

The UNCG Excellence Foundation, Inc.

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

Financial Report
Year Ended June 30, 2012

Contents

| | |
|---|--------|
| Independent Auditor's Report | 1 – 2 |
| Management's Discussion And Analysis | 3 – 4 |
| Financial Statements | |
| Statements Of Net Assets | 5 |
| Statements Of Changes In Net Assets | 6 |
| Notes To Financial Statements | 7 – 13 |



Independent Auditor's Report

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

We have audited the accompanying statements of net assets of The UNCG Excellence Foundation, Inc. (the Foundation), a component unit of The University of North Carolina at Greensboro, as of June 30, 2012 and 2011, and the related statements of changes in net assets 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 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 Foundation'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 Foundation as of June 30, 2012 and 2011, and the changes in its net assets 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 Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 with auditing standards generally accepted in the United States of America, which consisted of inquires 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 an opinion or provide any assurance.

McGladrey LLP

Greensboro, North Carolina
October 15, 2012

The UNCG Excellence Foundation, Inc.

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

Introduction

The UNCG Excellence Foundation, Inc. (the Foundation) provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2012. 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 assets and the statements of changes in net assets. The Foundation is blended in The University of North Carolina at Greensboro (the University) financial report and therefore is prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

Statement Of Net Assets

The statement of net assets is a point of time financial statement that presents the assets, liabilities, and net assets of the Foundation. The purpose of this financial statement is to present to the readers of the Foundation's financial report a fiscal snapshot as of the end of the fiscal year (i.e., June 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 three major categories: invested in capital assets, net of related debt; unrestricted net assets; and restricted net assets, which are reflected in two subcategories – expendable and nonexpendable. These three categories of net assets are discussed further in the footnotes to the financial statements.

| | 2012 | 2011 | 2010 |
|----------------------------|----------------------|----------------------|----------------------|
| Assets | \$ 95,329,439 | \$ 98,734,470 | \$ 80,751,633 |
| Liabilities | 7,700,004 | 8,057,032 | 6,375,389 |
| Net assets | | | |
| Invested in capital assets | 36,918 | 62,889 | 80,011 |
| Restricted, nonexpendable | 54,423,250 | 52,955,265 | 48,202,430 |
| Restricted, expendable | 26,929,803 | 30,831,803 | 20,348,396 |
| Unrestricted | 6,239,464 | 6,827,481 | 5,745,407 |
| | \$ 87,629,435 | \$ 90,677,438 | \$ 74,376,244 |

The total assets of the Foundation decreased by approximately \$3 million and \$9 million for the years ended June 30, 2012, and 2010, respectively and increased by approximately \$18 million for 2011. The changes in total assets are attributable primarily to new gifts to the Foundation and investment performance.

The endowments of the Foundation are invested through The University of North Carolina at Greensboro Investment Fund, Inc. (the Fund).

The UNCG Excellence Foundation, Inc.

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

The Fund invests endowment monies for five affiliated organizations. The pooled investments total approximately \$197.9 million at June 30, 2012. At June 30, 2012, the Foundation owns 40.3 percent of the pooled investments totaling \$79.8 million. The University Investment Fund pool assets are diversified with 84.7 percent equities (of which 45.2 percent are in hedge fund and alternative investments), 14.1 percent bonds, and 1.1 percent in cash. The total assets of the Fund decreased by approximately \$6.7 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 and outperforming the 4.3 percent loss of a custom benchmark based on the Investment Fund's target asset allocation.

Statements Of Changes In Net Assets

Changes in total net assets as presented on the statements of net assets are based on the activity presented in the statements of changes in net assets. The purpose of this statement is to present the additions, deductions and net increase (decrease) to the Foundation.

| | 2012 | 2011 | 2010 |
|--|----------------------|---------------|---------------|
| Additions | \$ 178,146 | \$ 19,011,805 | \$ 10,358,713 |
| Deductions | 3,226,149 | 2,710,611 | 2,216,394 |
| Increase (decrease) in net assets | (3,048,003) | 16,301,194 | 8,142,319 |
| Net assets: | | | |
| Beginning | <u>90,677,438</u> | 74,376,244 | 66,233,925 |
| Ending | <u>\$ 87,629,435</u> | \$ 90,677,438 | \$ 74,376,244 |

The statements of changes in net assets reflect a decrease in the net assets at the end of 2012 and an increase at the end of 2011 and 2010. The decrease in 2012 was primarily due to investment losses. The increases in 2011 and 2010 are due mostly to gains on endowment investments, noncapital gifts and additions to permanent endowments. The most significant deductions are investment losses and transfers to the University for scholarships, fellowships, and departmental spending.

