

THE UNIVERSITY OF NORTH CAROLINA
AT GREENSBORO INVESTMENT FUND, INC.

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

FINANCIAL REPORT

YEARS ENDED JUNE 30, 2016 AND 2015

**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.
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Independent Auditor's Report

Members of the Board

The University of North Carolina at Greensboro Investment Fund, Inc.
Greensboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Greensboro Investment Fund, Inc., which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and 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 Investment Fund, Inc. as of June 30, 2016 and 2015, and the changes in its net position 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 through 5 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
September 22, 2016

**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

Introduction

The University of North Carolina at Greensboro Investment Fund, Inc. (the "Fund") provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2016. This discussion, along with the following financial statements and related footnote disclosures, have been prepared by management and comprise the 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 Fund's financial report includes two financial statements: the statement of net position; and the statement of revenues, expenses and changes in net position. The Fund is blended in The University of North Carolina at Greensboro financial report and, therefore, is prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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 Fund.

The purpose of this financial statement is to present to the readers of the Fund's Financial Report a fiscal snapshot as of the end of the fiscal year (i.e., June 30th). The Statement of Net Position 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 Fund. The statement of net position also provides a picture of the net position (assets minus liabilities) and their availability for expenditure by the Fund. Net assets of the Fund are nonexpendable. This category of net assets is discussed further in the footnotes to the financial statements.

Assets	2016	2015	2014
Current Assets	\$ 338	\$ 670	\$ 3,924
Noncurrent Assets	<u>235,021,232</u>	<u>248,590,801</u>	<u>251,755,902</u>
Total assets	<u>\$ 235,021,570</u>	<u>\$ 248,591,471</u>	<u>\$ 251,759,826</u>
Liabilities and Net Position			
Current Liabilities	\$ 338	\$ 670	\$ 3,551
Total liabilities	<u>\$ 338</u>	<u>\$ 670</u>	<u>\$ 3,551</u>

**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

Statement of Net Position (Continued)

Net position, Restricted	<u>2016</u>	<u>2015</u>	<u>2014</u>
The UNCG Excellence Foundation, Inc.	\$ 95,541,765	\$ 100,852,524	\$ 101,347,754
The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Inc.	8,585,055	9,282,554	9,432,287
The Alumni Association of the University of North Carolina at Greensboro	2,864,595	134,904,541	2,976,645
The Associated Campus Ministries of The University of North Carolina at Greensboro	550,243	2,886,579	685,800
The Endowment Fund of The University of North Carolina at Greensboro	<u>127,479,574</u>	<u>664,603</u>	<u>137,313,789</u>
Total net position	<u>235,021,232</u>	<u>248,590,801</u>	<u>251,756,275</u>
Total liabilities and net position	<u>\$ 235,021,570</u>	<u>\$ 248,591,471</u>	<u>\$ 251,759,826</u>

The Fund invests endowment monies for five affiliated organizations. The pooled investments total approximately \$235.0 million at June 30, 2016. The total assets of the Fund decreased by approximately \$13.6 million for the year. The Fund lost 4.8 percent for the fiscal year, underperforming the 0.4 percent gain of a passive benchmark consisting of 60 percent MSCI World Index plus 40 percent Barclays Capital Aggregate Bond Index and underperforming the 2.0 percent loss of a custom benchmark based on the Investment Fund's target asset allocation.

The Fund is invested with an outsourced chief investment officer whose approach to investing follows the emphasis on asset allocation and policies implemented by the Board of Directors.

Statement of Revenues, Expenses and 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 revenues, expenses and changes in net position. The purpose of the statement is to present revenues, expenses and any gains and losses earned or incurred by the Fund.

Because the Investment Fund is a pool that invests for the five affiliates, all of its revenues and expenses are considered operating. Additions to the principal of permanent and term endowments are reported separately after operating revenues and expenses.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating income (loss)	\$ (10,027,057)	\$ 1,710,420	\$ 34,345,789
Participant contributions	6,471,835	4,394,955	4,281,244
Distribution to participants	(10,014,347)	(9,270,849)	(8,065,952)
Increase (decrease) in net position	<u>(13,569,569)</u>	<u>(3,165,474)</u>	<u>30,561,081</u>
Beginning net position	<u>248,590,801</u>	<u>251,756,275</u>	<u>221,195,194</u>
Ending net position	<u>\$ 235,021,232</u>	<u>\$ 248,590,801</u>	<u>\$ 251,756,275</u>

