

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 and Compliance Report
Year Ended June 30, 2007

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McGladrey & Pullen

Certified Public Accountants

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, 2007 and 2006, 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, 2007 and 2006, 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 November 2, 2007 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
November 2, 2007

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

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

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, 2007. 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.

	2007	2006	2005
Assets	<u>\$ 7,878,498</u>	<u>\$ 6,822,974</u>	<u>\$ 6,123,658</u>
Liabilities	<u>13,082</u>	<u>-</u>	<u>-</u>
Net Assets			
Restricted:			
Nonexpendable	3,026,953	2,916,973	2,649,865
Expendable	3,165,094	2,486,630	2,161,867
Unrestricted	<u>1,673,369</u>	<u>1,419,371</u>	<u>1,311,926</u>
	<u>\$ 7,865,416</u>	<u>\$ 6,822,974</u>	<u>\$ 6,123,658</u>

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

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

Statement of Net Assets (Continued)

The total assets of the Foundation increased by approximately \$1,042,000, \$699,000 and \$467,000 for the years ended June 30, 2007, 2006 and 2005, respectively. The increase in net assets 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, 2007, the Foundation owned 4.2 percent of the pooled investments totaling \$183.8 million. The University Investment Fund pool assets are diversified with 80% equities (of which 29% are in hedge fund and alternative investments), 15% bonds, and 5% in cash. The Fund returned 18.7% for the fiscal year, outperforming the 17.6% return of a passive benchmark consisting of 80% S&P 500 plus 20% Lehman Brothers Aggregate.

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.

	2007	2006	2005
Operating expenses	\$ (65,503)	\$ (41,093)	\$ (21,048)
Nonoperating revenues	1,206,754	687,908	598,176
Additions to permanent endowments	106,319	260,886	65,147
Transfers to the University	(205,128)	(208,385)	(175,160)
Increase in net assets	<u>1,042,442</u>	<u>699,316</u>	<u>467,115</u>
Beginning, net assets	6,822,974	6,123,658	5,656,543
Ending, net assets	<u>\$ 7,865,416</u>	<u>\$ 6,822,974</u>	<u>\$ 6,123,658</u>

The 2007, 2006 and 2005 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 each year 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.

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

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

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.

	2007	2006	2005
Net cash used in operating activities	\$ (53,247)	\$ (41,093)	\$ (19,811)
Net cash provided by (used in) noncapital financing activities	(44,543)	75,740	(92,136)
Net cash provided by (used in) investing activities	125,272	(44,608)	117,834
Net increase (decrease) in cash and cash equivalents	27,482	(9,961)	5,887
Beginning cash and cash equivalents	88,733	98,694	92,807
Ending cash and cash equivalents	<u>\$ 116,215</u>	<u>\$ 88,733</u>	<u>\$ 98,694</u>

In 2007, 2006 and 2005, 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 2007-08 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 2006-07 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, 2007 and 2006

	2007	2006
Assets		
Unrestricted cash and cash equivalents	\$ 53,011	\$ 21,515
Unrestricted investments	72,431	67,100
Restricted cash and cash equivalents	56,174	53,448
Restricted investments	222,698	187,431
Pledges receivable (net)	21,303	32,063
Endowment cash	7,030	13,770
Endowment investments	7,445,025	6,447,647
Other receivables	826	-
Total assets	7,878,498	6,822,974
Liabilities		
Accounts payable	13,082	-
Total Liabilities	13,082	-
Net Assets		
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	1,738,781	1,666,601
Endowed professorships	70,062	67,562
Departmental uses	390,189	354,900
Other	827,921	827,910
Expendable:		
Scholarships and fellowships	1,654,623	1,321,010
Endowed professorships	134,746	111,164
Departmental uses	523,476	412,775
Other	852,249	641,681
Unrestricted	1,673,369	1,419,371
	\$ 7,865,416	\$ 6,822,974

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, 2007 and 2006

	2007	2006
Expenses:		
Operating expenses:		
General administrative expenses	\$ 65,503	\$ 41,093
Operating loss	<u>(65,503)</u>	<u>(41,093)</u>
Nonoperating revenues:		
Noncapital gifts	23,640	1,642
Investment gain, net of investment expense 2007 \$34,145; 2006 \$33,377	1,163,248	678,766
Other nonoperating revenues	19,866	7,500
Net nonoperating revenues	<u>1,206,754</u>	<u>687,908</u>
Income before other revenues, expenses, gains or losses	1,141,251	646,815
Additions to permanent endowments	106,319	260,886
Transfers to the University	(205,128)	(208,385)
Increase in net assets	<u>1,042,442</u>	<u>699,316</u>
Net assets:		
Beginning	6,822,974	6,123,658
Ending	<u>\$ 7,865,416</u>	<u>\$ 6,822,974</u>