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 2012-13 beyond those unknown variations having a global effect on virtually all types of business operations. We will maintain a close watch over resources so that the Foundation will be able to react appropriately to currently unknown internal and external issues.

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

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

The UNCG Excellence Foundation, Inc.

Statements Of Net Assets
June 30, 2012 And 2011

| | 2012 | 2011 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 777,283 | \$ 926,474 |
| Investments | 323,959 | 307,629 |
| Restricted cash and cash equivalents | 587,374 | 579,307 |
| Restricted investments | 2,989,852 | 2,936,485 |
| Accrued interest receivable | 1,827 | 1,809 |
| Pledges receivable, net | 106,912 | 83,994 |
| Endowment cash | 25,892 | 46,354 |
| Endowment investments | 77,879,407 | 80,279,013 |
| Other long-term investments | 11,584,343 | 12,501,831 |
| Capital assets, net | 36,918 | 62,889 |
| Other assets | 1,015,201 | 983,876 |
| Other receivables | 471 | 24,809 |
| Total assets | 95,329,439 | 98,734,470 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 644 | 1,232 |
| Other liabilities | 14,089 | 12,172 |
| Deferred revenue, split interest agreements | 153,389 | 160,802 |
| Funds held for others | 31,065 | 33,836 |
| Liabilities under unitrust agreements | 2,336,180 | 2,702,448 |
| Annuities payable | 5,164,637 | 5,146,542 |
| Total liabilities | 7,700,004 | 8,057,032 |
| Net Assets | | |
| Invested in capital assets, net | 36,918 | 62,889 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | 34,879,631 | 33,620,322 |
| Professorships | 902,333 | 921,680 |
| Departmental uses | 13,837,065 | 12,916,816 |
| Art | 1,401,564 | 1,384,479 |
| Other | 3,402,657 | 4,111,968 |
| Expendable: | | |
| Scholarships and fellowships | 16,820,161 | 19,273,853 |
| Professorships | 1,462,450 | 1,594,965 |
| Departmental uses | 5,338,880 | 6,380,497 |
| Art | 671,851 | 756,941 |
| Other | 2,636,461 | 2,825,547 |
| Unrestricted | 6,239,464 | 6,827,481 |
| Total net assets | \$ 87,629,435 | \$ 90,677,438 |

See Notes To Financial Statements.

The UNCG Excellence Foundation, Inc.

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

| | 2012 | 2011 |
|--|----------------------|----------------------|
| Additions: | | |
| Contributions: | | |
| Gifts | \$ 433,773 | \$ 514,924 |
| Additions to permanent endowments | 2,006,670 | 2,931,717 |
| Total contributions | 2,440,443 | 3,446,641 |
| Investment income: | | |
| Net increase (decrease) in fair value of endowment investments | (2,348,294) | 14,850,345 |
| Net change in value of split-interest agreements | (416,728) | 252,241 |
| Interest, dividends, and other | 911,738 | 789,174 |
| | (1,853,284) | 15,891,760 |
| Less investment expense | 409,013 | 326,596 |
| | (2,262,297) | 15,565,164 |
| Total additions | 178,146 | 19,011,805 |
| Deductions: | | |
| Transportation expense | 4,990 | 5,868 |
| Depreciation expense | 16,026 | 17,121 |
| Administrative expense | 63,715 | 55,786 |
| Transfers to the University | 3,083,118 | 2,553,636 |
| Transfers to Weatherspoon Art Foundation | 58,300 | 78,200 |
| Total deductions | 3,226,149 | 2,710,611 |
| Increase (decrease) in net assets | (3,048,003) | 16,301,194 |
| Net assets: | | |
| Beginning of year | 90,677,438 | 74,376,244 |
| End of year | \$ 87,629,435 | \$ 90,677,438 |

See Notes To Financial Statements.

