The Endowment Fund of
The University of North Carolina at Greensboro

Financial Report
June 30, 2013
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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

Report on the Financial Statements

We have audited the accompanying financial statements of The Endowment Fund of The University of North Carolina at Greensboro (the Fund), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of changes in net position for the years then ended and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
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, 2013 and 2012, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2013, on our consideration of the Fund’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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Fund's internal control over financial reporting and compliance.

McGladey LLP

Greensboro, North Carolina
October 15, 2013
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, 2013. 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 two financial statements: the Statements of Net Position and the Statements of Changes in Net Position. The Endowment Fund is a part of the University of North Carolina at Greensboro (the University) financial report and, therefore, is prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

Statements of Net Position

The Statements of Net Position is a point of time financial statement that presents the assets, liabilities, and net position 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 30th).

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 Position also provide a picture of the net position (assets minus liabilities) and its availability for expenditure by the Endowment Fund. Net position is divided into two major categories: unrestricted; and restricted, which is reflected in two subcategories – expendable and nonexpendable. These two categories of net position are discussed further in the footnotes to the financial statements.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$ 120,718,684</td>
<td>$ 108,177,419</td>
<td>$ 111,660,341</td>
</tr>
<tr>
<td>Net position:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonexpendable</td>
<td>$ 58,953,807</td>
<td>$ 54,681,838</td>
<td>$ 52,040,348</td>
</tr>
<tr>
<td>Expendable</td>
<td>53,519,782</td>
<td>46,049,644</td>
<td>51,653,295</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>8,245,095</td>
<td>7,445,937</td>
<td>7,966,698</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td><strong>$ 120,718,684</strong></td>
<td><strong>$ 108,177,419</strong></td>
<td><strong>$ 111,660,341</strong></td>
</tr>
</tbody>
</table>

The total assets of the Endowment Fund increased by approximately $12.5 million and $17.2 million for the years ended June 30, 2013 and 2011, respectively, and decreased by approximately $3.5 million in the year ended June 30, 2012. The increases in total assets for 2013 and 2011 are attributable primarily to new gifts to the Fund and investment income, whereas the decrease in 2012 is largely due to investment losses and spending transfers to the University.
Statements of Net Position (Continued)

The Endowment Fund invests in the University of North Carolina at Greensboro Investment Fund, Incorporated (the Investment Fund). The Endowment Fund owns 54.3% of the pooled assets totaling approximately $223.2 million at June 30, 2013. The University Investment Fund pool assets are diversified with 84.0% equities (of which 41.6% are in hedge fund and alternative investments), 14.9% bonds, and 1.1% in cash. The total assets of the Investment Fund increased by approximately $25.3 million for the year. The Investment Fund gained 11.2% for the fiscal year, underperforming the 14.4% gain of a passive benchmark consisting of 85% MSCI World Index plus 15% Barclays Capital Aggregate Bond Index and outperforming the 10.4% gain of a custom benchmark based on the Investment Fund’s target asset allocation.

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

Statements of Changes in Net Position

Changes in total net position as presented on the Statements of Net Position are based on the activity presented in the Statements of Changes in Net Position. The purpose of this statement is to present the additions, deductions and net increase (decrease) to the Endowment Fund.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$4,730,516</td>
<td>$2,587,386</td>
<td>$1,749,920</td>
</tr>
<tr>
<td>Net investment income (loss)</td>
<td>11,727,124</td>
<td>(2,269,165)</td>
<td>19,159,674</td>
</tr>
<tr>
<td>Transfers to the University</td>
<td>(3,916,375)</td>
<td>(3,801,143)</td>
<td>(3,665,453)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in net position</strong></td>
<td>12,541,265</td>
<td>(3,482,922)</td>
<td>17,244,141</td>
</tr>
<tr>
<td>Beginning net position</td>
<td>108,177,419</td>
<td>111,660,341</td>
<td>94,416,200</td>
</tr>
<tr>
<td><strong>Ending net position</strong></td>
<td>$120,718,684</td>
<td>$108,177,419</td>
<td>$111,660,341</td>
</tr>
</tbody>
</table>

The Statements of Changes in Net Position reflect an increase in the 2013 and 2011 fiscal years, due to investment earnings and additions to permanent endowments, which are partially offset by the amount of transfers to the University. During 2012, the decrease in net position was due primarily to investment losses and transfers to the University, partially offset by contributions.

