

**McGladrey & Pullen**

Certified Public Accountants

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

Financial Report  
06.30.2009

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# McGladrey & Pullen

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## Independent Auditor's Report

The Board of Trustees  
The Endowment Fund of  
The University of North Carolina at Greensboro  
Greensboro, North Carolina

We have audited the accompanying statements of net assets of The Endowment Fund of The University of North Carolina at Greensboro (the "Fund"), a component unit of The University of North Carolina at Greensboro, as of June 30, 2009 and 2008, 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 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 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 Fund as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2009 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.

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.



Greensboro, North Carolina  
September 22, 2009

**The Endowment Fund of  
The University of North Carolina at Greensboro**

**Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2009**

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***Introduction***

The Endowment Fund of The University of North Carolina at Greensboro (the "Endowment Fund") provides the following management discussion and analysis ("MD&A") as an overview of the financial activities for the fiscal year ended June 30, 2009. This discussion, along with the following financial statements and related footnote disclosures, has been prepared by management and comprise the Endowment 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 Endowment Fund'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 Endowment Fund is a part of the UNGC financial report and therefore is prepared in accordance with Governmental Accounting Standards Board ("GASB") principles.

***Statements 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 Endowment Fund. The purpose of this financial statement is to present to the readers of the Endowment Fund's financial report a fiscal snapshot as of the end of its fiscal year (i.e., June 30<sup>th</sup>).

From the data presented, readers of these statements are able to determine the assets available to continue the operations of the Endowment Fund. The statements of net assets also provide a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Endowment Fund. 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.

	<b>2009</b>	2008	2007
Assets	<u>\$ 85,192,371</u>	<u>\$ 98,363,082</u>	<u>\$ 97,707,947</u>
Liabilities	<u>-</u>	<u>-</u>	<u>26,341</u>
Net assets:			
Restricted:			
Nonexpendable	48,201,708	45,041,272	40,266,647
Expendable	30,458,876	45,024,136	48,694,508
Unrestricted	6,531,787	8,297,674	8,720,451
<b>Total net assets</b>	<u><b>\$ 85,192,371</b></u>	<u><b>\$ 98,363,082</b></u>	<u><b>\$ 97,681,606</b></u>

**The Endowment Fund of  
The University of North Carolina at Greensboro**

**Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2009**

***Statements of Net Assets (Continued)***

The total assets of the Endowment Fund increased (decreased) by approximately \$(13.2) million, \$655,000, and \$13.4 million for the years ended June 30, 2009, 2008 and 2007, respectively. The increases in total assets for 2008 and 2007 are attributable primarily to new gifts to the Fund and investment performance, whereas the decrease in 2009 is largely due to investment performance.

The Endowment Fund invests in the University of North Carolina at Greensboro Investment Fund. The Endowment Fund owns 55.2% of the pooled investments totaling approximately \$152 million. The University Investment Fund pool assets are diversified with 71.8% equities (of which 37.8% are in hedge fund and alternative investments), 22.6% bonds, and 5.6% in cash and short-term investments. The University Investment Fund pool assets decreased by approximately \$31.8 million for the year. The Fund lost 20.7% for the fiscal year, underperforming the 20.2% loss of a passive benchmark consisting of 80% Standard & Poor's 500 Index plus 20% Barclays Capital Aggregate Bond Index.

***Statements of Revenues, Expenses and 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 revenues, expenses and changes in net assets. The purpose of this statement is to present the revenues earned by the Endowment Fund, both operating and nonoperating, and the expenses incurred by the Fund, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by the Fund.

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 Endowment Fund (e.g., investment expenses). Additions to the principal of permanent endowments are reported separately after nonoperating revenues and expenses.

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net nonoperating revenue (loss)	<b>\$ (19,239,552)</b>	\$ (1,245,240)	\$ 14,628,720
Additions to permanent endowments	<b>9,294,432</b>	3,859,186	1,825,349
Transfers from The UNCG Excellence Foundation	<b>530,660</b>	1,473,546	-
Transfers to The UNCG Excellence Foundation	<b>(36,940)</b>	-	-
Transfers from the UNCG Human Environmental Sciences Foundation	<b>16,936</b>	-	-
Transfers from the University	-	-	2,444
Transfers to the University	<b>(3,736,247)</b>	(3,406,016)	(3,009,166)
<b>Increase (decrease) in net assets</b>	<b>(13,170,711)</b>	681,476	13,447,347
Beginning net assets	<b>98,363,082</b>	97,681,606	84,234,259
Ending net assets	<b>\$ 85,192,371</b>	\$ 98,363,082	\$ 97,681,606

The 2009 statement of revenues, expenses and changes in net assets reflects a decrease in net assets due to investment losses, and transfers to the UNCG Excellence Foundation and to the University which are partially offset by additions to permanent endowments along with transfers from the UNCG Excellence Foundation and the UNCG Human Environmental Sciences Foundation. In the 2008 fiscal year, net assets at the end of the year increased due to additions to permanent endowments and a transfer from the UNCG Excellence Foundation offsetting transfers to the University and investments losses. In the 2007 fiscal year, net assets at the end of the year increased due to additions to permanent endowments and investment earnings, which is partially offset by the amount of transfers to the University in excess of endowment gifts received.