The UNCG Excellence Foundation, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

The UNCG Excellence Foundation, Inc. (the Foundation) exists to aid and promote excellence in education for the exclusive benefit of The University of North Carolina at Greensboro (the University). Although legally separate from the University, the Foundation is reported as if it were part of the University because its sole purpose is to benefit the University. The Foundation is a component unit of the University; therefore, the Foundation's financial statements are blended with those of the University.

Significant accounting policies relative to the Foundation are:

Financial statements: The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

Restricted net assets, nonexpendable: Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

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

Unrestricted net assets: Unrestricted net assets include resources derived from unrestricted gifts and earnings on those gifts. Similar net assets are quasi-endowment net assets (net assets functioning as endowment) which the Board of Directors has determined are to be retained and invested. Because these net assets are internally designated rather than externally restricted, the Board of Directors has the right to decide at any time to expend the principal.

The UNCG Excellence Foundation, 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, money market accounts, as well as amounts on deposit with the State Treasurer.

Investments: Investments are stated at fair value. Equity securities, mutual funds, bonds and U. S. Treasury notes are stated at quoted value as of June 30, 2012 and 2011. Investment in the investment pool is determined on a market unit valuation basis.

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

Capital assets: Capital assets consist of vehicles, which are stated at cost. Depreciation is determined by the straight-line method and is based on a five-year estimated useful life. Depreciation expense amounted to \$16,026 and \$17,121 in fiscal years 2012 and 2011, respectively.

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

Note 2. Deposits

Deposits include bank accounts totaling \$629,787 and \$776,644 at June 30, 2012 and 2011, respectively, for which the bank balance was \$624,805 and \$763,155, respectively. Of the bank balances, \$278,195 and \$281,815, respectively, was covered by federal depository insurance with the remaining balance being uncollateralized for each year.

In addition, the Foundation deposits cash with the State Treasurer of North Carolina. At June 30, 2012 and 2011, the Foundation's portion of cash deposited with the State Treasurer was \$760,762 and \$774,741, respectively. It is the State Treasurer's policy and practice for the deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State.

The UNCG Excellence Foundation, Inc.

Notes To Financial Statements

Note 3. Investments

Investments consist of the following at June 30:

| | Fair Value | |
|--|----------------------|----------------------|
| | 2012 | 2011 |
| Investment pool | \$ 79,758,366 | \$ 82,078,825 |
| Assets held under annuity trust agreements | 6,403,044 | 6,851,021 |
| Assets held under unitrust agreements | 4,838,408 | 5,309,504 |
| Adelaide Fortune Holderness Fund | 1,269,217 | 1,264,316 |
| Pooled life income fund | 342,892 | 341,306 |
| Cash value of life insurance contracts | 264,178 | 388,853 |
| H. Michael Weaver Investment Fund | 165,634 | 181,794 |
| | <u>\$ 93,041,739</u> | <u>\$ 96,415,619</u> |

The above investments, exclusive of the cash value of life insurance contracts and the investment pool, are diversified as follows at June 30:

| | Fair Value | |
|---------------------------|----------------------|----------------------|
| | 2012 | 2011 |
| Cash and cash equivalents | \$ 467,138 | \$ 704,241 |
| Mutual funds | 11,231,074 | 11,924,070 |
| Corporate securities: | | |
| Common stocks | 1,320,983 | 1,319,630 |
| | <u>\$ 13,019,195</u> | <u>\$ 13,947,941</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, Inc., The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The Endowment Fund of The University of North Carolina at Greensboro, The Alumni Association of The University of North Carolina at Greensboro, and The Associated Campus Ministries of The University of North Carolina at Greensboro are the sole members of the Investment Fund.

Assets and ownership interests of the investment pool are determined on a market unit valuation basis. The original basis was \$1,000.00 per unit. For the years ended June 30, 2012 and 2011, the total rates of return were a loss of 2.8 percent and a gain of 21.1 percent, respectively. As of June 30, 2012 and 2011, total units of 57,353.50 and 57,923.46 had a market value of \$3,452.91 and \$3,531.85 per unit, and the Foundation owned 23,097.52 and 23,241.84 units, respectively.

