presented in the statement of changes in net position. The purpose of the statement is to present the additions to the Foundation, both contributions and investment income, and the deductions incurred by the Foundation, including administrative expenses, investment losses, and transfers to the University.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Additions	\$ 196,330	\$ 1,504,859	\$ 995,121
Deductions	(342,788)	(307,154)	(266,392)
Net increase (decrease) in net position	(146,458)	1,197,705	728,729
Beginning net position	9,487,089	8,289,384	7,560,655
Ending net position	<u>\$ 9,340,631</u>	<u>\$ 9,487,089</u>	<u>\$ 8,289,384</u>

The statement of changes in net position reflects a decrease in net position resulting from investment spending for the year ending 2014, which was more than was earned in 2015, while there was an increase in net position in 2014 and 2013 due to positive endowment investment performance and new gifts. Transfers to the University for scholarships, professorships, and departmental spending consistently increased through 2015 due to a more favorable market trend.

Economic Outlook

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, management believes that the Foundation's overall financial condition is strong enough to weather most economic uncertainties.

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
HUMAN ENVIRONMENTAL SCIENCES FOUNDATION, INCORPORATED
Statements of Net Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Unrestricted cash	\$ 50,174	\$ 47,616
Unrestricted investments	89,084	78,148
Restricted cash	7,186	7,186
Restricted investments	315,479	294,099
Endowment cash and cash equivalents	217	-
Endowment investments	8,877,991	9,060,040
Other receivables	500	-
Total assets	<u>\$ 9,340,631</u>	<u>\$ 9,487,089</u>

Net Position

Restricted for:		
Nonexpendable:		
Scholarships and fellowships	\$ 2,762,960	\$ 2,652,787
Endowed professorships	85,062	82,562
Departmental uses	609,983	589,081
Other	989,610	989,510
Expendable:		
Scholarships and fellowships	1,822,330	1,948,417
Endowed professorships	131,097	137,998
Departmental uses	520,453	556,398
Other	793,878	832,882
Unrestricted	1,625,258	1,697,454
Total net position	<u>\$ 9,340,631</u>	<u>\$ 9,487,089</u>

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
HUMAN ENVIRONMENTAL SCIENCES FOUNDATION, INCORPORATED
Statements of Changes in Net Position
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions:		
Contributions:		
Gifts	\$ -	\$ 3,150
Additions to permanent endowments	<u>133,176</u>	<u>225,020</u>
	<u>133,176</u>	<u>228,170</u>
Investment income:		
Investment earnings	<u>109,239</u>	1,319,727
Less investment expense	<u>46,085</u>	<u>43,038</u>
	<u>63,154</u>	<u>1,276,689</u>
Total additions	<u>196,330</u>	<u>1,504,859</u>
Deductions:		
Administrative expense	<u>1,711</u>	4,249
Transfers to the University	<u>341,077</u>	<u>302,905</u>
Total deductions	<u>342,788</u>	<u>307,154</u>
Net cash increase (decrease) in net position	<u>(146,458)</u>	1,197,705
Net position:		
Beginning of year	<u>9,487,089</u>	<u>8,289,384</u>
End of year	<u>\$ 9,340,631</u>	<u>\$ 9,487,089</u>

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
HUMAN ENVIRONMENTAL SCIENCES FOUNDATION, INCORPORATED
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated (the Foundation) exists for the exclusive benefit of the departments and center housed within the School of Human Environmental Sciences of The University of North Carolina at Greensboro (the "University"). The School was restructured on July 2, 2011, to include the Consumer Apparel & Retail Studies, Human Development & Family Studies, Interior Architecture, Nutrition, Social Work, and the Center for New North Carolinians. 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 departments previously housed in the School of Human Environmental Sciences. 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").

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.

Net Position

The Foundation's net positions are classified as follows:

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

Unrestricted net position: Unrestricted net position includes resources derived from unrestricted gifts and earnings on those gifts. Similar net positions are quasi-endowment net assets (net assets functioning as endowment) which the Board of Directors has determined are to be retained and invested. As 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.

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
HUMAN ENVIRONMENTAL SCIENCES FOUNDATION, INCORPORATED
Notes to Financial Statements

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 and money market accounts.

Investments

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

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank accounts totaling **\$57,577** and \$54,802 at June 30, **2015** and 2014, respectively. The total bank balances were covered by federal depository insurance.

