

**The University of North  
Carolina at Greensboro  
Investment Fund, Incorporated**  
(A Component Unit of The University of North  
Carolina at Greensboro)

Financial Report  
June 30, 2012

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## Independent Auditor's Report

To the Board of Directors  
The University of North Carolina at Greensboro  
Investment Fund, Incorporated  
Greensboro, North Carolina

We have audited the accompanying statements of net assets of The University of North Carolina at Greensboro Investment Fund, Incorporated (the Fund), a component unit of The University of North Carolina at Greensboro, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

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, Incorporated as of June 30, 2012 and 2011, and the changes in its financial position 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 October 15, 2012, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 and opinion or provide any assurance.

*McGladrey LLP*

Greensboro, North Carolina  
October 15, 2012

**The University of North Carolina at Greensboro  
Investment Fund, Incorporated**

**Management's Discussion And Analysis (Unaudited)  
Year Ended June 30, 2012**

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**Introduction**

The University of North Carolina at Greensboro Investment Fund, Incorporated (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, 2012. 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 assets; and the statement of revenues, expenses and changes in net assets. 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 Assets**

The statement of net assets is a point of time financial statement that presents the assets, liabilities, and net assets of the Fund.

	2012	2011	2010
<b>Assets</b>			
Current Assets	\$ 9,822,195	\$ 2,170,090	\$ 1,195,818
Noncurrent Assets	198,048,170	202,494,135	169,725,748
<b>Total assets</b>	<b>207,870,365</b>	204,664,225	170,921,566
<b>Liabilities</b>			
Current Liabilities	538	107,447	163,175
<b>Total liabilities</b>	<b>538</b>	107,447	163,175
<b>Net Assets, Nonexpendable</b>			
The UNCG Excellence Foundation, Inc.	79,758,366	82,078,825	67,294,892
The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Inc.	7,512,900	7,903,085	6,648,166
The Alumni Association of the University of North Carolina at Greensboro	2,489,639	2,620,574	2,251,148
The Associated Campus Ministries of The University of North Carolina at Greensboro	576,409	692,424	677,337
The Endowment Fund of The University of North Carolina at Greensboro	107,710,318	111,261,870	93,886,848
<b>Total net assets</b>	<b>\$ 198,047,632</b>	\$ 204,556,778	\$ 170,758,391

**The University of North Carolina at Greensboro  
Investment Fund, Incorporated**

**Management's Discussion And Analysis (Unaudited)  
Year Ended June 30, 2012**

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**Statement Of Net Assets (Continued)**

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 30<sup>th</sup>). The Statement of Net Assets 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 assets also provides a picture of the net assets (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.

The Fund invests endowment monies for five affiliated organizations. The pooled investments total approximately \$190.3 million at June 30, 2012. The University Investment Fund pool assets are diversified with 84.1 percent equities (of which 45.2 percent are in hedge fund and alternative investments), 14.8 percent bonds, and 1.1 percent in cash. The total assets of the Fund increased by approximately \$3.2 million for the year. The Fund lost 2.8 percent for the fiscal year, outperforming the 3.8 percent loss of a passive benchmark consisting of 85 percent MSCI World Index plus 15 percent Barclays Capital Aggregate Bond Index and outperforming the 4.3 percent loss of a custom benchmark based on the Investment Fund's target asset allocation.

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

	2012	2011	2010
Operating income/loss	\$ (4,256,023)	\$ 34,914,939	\$ 16,333,568
Participant contributions	4,701,195	5,377,995	7,235,578
Distribution to participants	(6,954,318)	(6,494,547)	(5,066,985)
<b>Increase (decrease) in net assets</b>	<b>(6,509,146)</b>	<b>33,798,387</b>	<b>18,502,161</b>
Beginning net assets	<b>204,556,778</b>	170,758,391	152,256,230
Ending net assets	<b>\$ 198,047,632</b>	\$ 204,556,778	\$ 170,758,391

The statement of revenues, expenses, and changes in net assets reflects a decrease in the net assets at the end of the 2012 fiscal year of \$6.5 million and an increase of \$33.8 million and \$18.5 million, respectively, in 2011 and 2010. The decrease in 2012 is primarily due to the downturn in the markets; our investment loss was 2.8 percent. The increases in 2011 and 2010 were due primarily to an investment return of 21.1 percent and 10.8 percent, respectively. The spending policy is based on a rolling three-year market value average at December 31.

**The University of North Carolina at Greensboro  
Investment Fund, Incorporated**

**Management's Discussion And Analysis (Unaudited)  
Year Ended June 30, 2012**

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**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 2012-13 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.