The Foundation realized net gains of \$1,941,477 and \$3,432,140 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 change in the fair value of investments. The net change in the fair value of investments during the year ended June 30, 2012 was a decrease of \$4,289,771 and an increase in 2011 of \$11,418,205. 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, 2012 and 2011, is \$15,846,516 and \$20,136,287, respectively.

The UNCG Excellence Foundation, Inc.

Notes To Financial Statements

Note 3. Investments (Continued)

The Investment Fund investment pool is diversified as follows at June 30:

| | Fair Value | |
|----------------------------|-----------------------|-----------------------|
| | 2012 | 2011 |
| Short-term investments | \$ 2,082,088 | \$ 1,046,457 |
| Receivable for investments | 7,571,624 | 1,101,898 |
| Corporate securities: | | |
| Common stocks | 5,695,283 | 9,451,438 |
| International | 1,058,479 | 2,564,651 |
| Mutual funds: | | |
| International equity | 33,317,101 | 38,734,695 |
| Inflation hedging | 11,827,414 | 16,218,088 |
| Fixed income | 24,717,940 | 26,274,925 |
| U.S. Equity | 6,955,966 | 6,339,628 |
| Partnerships: | | |
| Fixed income global | 3,401,261 | 3,318,814 |
| Hedge funds | 46,443,798 | 48,022,393 |
| Inflation hedging | 1,294,536 | 714,465 |
| Real estate securities | 5,302,319 | 6,166,919 |
| U.S. Equity | 25,378,334 | 27,466,000 |
| Venture capital | 22,833,543 | 17,222,119 |
| Payable for investments | - | (87,073) |
| | \$ 197,879,686 | \$ 204,555,417 |

Investments in the investment pool are stated at fair value. Equity securities and mutual funds are stated at quoted value. Investments in partnerships are stated at net unit value based on the fair value of the partnerships' assets (determined based on values supplied by pricing services, market quotations and other pricing sources believed to be reliable). The 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.

Investment earnings are distributed based on policy administered by The Board of Directors of the Investment Fund. Any excess return over the established policy is reinvested by the Investment Fund. For the years ended June 30, 2012 and 2011, 4.25 percent of the average market value at December 31 of the three previous years was distributed.

The UNCG Excellence Foundation, Inc.

Notes To Financial Statements

Note 3. Investments (Continued)

At June 30, 2012 and 2011, the Foundation held the following investments, measured at fair value, which are subject to credit and interest rate risk.

| Investment Type | 2012 | | | | | Fair Value |
|--------------------|----------------------------------|---------------------|---------------------|--------------|---------------------|------------|
| | Investment Maturities (in Years) | | | | | |
| | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 | | |
| Money market funds | \$ 87,131 | \$ - | \$ - | \$ - | \$ 87,131 | |
| Mutual bond funds | - | 1,609,077 | 2,370,522 | - | 3,979,599 | |
| | <u>\$ 87,131</u> | <u>\$ 1,609,077</u> | <u>\$ 2,370,522</u> | <u>\$ -</u> | <u>\$ 4,066,730</u> | |

| | | | | | |
|------------|------|-------|-------|------|--------|
| Allocation | 2.1% | 39.6% | 58.3% | 0.0% | 100.0% |
|------------|------|-------|-------|------|--------|

| Investment Type | 2011 | | | | | Fair Value |
|--------------------|----------------------------------|-------------|---------------------|--------------|---------------------|------------|
| | Investment Maturities (in Years) | | | | | |
| | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 | | |
| Money market funds | \$ 99,309 | \$ - | \$ - | \$ - | \$ 99,309 | |
| Mutual bond fund | - | - | 3,932,444 | - | 3,932,444 | |
| | <u>\$ 99,309</u> | <u>\$ -</u> | <u>\$ 3,932,444</u> | <u>\$ -</u> | <u>\$ 4,031,753</u> | |

| | | | | | |
|------------|------|------|-------|------|--------|
| Allocation | 2.5% | 0.0% | 97.5% | 0.0% | 100.0% |
|------------|------|------|-------|------|--------|

Credit risk and interest rate risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Interest rate risk is the risk of a debt investment's exposure to fair value fluctuations arising from changing interest rates. The Foundation's formal policy states that some of the fixed income holdings will be in a diversified, high quality (AA/Aa or better average credit rating) U.S. fixed income portfolio of sufficient duration (four years or more) to provide effective protection in a deflationary environment.

