McGladrey & Pullen
Certified Public Accountants

The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated
(A Component Unit of The University of North Carolina at Greensboro)

Financial Report
Year Ended June 30, 2008

Contents

Independent Auditor's Report

To the Board of Directors
The University of North Carolina at Greensboro
Human Environmental Sciences Foundation, Incorporated
Greensboro, North Carolina

We have audited the accompanying statements of net assets of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated (the "Foundation"), a component unit of The University of North Carolina at Greensboro, as of June 30, 2008 and 2007, 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, 2008 and 2007, 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, 2008 on our consideration of the Foundation'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 Audit 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 10, 2008

The University of North Carolina at Greensboro
Human Environmental Sciences Foundation, Incorporated

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

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, 2008. 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 financial report and therefore is prepared in accordance with Governmental Accounting Standards Board ("GASB") principles.

Statement of Net Assets

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

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 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.

	2008	2007	2006
Assets	$ 7,934,994	$ 7,878,498	$ 6,822,974
Liabilities	-	13,082	-
Net Assets			
Restricted:			
Nonexpendable	3,487,866	3,026,953	2,916,973
Expendable	2,945,597	3,165,094	2,486,630
Unrestricted	1,501,531	1,673,369	1,419,371
	$ 7,934,994	$ 7,865,416	$ 6,822,974

Statement of Net Assets (Continued)

The total assets of the Foundation increased by approximately $56,500, $1,042,000 and $699,000 for the years ended June 30, 2008, 2007 and 2006, respectively. The increase in net assets in 2008 is the result of new gifts to the Foundation. The increase in net assets in 2007 and 2006 is attributable primarily to new gifts to the Foundation and investment performance.

The Foundation invests in the University of North Carolina at Greensboro Investment Fund. At June 30, 2008, the Foundation owned 4.2 percent of the pooled investments totaling $184 million. The University Investment Fund pool assets are diversified with 81.7% equities (of which 38.1% are in hedge fund and alternative investments), 15.9% bonds, and 2.4% in cash. The Fund lost 0.2% for the fiscal year, outperforming the 9.2% loss of a passive benchmark consisting of 80% S&P 500 Index plus 20% Lehman Brothers Aggregate Bond Index. The Cambridge Associates Endowment Median (82 institutions) lost 2.2% for the year.

Statement of Revenues, Expenses and Changes in Net Assets

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

Nonoperating revenues are revenues earned for which goods and services are not provided. Nonoperating expenses are expenses not directly related to the normal operations of the Foundation (e.g., investment expenses). Additions to the principal of permanent endowments are reported separately after nonoperating revenues and expenses.

	2008	2007	2006
Operating expenses	$ (46,088)	$ (65,503)	$ (41,093)
Nonoperating revenues (expenses)	(77,531)	1,206,754	687,908
Additions to permanent endowments	462,059	106,319	260,886
Transfers to the University	(268,862)	(205,128)	(208,385)
Increase in net assets	69,578	1,042,442	699,316
Beginning, net assets	7,865,416	6,822,974	6,123,658
Ending, net assets	$ 7,934,994	$ 7,865,416	$ 6,822,974

The 2008, 2007 and 2006 statements of revenues, expenses, and changes in net assets reflect increases in the net assets at the end of the years. The largest revenue line item during 2008 was endowment gifts; in 2007 and 2006 it was from investment income, which is included in nonoperating revenues. Transfers to the University for scholarships, professorships and departmental spending were the Foundation's largest expenditures during these years.

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 by 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 investing activities and shows the net purchases, proceeds and earnings from investing activities. The fourth section reconciles the net cash used to the operating loss reflected on the statement of revenues, expenses, and changes in net assets.

	2008	2007	2006
Net cash used in operating activities	$ (58,444)	$ (53,247)	$ (41,093)
Net cash provided by (used in) noncapital financing activities	213,829	(44,543)	75,740
Net cash provided by (used in) investing activities	(4,946)	125,272	(44,608)
Net increase (decrease) in cash and cash equivalents	150,439	27,482	(9,961)
Beginning cash and cash equivalents	116,215	88,733	98,694
Ending cash and cash equivalents	$ 266,654	$ 116,215	$ 88,733

In 2008, 2007 and 2006, the major use of funds included in operating activities is payments to vendors and suppliers. The major sources of funds included in noncapital financing activities are endowment income and gifts. The major use of funds in noncapital financing activities is transfers to the University for scholarships, fellowships, professorships, and departmental funding.