**The Endowment Fund of  
The University of North Carolina at Greensboro**

**Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2009**

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***Statements of Cash Flows***

The final statement presented by the Endowment Fund is the statement of cash flows. This statement is divided into two parts and presents detailed information about the cash activity of the Fund during the year. The first section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The second section reflects the cash flows from investing activities and shows purchases, proceeds, and earnings from investing activities.

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net cash provided by (used in) noncapital financing activities	<b>\$ 5,696,315</b>	\$ 465,124	\$ (1,038,436)
Net cash provided by (used in) investing activities	<b>(5,082,542)</b>	(415,842)	1,022,148
<b>Net increase (decrease) in cash</b>	<b>613,773</b>	49,282	(16,288)
Beginning cash	<b>49,282</b>	-	16,288
Ending cash	<b>\$ 663,055</b>	\$ 49,282	\$ -

In 2009, 2008 and 2007, the major sources of cash included in noncapital financing activities are endowment gifts, which are partially offset by transfers to the University. The major use of cash included in investing activities is the purchase of investments, which are partially offset by investment earnings.

***Economic Outlook***

Management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the Endowment Fund's financial position or results of operations during fiscal year 2009-10 beyond those unknown variations having a global effect on virtually all types of business operations. We anticipate that investment returns and performance for the current fiscal year will be better than the 2008-09 fiscal year due to a general economic stabilization and recovery. Regardless, we will maintain a close watch over resources so that the Fund will be able to react to currently unknown internal and external issues.

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

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

**The Endowment Fund of  
The University of North Carolina at Greensboro**

**Statements of Net Assets  
June 30, 2009 and 2008**

	2009	2008
<b>Assets</b>		
Restricted cash	\$ 663,055	\$ 49,282
Other assets	517,184	511,870
Endowment investments	84,012,132	97,801,930
<b>Total assets</b>	<b>85,192,371</b>	<b>98,363,082</b>
<b>Liabilities</b>		
Due to UNCG	-	-
<b>Net Assets</b>		
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	23,807,001	22,189,478
Endowed professorships	14,197,491	12,684,828
Departmental uses	7,817,739	7,683,382
Other	2,273,931	2,273,921
Loans	105,546	209,663
Expendable:		
Scholarships and fellowships	18,739,831	24,901,083
Endowed professorships	6,253,514	10,747,278
Departmental uses	4,945,256	8,479,198
Loans	508,506	867,683
Other	11,769	28,894
Unrestricted	6,531,787	8,297,674
	<b>\$ 85,192,371</b>	<b>\$ 98,363,082</b>

See Notes to Financial Statements.

The Endowment Fund of  
The University of North Carolina at Greensboro

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended June 30, 2009 and 2008

	2009	2008
Nonoperating revenue:		
Investment earnings	\$ (19,377,682)	\$ (1,259,064)
Noncapital gifts	138,130	13,824
<b>Losses before additions to         permanent endowments and transfers</b>	<b>(19,239,552)</b>	<b>(1,245,240)</b>
Additions to permanent endowments	9,294,432	3,859,186
Transfers from The UNCG Excellence Foundation	530,660	1,473,546
Transfers to The UNCG Excellence Foundation	(36,940)	-
Transfers from The UNCG Human Environmental Sciences Foundation	16,936	-
Transfers to the University	(3,736,247)	(3,406,016)
<b>Increase (decrease) in net assets</b>	<b>(13,170,711)</b>	<b>681,476</b>
Net assets:		
Beginning	98,363,082	97,681,606
Ending	<u>\$ 85,192,371</u>	<u>\$ 98,363,082</u>

See Notes to Financial Statements.

**The Endowment Fund of  
The University of North Carolina at Greensboro**

**Statements of Cash Flows  
Years Ended June 30, 2009 and 2008**

	2009	2008
<hr/>		
Cash Flows From Noncapital Financing Activities		
Additions to permanent endowments and noncapital gifts	\$ 9,432,562	\$ 3,871,140
Transfers to the University	(3,736,247)	(3,406,016)
<b>Net cash provided by noncapital financing activities</b>	<b>5,696,315</b>	<b>465,124</b>
<hr/>		
Cash Flows From Investing Activities		
Net purchase of investments and related fees	(6,337,686)	(2,121,381)
Interest and dividends on investments	1,255,144	1,489,312
Proceeds from sale of real estate	-	216,227
<b>Net cash used in investing activities</b>	<b>(5,082,542)</b>	<b>(415,842)</b>
<hr/>		
<b>Net increase in cash</b>	<b>613,773</b>	<b>49,282</b>
Cash:		
Beginning	49,282	-
Ending	<u>\$ 663,055</u>	<u>\$ 49,282</u>
Supplementary Schedule of Noncash Investing, Capital and Financing Activities		
Change in fair value of investments for realized and unrealized gains	<u>\$ (20,028,833)</u>	<u>\$ (2,152,901)</u>
Receipt of investments in settlement due from The UNCG Excellence Foundation, Inc.	<u>\$ 530,660</u>	<u>\$ 1,473,546</u>
Transfer of investments in settlement due to The UNCG Excellence Foundation, Inc.	<u>\$ (36,940)</u>	<u>\$ -</u>
Receipt of investments in settlement due from The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated	<u>\$ 16,936</u>	<u>\$ -</u>

See Notes to Financial Statements.