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

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, Incorporated**

**Statements Of Net Assets  
June 30, 2012 And 2011**

	2012	2011
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 2,082,461	\$ 1,046,830
Accrued interest receivable	168,110	21,362
Receivable for investments	7,571,624	1,101,898
<b>Total current assets</b>	<b>9,822,195</b>	<b>2,170,090</b>
Noncurrent Assets		
Endowment investments	188,225,975	202,494,135
<b>Total assets</b>	<b>198,048,170</b>	<b>204,664,225</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	538	20,374
Payable for investments	-	87,073
<b>Total liabilities</b>	<b>538</b>	<b>107,447</b>
<b>Net Assets</b>		
Restricted for Participants		
Nonexpendable:		
The UNCG Excellence Foundation, Inc.	79,758,366	82,078,825
The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Inc.	7,512,900	7,903,085
The Alumni Association of the University of North Carolina at Greensboro	2,489,639	2,620,574
The Associated Campus Ministries of The University of North Carolina at Greensboro	576,409	692,424
The Endowment Fund of The University of North Carolina at Greensboro	107,710,318	111,261,870
<b>Total net assets</b>	<b>\$ 198,047,632</b>	<b>\$ 204,556,778</b>

**The University of North Carolina at Greensboro  
Investment Fund, Incorporated**

**Statements Of Revenues, Expenses And Changes In Net Assets  
Years Ended June 30, 2012 And 2011**

	2012	2011
<hr/>		
Operating revenues:		
Investment income	\$ 1,804,794	\$ 1,479,552
Net realized gain on investment transactions	4,450,084	8,841,867
Net unrealized appreciation (depreciation) on investments	(9,588,014)	25,320,491
	<hr/>	<hr/>
	(3,333,136)	35,641,910
Operating expenses:		
General and administrative:		
Investment management fees	360,257	411,897
Investment custodial fees	98,619	94,662
Investment consulting fees	179,713	237,001
Unrelated business income tax (refund)	185,476	(124,303)
Other administrative fees	98,822	107,714
<b>Operating income (loss)</b>	<hr/>	<hr/>
	(4,256,023)	34,914,939
Participant contributions	4,701,195	5,377,995
Distribution to participants	(6,954,318)	(6,494,547)
<b>Increase (decrease) in net assets</b>	<hr/>	<hr/>
	(6,509,146)	33,798,387
Net assets held for fund participants:		
Beginning of year	<hr/>	<hr/>
	204,556,778	170,758,391
End of year	<hr/>	<hr/>
	\$ 198,047,632	\$ 204,556,778

See Notes To Financial Statements.

**The University of North Carolina at Greensboro  
Investment Fund, Incorporated**

**Notes To Financial Statements**

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**Note 1. Nature Of Activities And Significant Accounting Policies**

Nature of activities: The University of North Carolina at Greensboro Investment Fund, Incorporated (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, 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.

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.

**The University of North Carolina at Greensboro  
Investment Fund, Incorporated**

**Notes To Financial Statements**

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**Note 1. Nature Of Activities And Significant Accounting Policies (Continued)**

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.

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 assets: The Fund's net assets are classified as follows:

Restricted 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.

Reclassifications: The Fund's policy is to reclassify amounts reported in prior year financial statements when necessary for conformity with classifications adopted in the current year with no change in total net assets or change in net assets.

**Note 2. Cash And Cash Equivalents**

The Fund's deposits had a carrying amount and bank balance of \$373 at both June 30, 2012 and 2011. The ending bank balances for both years were fully covered by federal depository insurance.

Cash and cash equivalents include \$2,082,088 and \$1,046,457 at June 30, 2012 and 2011, respectively, held in custodial accounts for investment.

**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 managers, and for monitoring policy implementation and investment performance. The Board has chosen not to make individual security selection decisions. The Board's primary role is to oversee the allocation of the Fund portfolio among asset classes, investment vehicles, and investment managers. The Board continually reviews, monitors, and adjusts its allocation decisions based on a variety of factors.

The Fund's custodian 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.



**The University of North Carolina at Greensboro  
Investment Fund, Incorporated**

**Notes To Financial Statements**

**Note 3. Investments (Continued)**

At June 30, 2012, the Fund held the following investments that are subject to credit and interest rate risk.

Investment Type	2012		
	Fair Value	Maturity	Rating
Money market funds	\$ 2,030,554	N/A	Aaa-mf
Short-term investment grade	8,205,475	2.90 years	A
Bond mutual fund	12,512,465	6.66 years	AA+
Bond mutual fund	4,000,000	7.49 years	B
Bond foreign limited partnership	3,401,261	5.40 years	AA
	<b>\$ 30,149,755</b>		

The Fund invests in 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 has the following investments that represent 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, 2012 and 2011.