NOTE 3 - INVESTMENTS

Fair value of the investments in the investment pool consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Unrestricted investments	\$ 89,084	\$ 78,148
Restricted investments	315,479	294,099
Endowment investments	8,877,991	9,060,040
	<u><u>\$ 9,282,554</u></u>	<u><u>\$ 9,432,287</u></u>

The investment pool is managed and invested by The University of North Carolina at Greensboro Investment Fund, Incorporated (the "Investment Fund"). 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 only members of the Investment Fund.

Assets and ownership interests of the investment pool are determined on a market unit valuation basis. The original basis was \$1,000 per unit. For the years ended June 30, **2015** and 2014, the respective total rate of return was a gain of **.3** percent and 15.2 percent. As of June 30, **2015** and 2014, total units of **55,496.20** and 56,594.41 had a fair value of **\$4,479.42** and \$4,448.42 per unit, and the Foundation owned **2,072.27** and 2,120.37 units, respectively.

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
HUMAN ENVIRONMENTAL SCIENCES FOUNDATION, INCORPORATED
Notes to Financial Statements

NOTE 3 - INVESTMENTS (Continued)

The Foundation realized a net gain of **\$379,239** and \$469,204 from its share of the sale of investments included in the Investment Fund for the years ended June 30, **2015** and 2014, respectively. The calculation of realized gains and losses is independent of the calculation of the increase (decrease) in the fair value of investments. The Foundation's portion of the change in fair value of Investment Fund investments during the years ended June 30, **2015** and 2014 was a loss and gain of **(\$342,131)** and \$790,710, 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, **2015** and 2014, is **\$2,499,435** and \$2,841,566, respectively. The Foundation's portion of Investment Fund interest and dividends earned was **\$72,131** and \$59,719 for the years ended June 30, **2015** and 2014, respectively.

The Investment Fund investment pool measured at fair value is as follows at June 30:

	<u>2015</u>	<u>2014</u>
UNCG Endowment Partners, LP	<u>\$ 248,590,801</u>	<u>\$ 251,755,902</u>

Investments in the investment pool are stated at fair value. The Investment Fund invests in UNCG Endowment Partners, LP which is a professionally managed portfolio that contains domestic and foreign common shares of publicly-traded companies, mutual funds, and investment partnerships.

	<u>2015</u>	<u>2014</u>
US Equity	18.9%	18.7%
Global ex US Equity	13.7%	14.6%
Emerging Markets Equity	6.6%	6.5%
Global Equity	2.7%	3.0%
Private Equity	11.1%	12.7%
Market Sensitive Hedged Funds	10.3%	6.4%
Diversifying Strategies	14.7%	13.0%
Inflation Sensitive	2.1%	4.7%
Deflation Hedging	15.2%	13.9%
Cash and Cash Equivalents	4.7%	6.5%
	<u>100.0%</u>	<u>100.0%</u>

Credit risk: As it does not hold securities in its normal course of business, the Foundation has no policy regarding credit risk. The Foundation's investment in money market funds is unrated.

Interest rate risk: As it does not hold securities in its normal course of business, the Foundation 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.

Although the Foundation does not have a formal policy addressing credit and interest rate risks, the Investment Fund, which accounts for all of the Foundation's investments at June 30, 2015 and 2014, does have a policy addressing those risks. The policy governing the investments in the investment pool is as follows:

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
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Notes to Financial Statements

NOTE 3 - INVESTMENTS (Continued)

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 Investment Fund's formal policy limits some of fixed income holdings to those investments that have a high quality rating (AA/Aa or better) and those with a sufficient duration (four years or more) to provide effective protection in a deflationary environment.

Investment earnings are distributed based on policy administered by the Investment Fund. Any excess return over the established policy is reinvested by the Investment Fund. For the years ended June 30, 2015 and 2014, 4.50% of the average market value at December 31 of the three previous years was distributed.

The Foundation's investment in the Investment Fund exposes the Foundation to various risks such as interest rate, market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

NOTE 4 - PLEDGES TO THE FOUNDATION

As of June 30, **2015** and 2014, outstanding pledges to the Foundation totaled **\$400** and \$1,100 respectively. All of the outstanding pledges at June 30, 2015 and 2014 are endowment fund pledges. In accordance with GASB Statement No. 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 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 of Directors 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 2015 and 2014, the Board of Directors did not appropriate expenditures from eligible nonexpendable endowment funds.

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
HUMAN ENVIRONMENTAL SCIENCES FOUNDATION, INCORPORATED
Notes to Financial Statements

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 and no allocation has been made 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; and errors and omissions. 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.