**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

Statement of Revenues, Expenses and Changes in Net Position (Continued)

The statement of revenues, expenses, and changes in net position reflects a decrease in the net position at the end of the 2016 and 2015 fiscal years of approximately \$13.6 million and \$3.1 million, respectively, and an increase of approximately \$30.6 million in 2014. The increase in 2014 is due primarily to an investment return of 15.2 percent. The decrease in 2016 and 2015 were primarily due to the markets; our investment gain (loss) was (4.8) percent and 0.3 percent, respectively. The spending policy is based on a rolling three-year market value average at December 31.

Economic Outlook

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the Fund's long-term financial position. Market volatility may have a short-term effect on the results of operations for fiscal year 2016-2017 not unlike that experienced for the past several years. We will maintain a close watch over resources, so that the Fund will be able to react to unknown internal and external issues.

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

**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.
Statements of Net Position
June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 338	\$ 670
Total current assets	<u>338</u>	<u>670</u>
Noncurrent assets:		
Investments	<u>235,021,232</u>	<u>248,590,801</u>
Total assets	<u><u>\$ 235,021,570</u></u>	<u><u>\$ 248,591,471</u></u>
<u>Liabilities and Net Position</u>		
Current Liabilities:		
Accounts payable	\$ 338	\$ 670
Total liabilities	<u>338</u>	<u>670</u>
Net Position:		
Unrestricted net assets, nonexpendable:		
The UNCG Excellence Foundation, Inc.	95,541,765	100,852,524
The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Inc.	8,585,055	9,282,554
The Alumni Association of the University of North Carolina at Greensboro	2,864,595	134,904,541
The Associated Campus Ministries of The University of North Carolina at Greensboro	550,243	2,886,579
The Endowment Fund of The University of North Carolina at Greensboro	<u>127,479,574</u>	<u>664,603</u>
Total net position	<u><u>235,021,232</u></u>	<u><u>248,590,801</u></u>
Total liabilities and net position	<u><u>\$ 235,021,570</u></u>	<u><u>\$ 248,591,471</u></u>

**THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Investment income	\$ 1,647,521	\$ 1,926,353
Net realized gain on investment transactions	1,959,193	10,152,651
Net unrealized appreciation (depreciation) on investments	<u>(12,085,325)</u>	<u>(9,158,189)</u>
Total operating revenues (losses)	<u>(8,478,611)</u>	<u>2,920,815</u>
Operating Expenses:		
General and administrative:		
Investment management fees	1,046,007	1,110,335
Unrelated business income tax (refund)	407,414	(1,540)
Other administrative fees	<u>95,025</u>	<u>101,600</u>
Total operating expenses	<u>1,548,446</u>	<u>1,210,395</u>
Operating income (loss)	<u>(10,027,057)</u>	1,710,420
Participant contributions	6,471,835	4,394,955
Distribution to participants	<u>(10,014,347)</u>	<u>(9,270,849)</u>
Changes in net position	<u>(13,569,569)</u>	<u>(3,165,474)</u>
Net position held for fund participants:		
Beginning of Year	<u>248,590,801</u>	<u>251,756,275</u>
End of Year	<u>\$ 235,021,232</u>	<u>\$ 248,590,801</u>

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The University of North Carolina at Greensboro Investment Fund, Inc. (the "Fund") was formed in order to consolidate the endowment pool investments of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Inc., The UNCG Excellence Foundation, Inc. (the affiliated foundations), and The Endowment Fund of The University of North Carolina at Greensboro into one pool. During the 1999 fiscal year, The Alumni Association of The University of North Carolina at Greensboro became a member of the Fund. The Associated Campus Ministries of The University of North Carolina at Greensboro joined the Fund during the 2000 fiscal year.

The Fund is the fiscal agent for the pool, and all units of the pool are owned by The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Inc., The UNCG Excellence Foundation, Inc., 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 (collectively the "Participants"). Although legally separate from the University, the Fund is reported as if it were part of the University because its sole purpose is to accept the transfer of assets from the Participants, which collectively benefit The University of North Carolina at Greensboro (the "University"), and to manage the investment of those assets. The Fund is a component unit of The University of North Carolina at Greensboro; therefore, the Fund's financial statements are blended with those of the University.