The UNCG Excellence Foundation, Inc.

Notes To Financial Statements

Note 3. Investments (Continued)

Credit risk: The Foundation's annuity investments are rated by Standard & Poor's and Moody's Rating Services as follows:

| Investment Type | 2012 | | | | Fair Value |
|--------------------|-------------------|---------------------|-------------------|------------------|---------------------|
| | Credit Rating | | | | |
| | AAA | AA | A | BBB | |
| Money market funds | \$ 87,131 | \$ - | \$ - | \$ - | \$ 87,131 |
| Mutual bond funds | 877,569 | 2,370,522 | 714,072 | 17,436 | 3,979,599 |
| | <u>\$ 964,700</u> | <u>\$ 2,370,522</u> | <u>\$ 714,072</u> | <u>\$ 17,436</u> | <u>\$ 4,066,730</u> |

| | | | | | |
|------------|-------|-------|-------|------|--------|
| Allocation | 23.7% | 58.3% | 17.6% | 0.4% | 100.0% |
|------------|-------|-------|-------|------|--------|

| Investment Type | 2011 | | | | Fair Value |
|--------------------|------------------|---------------------|-------------|-------------|---------------------|
| | Credit Rating | | | | |
| | AAA | AA | A | BBB | |
| Money market funds | \$ 99,309 | \$ - | \$ - | \$ - | \$ 99,309 |
| Mutual bond fund | - | 3,932,444 | - | - | 3,932,444 |
| | <u>\$ 99,309</u> | <u>\$ 3,932,444</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,031,753</u> |

| | | | | | |
|------------|------|-------|------|------|--------|
| Allocation | 2.5% | 97.5% | 0.0% | 0.0% | 100.0% |
|------------|------|-------|------|------|--------|

The Foundation invests in a professionally managed portfolio that contains common shares and bonds of publicly-traded companies and mutual funds as well as the Investment Fund. Such investments are exposed 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, 2012 and 2011, outstanding pledges to the Foundation totaled \$642,869 and \$838,640, respectively. Of the total pledges, \$527,434 and \$754,646, respectively, are endowment fund pledges and \$106,912 and \$83,994, respectively, are current fund pledges, net of discounts and allowances for doubtful accounts. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment fund pledges are not recorded and recognized until received due to the passage of the restrictions associated with the pledges. Pledges that are expected to be collected and available for expenditures, that are both verifiable and measurable, are reported on the accompanying financial statements as part of pledges receivable. In accordance with accounting principles generally accepted in the United States of America, the original amount pledged has been discounted based on a projected interest rate for the outstanding periods. There is a \$5,772 and \$4,592 allowance for doubtful accounts reported in the statement of financial position as of June 30, 2012 and 2011, respectively. The pledges receivable are due over the next three years as follows: \$57,435; \$35,500; and \$22,500. The discount on the pledges due at June 30, 2012 was \$2,751.

Notes To Financial Statements

Note 5. Endowments And Quasi Endowments

Foundation endowments consist of donor-restricted funds established to support scholarships and fellowships, endowed professorships, departmental uses and various other purposes. The Foundation's Board of Directors also maintains various other board-designated endowments (quasi endowments), which are designated for long-term investment.

If a donor has not provided specific instructions, State law permits the Board of Directors to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), authorized by the North Carolina General Assembly in March 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the Foundation's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the book value of the original gift amount. The excess of book value over market value of these funds are reported in expendable or unrestricted net assets, were \$30,236 and \$9,517 as of June 30, 2012 and 2011, respectively. This excess was the result of unfavorable market fluctuations.

Note 6. Administrative Expenses

Certain administrative costs related to the Foundation, including accounting services, fund-raising expenses and gift receipting services, have been absorbed by the University. It is not feasible to determine the amount of such costs from services arising between the University and the Foundation.

Note 7. Risk Management

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; and natural disasters. These exposures to loss are handled via a combination of methods, including 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.