**The Endowment Fund of  
The University of North Carolina at Greensboro**

**Notes to Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies**

Nature of activities: The Endowment Fund of The University of North Carolina at Greensboro (the "Fund") includes the endowments and similar funds of The University of North Carolina at Greensboro (the "University") and exists to supplement state appropriations to the end that the University may improve and increase its functions, may enlarge its areas of service, and may become more useful to a greater number of people. These financial statements include the accounts of the Fund only and none of the other funds of the University or its affiliated organizations. The Fund is a component unit of the University; 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 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 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 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 Fund follows all GASB pronouncements as well as 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.

Net assets: The Fund'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 Fund 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 Trustees has the right to decide at any time to expend the principal.

**The Endowment Fund of  
The University of North Carolina at Greensboro**

**Notes to Financial Statements**

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

Cash with State Treasurer: In accordance with North Carolina General Statutes, the Fund deposits its cash with the State Treasurer of North Carolina. At June 30, 2009 and 2008, the Fund's portion of cash deposited with the State Treasurer was \$663,055 and \$49,282, 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.

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

Reclassifications: The Fund's policy is to reclassify accounts reported in prior year financial statements when necessary for conformity with classifications adopted in the current year.

**Note 2. Investments**

Investments consist of the following:

	Fair Value	
	2009	2008
Investment pool	<u>\$ 84,012,132</u>	<u>\$ 97,801,930</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 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, 2009 and 2008, the total rate of return was a loss of 20.7% and 0.2%, respectively. As of June 30, 2009 and 2008, total units of 57,979.34 and 55,690.18 had a market value of \$2,626.04 and \$3,304.30 per unit, and the Fund owned 31,991.99 units and 29,598.36 units, respectively.

The Fund realized a net loss of \$1,580,513 and a net gain of \$2,962,432 from the sale of investments for the years ended June 30, 2009 and 2008, respectively. The calculation of realized gains and losses is independent of the calculation of the increase in the fair value of investments. The net decrease in the fair value of investments during the years ended June 30, 2009 and 2008 was \$18,448,319 and \$5,122,924, respectively. These amounts take 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, 2009 and 2008 is \$3,971,073 and \$22,419,392, respectively.

**The Endowment Fund of  
The University of North Carolina at Greensboro**

**Notes to Financial Statements**

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**Note 2. Investments (Continued)**

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

	Fair Value	
	2009	2008
Short-term investments	<b>\$ 8,464,080</b>	\$ 4,396,494
Corporate securities:		
Common stocks	<b>7,085,525</b>	13,911,884
International	<b>732,498</b>	2,457,931
Mutual funds:		
International equity	<b>28,904,979</b>	41,079,979
Inflation hedging	<b>2,498,948</b>	-
Fixed income	<b>25,332,925</b>	20,452,445
Fixed income global	<b>8,563,558</b>	8,749,051
Partnerships		
Hedge funds	<b>38,664,641</b>	45,401,916
Inflation hedging	-	5,564,019
Real estate securities	<b>7,681,162</b>	14,299,670
US equities	<b>17,038,958</b>	22,787,969
Venture capital	<b>7,283,528</b>	4,789,830
	<b><u>\$ 152,250,802</u></b>	<b><u>\$ 183,891,188</u></b>

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 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 Fund.

Credit risk: The Fund does not have a formal policy regarding credit risk.

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.

**The Endowment Fund of  
The University of North Carolina at Greensboro**

**Notes to Financial Statements**

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**Note 2. Investments (Continued)**

Although the Fund does not have a formal policy addressing credit and interest rate risks, the Investment Fund, which accounts for 100% of the Fund's investments at June 30, 2009 and 2008, 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, Incorporated. Any excess return over the established policy is reinvested by the Fund. For the years ended June 30, 2009 and 2008, 4.25% of the average market value at December 31 of the three previous years was distributed. The Investment Fund makes distributions directly to the University on the Endowment Fund's behalf.

**Note 3. Pledges Receivable**

As of June 30, 2009 and 2008, outstanding endowment pledges to the Fund total \$3,291,278 and \$3,485,487, respectively. In accordance with GASB Statement 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.

**Note 4. Administrative Expenses**

Certain administrative costs related to the Fund, including accounting services, fund-raising expenses and gift receipting services, have been absorbed by the University. It is not possible to determine the amount of such costs and no allocation has been made between the University and the Fund.

**Note 5. Risk Management**

The Fund 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 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.

Additional details on the University's risk management programs are disclosed in the financial report of the University.

**Note 6. Income Taxes**

The Fund is exempt from federal income tax under the provisions of the Internal Revenue Code Section 115.