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

Financial Statements

The Fund is a governmental not-for-profit organization established as a separate, incorporated investment fund pool, reporting under the guidelines of Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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 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.

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.
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. 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. Detailed information regarding the derivative investments is not available to the Fund.

Income Taxes

The Fund is exempt from federal income tax under the provisions of the Internal Revenue Code Section 501(c)(3). The Fund is exempt from federal and state income taxes except for income generated from unrelated business activities. Unrelated business income passes through to the Fund from some of the partnerships classified as alternative investments.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

The Fund's net positions are classified as follows:

Unrestricted net assets, nonexpendable - nonexpendable restricted net assets include Participants' endowments and similar type assets whose use is limited to investment for the benefit of the Participants.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Fund's deposits had a carrying amount and bank balance of **\$338** and \$670 at June 30, **2016** and 2015, respectively. The ending bank balances for both years were fully covered by federal depository insurance.

Cash and cash equivalents include **\$338** and \$670 at June 30, **2016** and 2015, respectively, held in custodial accounts for investment.

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.
Notes to Financial Statements

NOTE 3 - INVESTMENTS

The Fund is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that provided by the Fund's Board of Directors. The Board is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Board continually reviews and monitors investments based on a variety of factors.

The Fund's outsourced chief investment officer provides monthly reporting of income and fair value information, which is then allocated among the Fund's Participants. There are no involuntary participants in the Fund pool.

Assets of the Fund held in custody for investment consist of the following at June 30:

	<u>2016</u>	
	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Partnerships:		
UNCG Endowment Partners, LP	<u>\$ 235,021,232</u>	<u>\$ 49,169,864</u>
	<u>2015</u>	
	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Partnerships:		
UNCG Endowment Partners, LP	<u>\$ 248,590,801</u>	<u>\$ 61,255,189</u>

Investments in the investment pool are stated at fair value. The 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. Within these investments the asset allocation as of June 30 was:

	<u>2016</u>	<u>2015</u>
US Equity	21.7%	18.9%
Global ex US Equity	14.0%	13.7%
Emerging Markets Equity	6.6%	6.6%
Global Equity	0.0%	2.7%
Private Equity	10.9%	11.1%
Market Sensitive Hedged Funds	9.0%	10.3%
Diversifying Strategies	15.3%	14.7%
Inflation Sensitive	5.2%	2.1%
Deflation Hedging	14.9%	15.2%
Cash and Cash Equivalents	2.4%	4.7%
	<u>100.0%</u>	<u>100.0%</u>

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
INVESTMENT FUND, INC.
Notes to Financial Statements

NOTE 3 - INVESTMENTS (Continued)

The 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. Such investments are exposed to various risks, such as interest rate, market and credit risks. 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.

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 some 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.

Concentration of credit risk: The Fund's investment in UNCG Endowment Partners, LP represents five percent or more of total investments that are not issued or explicitly guaranteed by the U.S. Government, investments in mutual funds, external investment pools, and other pooled investments as of June 30, 2016 and 2015.

The Participants purchase equity in the Fund based on funds deposited for investment. Individual Participant equity is determined on a market unit valuation basis. The original basis was \$1,000.00 per unit. For the years ended June 30, **2016** and 2015 the total rate of return was a loss of **4.8%** and a gain of 0.3%, respectively. As of June 30, **2016** and 2015, total units of **54,763.92** and 55,496.20 had a fair value of **\$4,291.53** and \$4,479.42 per unit, respectively.

The Fund realized a net gain of **\$1,959,193** and \$10,152,651 from the sale of investments for the years ended June 30, **2016** and 2015, respectively. The calculation of realized gains and losses is independent of the calculation of the net increase or decrease in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of the investments reported in the prior year. The change in the fair value of investments during the years ended June 30, **2016** and 2015 was a decrease of **\$13,569,569** and \$3,165,474, respectively. This amount takes into account all changes in the fair value (including purchases and sales) that occurred during the period. The cumulative unrealized appreciation on investments held at June 30, **2016** and 2015, is **\$49,169,864** and \$61,255,189, respectively.

NOTE 4 - DISTRIBUTIONS

It is the Fund's policy to make annual distributions to Participants in the Fund. Distributions are based on each Participant's assets at December 31 for the three preceding years. In addition to annual distributions, the Fund makes distributions to Participants upon request.