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 2008-09 beyond those unknown variations having a global effect on virtually all types of business operations. We anticipate the current fiscal year will be very similar to the 2007-08 fiscal year and, accordingly, 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 University of North Carolina at Greensboro
Human Environmental Sciences Foundation, Incorporated

Statements of Net Assets
June 30, 2008 and 2007

	2008	2007
Assets		
Unrestricted cash and cash equivalents	$ 23,966	$ 53,011
Unrestricted investments	77,422	72,431
Restricted cash and cash equivalents	45,326	56,174
Restricted investments	245,933	222,698
Pledges receivable (net)	10,000	21,303
Endowment cash	197,362	7,030
Endowment investments	7,334,885	7,445,025
Other receivables	100	826
Total assets	7,934,994	7,878,498
Liabilities		
Accounts payable	-	13,082
Total Liabilities	-	13,082
Net Assets		
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,105,636	1,738,781
Endowed professorships	70,062	70,062
Departmental uses	484,247	390,189
Other	827,921	827,921
Expendable:		
Scholarships and fellowships	1,572,549	1,654,623
Endowed professorships	125,249	134,746
Departmental uses	473,763	523,476
Other	774,036	852,249
Unrestricted	1,501,531	1,673,369
	$ 7,934,994	$ 7,865,416

See Notes to Financial Statements.

The University of North Carolina at Greensboro
Human Environmental Sciences Foundation, Incorporated

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	2008	2007
Expenses:		
Operating expenses:		
General administrative expenses	$ 46,088	$ 65,503
Operating loss	(46,088)	(65,503)
Nonoperating revenues:		
Noncapital gifts	9,329	23,640
Investment gain (loss), net of investment expense 2008 $46,831; 2007 $34,145	(86,860)	1,163,248
Other nonoperating revenues	-	19,866
Net nonoperating revenues (expenses)	(77,531)	1,206,754
Income (loss) before other revenues, expenses, gains or losses	(123,619)	1,141,251
Additions to permanent endowments	462,059	106,319
Transfers to the University	(268,862)	(205,128)
Increase in net assets	69,578	1,042,442
Net assets:		
Beginning	7,865,416	6,822,974
Ending	$ 7,934,994	$ 7,865,416

See Notes to Financial Statements.

The University of North Carolina at Greensboro
Human Environmental Sciences Foundation, Incorporated

Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows Used In Operating Activities		
Payments to vendors and suppliers	$ (58,444)	$ (53,247)
Cash Flows From Noncapital Financing Activities		
Noncapital gifts	20,632	34,400
Additions to permanent endowments	462,059	106,319
Other receipts	-	19,866
Other payments	(268,862)	(205,128)
Net cash provided by (used in) noncapital financing activities	213,829	(44,543)
Cash Flows Provided By (Used In) Investing Activities		
Net (purchases) sales of investments and related fees	(4,946)	125,272
Net increase in cash and cash equivalents	150,439	27,482
Cash and cash equivalents:		
Beginning	116,215	88,733
Ending	$ 266,654	$ 116,215

(Continued)

The University of North Carolina at Greensboro
Human Environmental Sciences Foundation, Incorporated

Statements of Cash Flows (Continued)
Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of Net Operating Loss to Net Cash Used In Operating Activities		
Operating loss	$ (46,088)	$ (65,503)
Adjustments to reconcile operating loss to net cash used in operating activities:		
(Increase) decrease in other receivables	726	(826)
Increase (decrease) in accounts payable	(13,082)	13,082
Net cash used in operating activities	$ (58,444)	$ (53,247)
Supplementary Schedule of Noncash Investing, Capital and Financing Activities		
Change in fair value of investments	$ (384,127)	$ 849,199
Reconciliation of Cash and Cash Equivalent Balances		
Unrestricted cash and cash equivalents	$ 23,966	$ 53,011
Restricted cash and cash equivalents	45,326	56,174
Endowment cash	197,362	7,030
Total cash and cash equivalent balances	$ 266,654	$ 116,215

See 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 School of Human Environmental Sciences of The University of North Carolina at Greensboro. 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 School of Human Environmental Sciences. The Foundation is a component unit of The University of North Carolina at Greensboro; 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 resource 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 Principals 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:

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. Since 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.