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, 2007 and 2006

	2007	2006
Cash Flows Used In Operating Activities		
Payments to vendors and suppliers	\$ (53,247)	\$ (41,093)
Cash Flows From Noncapital Financing Activities		
Noncapital gifts	34,400	15,739
Additions to permanent endowments	106,319	260,886
Other receipts	19,866	7,500
Other payments	(205,128)	(208,385)
Net cash provided by (used in) noncapital financing activities	(44,543)	75,740
Cash Flows Provided By (Used In) Investing Activities		
Net (purchases) sales of investments and related fees	125,272	(44,608)
Net increase (decrease) in cash and cash equivalents	27,482	(9,961)
Cash and cash equivalents:		
Beginning	88,733	98,694
Ending	\$ 116,215	\$ 88,733

(Continued)

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

Statements of Cash Flows (Continued)
Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of Net Operating Loss to Net Cash		
Used In Operating Activities		
Operating loss	\$ (65,503)	\$ (41,093)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Increase in other receivables	(826)	-
Increase in accounts payable	13,082	-
Net cash used in operating activities	\$ (53,247)	\$ (41,093)
Supplementary Schedule of Noncash Investing, Capital and Financing Activities		
Change in fair value of investments	\$ 849,199	\$ 307,254
Reconciliation of Cash and Cash Equivalent Balances		
Cash and cash equivalents	\$ 53,011	\$ 21,515
Restricted cash and cash equivalents	56,174	53,448
Endowment cash	7,030	13,770
Total cash and cash equivalent balances	\$ 116,215	\$ 88,733

See Notes to Financial Statements.

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

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated (the "Foundation") exists for the exclusive benefit of the 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 Principal 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.

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

Notes to Financial Statements

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

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 \$116,215 and \$88,733 at June 30, 2007 and 2006 respectively, for which the bank balances were \$116,115 and \$86,933, respectively. Of the bank balances, \$103,609 and \$86,933, respectively, were covered by federal depository insurance.

Note 3. Investments

Investments in the investment pool consist of the following:

	Fair Value	
	2007	2006
Unrestricted investments	\$ 72,431	\$ 67,100
Restricted investments	222,698	187,431
Endowment investments	7,445,025	6,447,647
	<u>\$ 7,740,154</u>	<u>\$ 6,702,178</u>

The investment pool is managed and invested by The University of North Carolina at Greensboro Investment Fund, Incorporated. 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 University of North Carolina at Greensboro Investment Fund, Incorporated.

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, 2007 and 2006, the total rates of return were gains of 18.7% and 12.3%, respectively. As of June 30, 2007 and 2006, total units of 55,043.74 and 54,927.09 had a market value of \$3,338.28 and \$2,833.61 per unit, and the Foundation owned 2,318.61 and 2,365.24 units, respectively.

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

Notes to Financial Statements

Note 3. Investments (Continued)

The Foundation realized net gains of \$294,545 and \$315,650 from the sale of investments for the years ended June 30, 2007 and 2006, respectively. The calculation of realized gains and losses is independent of the calculation of the increase in the fair value of investments. The net increase in fair value of investments during the years ended June 30, 2007 and 2006 was \$849,199 and \$307,254, 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, 2007 and 2006 is \$2,345,439 and \$1,496,240, respectively.

The University of North Carolina at Greensboro Investment Fund, Incorporated (the "Investment Fund") investment pool is diversified as follows:

	2007	2006
Short-term investments	\$ 9,415,495	\$ 9,436,889
Corporate securities:		
Common stocks	11,942,101	9,770,840
International	996,524	963,504
Mutual funds:		
Domestic equity	16,863,004	27,918,469
International equity	20,130,929	13,341,565
Fixed income	19,358,021	19,326,471
Fixed income global	7,384,949	7,368,469
Partnerships		
Hedge funds	34,913,060	28,197,003
Inflation hedging	4,453,357	4,655,560
Real estate securities	12,408,058	13,107,020
US Equities	44,049,510	20,883,798
Venture Capital	1,779,510	552,366
	<u>\$ 183,694,518</u>	<u>\$ 155,521,954</u>

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

Interest rate risk: The Fund 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.

Notes to Financial Statements

Note 3. Investments (Continued)

Although the Fund does not have a formal policy addressing credit and interest rate risks, the Investment Fund, which accounts for all of the Fund's investments at June 30, 2007 and 2006, respectively, 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 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 University of North Carolina Investment Fund, Inc. Any excess return over the established policy is reinvested by the Fund. For both the years ended June 30, 2007 and 2006, 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, 2007 and 2006, outstanding pledges to the Foundation totaled \$66,414 and \$102,580, respectively. Of the total pledges, \$45,111 and \$70,517, respectively, are endowment fund pledges and \$21,303 and \$32,063, 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 over the next two years as follows: 2008, \$11,200 and 2009, \$10,103.

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.

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

Notes to Financial Statements

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.

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

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

We have audited the financial statements of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated (the "Foundation") as of and for the year ended June 30, 2007, and have issued our report thereon dated November 2, 2007. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, Audit Committee, management, The University of North Carolina at Greensboro and the State Auditor of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Greensboro, North Carolina
November 2, 2007