	2012	
	Fair Value	Cost
Forester Partners, LP	\$ 16,157,925	\$ 10,192,843
Forester Opportunities, LP	14,936,452	8,649,204
Adage Capital Partners, LP	15,110,027	10,000,000
	<b>\$ 46,204,404</b>	<b>\$ 28,842,047</b>

  

	2011	
	Fair Value	Cost
Forester Partners, LP	\$ 16,017,381	\$ 10,192,843
Forester Opportunities, LP	14,964,342	8,649,204
Iridian Private Business	10,354,501	2,199,356
Adage Capital Partners, LP	13,700,265	10,000,000
	<b>\$ 55,036,489</b>	<b>\$ 31,041,403</b>

**The University of North Carolina at Greensboro  
Investment Fund, Incorporated**

**Notes To Financial Statements**

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**Note 3. Investments (Continued)**

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 per unit. For the years ended June 30, 2012 and 2011, the respective total rate of return was a loss of 2.8 percent and a gain of 21.1 percent. As of June 30, 2012 and 2011, total units of 57,353.50 and 57,923.46 had a fair value of \$3,452.91 and \$3,531.85 per unit, respectively.

The Fund realized a net gain of \$4,450,084 and \$8,841,867 from the sale of investments for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, was a decrease of \$9,588,014 and an increase of \$25,320,491, 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, 2012 and 2011, is \$35,847,107 and \$45,435,121, respectively.

**Note 4. Financial Instruments And Derivatives**

In the management of the Fund, the Board Members are responsible for exercising ordinary business care and prudence under the facts and circumstances prevailing at the time of an action or decision.

The Fund believes it is in compliance with all legal, regulatory and contractual provisions including the investment policy of the Fund and the laws and regulations of the State of North Carolina.

The Fund utilizes selective derivative investment instruments to increase the yield and return on its investment portfolio given the available investment alternatives, to mitigate credit risk of default by a counter party, and to control and minimize certain market risks. During the year, the Fund was invested in five hedge funds; therefore, there were no direct derivative holdings. Following is a description of indirect derivative investments utilized by the Fund.

Indirect derivative holdings: The Fund utilizes external investment managers to identify specific investment funds and limited partnerships that meet asset allocation and investment management objectives. These managers and related funds are used to increase the yield and return on the investment portfolio given the available alternative investment opportunities and to diversify its asset holdings.

Certain of these investments expose the Fund to market risk by trading or holding derivative securities and by leveraging the securities in the Fund.

The Fund's holding in indirect derivatives (i.e., derivatives held by external investment managers) are primarily used to decrease risk by managing interest rate and volatility exposure. This is because the indirect derivatives are used by the Fund's external managers primarily to hedge underlying positions and to gain exposure to specific markets in an efficient, inexpensive, liquid, and diversified manner. The Fund considers the risk associated with these holdings to be prudent and within acceptable bounds.

As of June 30, 2012 and 2011, indirect derivative holdings had a fair value of \$46,443,798 and \$48,022,393 representing approximately 24 percent of the total investments in the Fund for both years.

**The University of North Carolina at Greensboro  
Investment Fund, Incorporated**

**Notes To Financial Statements**

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**Note 5. 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.

**Note 6. Commitments**

At June 30, 2012, the Fund had commitments to invest up to \$23.5 million in certain Commonfund Limited Partnerships (the Partnerships). The partnership agreements require the Fund to contribute capital up to certain limits agreed to by the Partnerships and the Fund. The Fund has seven days from the call date to transfer the required capital or risk being in default of the partnership agreement. The call dates are determined at the discretion of Fairfield Partners 2005 LLC, the General Partner of each of the Partnerships. The Partnerships are set to liquidate starting March 31, 2017 through July 31, 2019. Some of the partnership agreements include extensions of three years that could increase the term of the Partnerships. A total of \$15,011,900 had been invested in these Partnerships as of June 30, 2012.

At June 30, 2012, the Fund had a commitment to invest in Siguler Guff Distressed Funds III and IV for \$8.0 million. The Fund has seven days from the call date to transfer the required capital or risk being in default of the partnership agreement. The call dates are determined at the discretion of Siguler Guff Advisers, LLC. Of the \$8.0 million commitment, a total of \$5.3 million had been invested in this fund as of June 30, 2012.

At June 30, 2012, the Fund had a commitment to invest in Permit Capital Mortgage Fund, LP: Series L for \$4.0 million. The Fund has five days from the call date to transfer the required capital or risk being in default of the partnership agreement. The call dates are determined at the discretion of Permit Capital. Of the \$4.0 million commitment, a total of \$2.4 million had been invested in this fund as of June 30, 2012.