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.

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

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

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.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents include bank accounts totaling $266,654 and $116,215 at June 30, 2008 and 2007 respectively, for which the bank balances were $72,933 and $116,115, respectively. Of the bank balances, $72,933 and $103,609, respectively, were covered by federal depository insurance.

Note 3. Investments

Investments in the investment pool consist of the following:

	Fair Value 2008	Fair Value 2007
Unrestricted investments	$ 77,422	$ 72,431
Restricted investments	245,933	222,698
Endowment investments	7,334,885	7,445,025
	$ 7,658,240	$ 7,740,154

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 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 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, 2008 and 2007, the respective total rate of return was a loss of 0.2% and a gain of 18.7%. As of June 30, 2008 and 2007, total units of 55,690.18 and 55,043.74 had a fair value of $3,304.30 and $3,338.28 per unit, and the Foundation owned 2,317.66 and 2,318.61 units, respectively.

The Foundation realized net gains of $227,575 and $294,545 from the sale of investments for the years ended June 30, 2008 and 2007, respectively. The calculation of realized gains and losses is independent of the calculation of the increase in the fair value of investments. The change in fair value of investments during the years ended June 30, 2008 and 2007 was a loss of $384,127 and a gain of $849,199, 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, 2008 and 2007 is $1,961,312 and $2,345,439, respectively.

Note 3. Investments (Continued)

The Investment Fund investment pool is diversified as follows:

	2008	2007
Short-term investments	$ 4,396,494	$ 9,415,495
Corporate securities:		
Common stocks	13,911,884	11,942,101
International	2,457,931	996,524
Mutual funds:		
Domestic equity	-	16,863,004
International equity	21,073,236	20,130,929
Fixed income	20,452,445	19,358,021
Fixed income global	8,749,051	7,384,949
Partnerships		
Hedge funds	45,401,916	34,913,060
Inflation hedging	5,564,019	4,453,357
Real estate securities	14,299,670	12,408,058
US Equities	42,794,712	44,049,510
Venture Capital	4,789,830	1,779,510
	$ 183,891,188	$ 183,694,518

Investments in the investment pool are stated at fair value. The Investment 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 Investment Fund.

Credit risk: The Foundation has no policy regarding credit risk. The Foundation's investment in money market funds is unrated.

Interest rate risk: 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.

Note 3. Investments (Continued)

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, 2008 and 2007, 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 Investment 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 Investment Fund. Any excess return over the established policy is reinvested by the Investment Fund. For both the years ended June 30, 2008 and 2007, 4.25% of the average market value at December 31 of the three previous years was distributed.

Note 4. Pledges to the Foundation

As of June 30, 2008 and 2007, outstanding pledges to the Foundation totaled $130,877 and $66,414, respectively. Of the total pledges, $120,877 and $45,111, respectively, are endowment fund pledges and $10,000 and $21,303, respectively, are current 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. 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 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. Due to the nature of the donor organizations, the Foundation considers these pledges to be collectible. The current pledges receivable are due in 2009.

Note 5. 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 of North Carolina at Greensboro. It is not possible to determine the amount of such costs and no allocation has been made between The University of North Carolina at Greensboro and the Foundation.

Note 6. 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 of North Carolina at Greensboro 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.

Note 6. Risk Management (Continued)

Additional details on The University of North Carolina at Greensboro's risk management programs are disclosed in the financial report of The University of North Carolina at Greensboro.

Note 7. Income Taxes

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

Note 8. Issued But Not Effective Accounting Pronouncements

The GASB has issued the following statements not yet implemented by the Fund. Management has not yet determined the effect these statements will have on the Fund.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Statement 52 is intended to create consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The statement improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value. GASB Statement No. 52 is effective for financial statements for periods beginning after June 15, 2008, with earlier application encouraged.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* Statement 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.