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 long-term financial position. Market volatility may have a short-term impact on the results of operations for fiscal year 2013-14, not unlike that experienced for the past several years. We will maintain a close watch over resources, so that the Fund will be able to react to 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 and the Fund’s asset allocation is structured to weather most economic uncertainties.
The Endowment Fund of  
The University of North Carolina at Greensboro

Statements of Net Position  
June 30, 2013 and 2012

<table>
<thead>
<tr>
<th>Assets</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted cash</td>
<td>$135,115</td>
<td>$2,968</td>
</tr>
<tr>
<td>Other assets</td>
<td>463,143</td>
<td>464,133</td>
</tr>
<tr>
<td>Endowment investments</td>
<td>120,120,426</td>
<td>107,710,318</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$120,718,684</strong></td>
<td><strong>$108,177,419</strong></td>
</tr>
</tbody>
</table>

Net Position

Net Position  
Restricted for:
Nonexpendable:  
Scholarships and fellowships | $30,633,681 | $27,834,340 |
Endowed professorships       | 16,817,124  | 15,937,512  |
Departmental uses            | 8,898,755   | 8,529,230   |
Other                        | 2,498,701   | 2,275,210   |
Loans                        | 105,546     | 105,546     |
Expendable:  
Scholarships and fellowships | 31,446,518  | 27,052,584  |
Endowed professorships       | 13,654,043  | 11,443,341  |
Departmental uses            | 7,757,683   | 6,942,686   |
Loans                        | 637,187     | 591,180     |
Other                        | 24,351      | 19,853      |
Unrestricted                 | 8,245,095   | 7,445,937   |

**Total net position**  
$120,718,684 $108,177,419

See Notes to Financial Statements.
## Statements of Changes in Net Position

**Years Ended June 30, 2013 and 2012**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Additions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to permanent endowments</td>
<td>$4,730,516</td>
<td>$2,587,386</td>
</tr>
<tr>
<td><strong>Investment income:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realized and unrealized gains (losses) on investments</td>
<td>$10,885,100</td>
<td>$(2,751,935)</td>
</tr>
<tr>
<td>Interest, dividends, and other</td>
<td>$1,226,193</td>
<td>984,904</td>
</tr>
<tr>
<td><strong>Total investment income (loss)</strong></td>
<td>$12,111,293</td>
<td>$(1,767,031)</td>
</tr>
<tr>
<td>Less investment expense</td>
<td>384,169</td>
<td>502,134</td>
</tr>
<tr>
<td><strong>Net investment income (loss)</strong></td>
<td>$11,727,124</td>
<td>$(2,269,165)</td>
</tr>
<tr>
<td><strong>Total additions</strong></td>
<td>$16,457,640</td>
<td>318,221</td>
</tr>
<tr>
<td><strong>Deductions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers to the University</td>
<td>3,916,375</td>
<td>3,801,143</td>
</tr>
<tr>
<td><strong>Net increase (decrease)</strong></td>
<td>$12,541,265</td>
<td>$(3,482,922)</td>
</tr>
<tr>
<td><strong>Net position:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of the year</td>
<td>108,177,419</td>
<td>111,660,341</td>
</tr>
<tr>
<td>End of the year</td>
<td>$120,718,684</td>
<td>$108,177,419</td>
</tr>
</tbody>
</table>

See Notes to Financial Statements.
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 part of the University; therefore, the Fund’s financial statements are included 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).

Basis of accounting: The financial statements of the Fund have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Net position: The Fund’s net position is classified as follows:

   Restricted nonexpendable: Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Nonexpendable restricted includes 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 expendable: Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Expendable restricted includes resources in which the Fund is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties. Expendable also includes amounts of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure by the governing board.

   Unrestricted: Represents the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted includes resources derived from unrestricted gifts and earnings on those gifts. Also included in this classification are quasi-endowment assets (assets functioning as endowment) which the Board of Trustees has determined are to be retained and invested. Because these assets are internally designated rather than externally restricted, the Board of Trustees has the right to decide at any time to expend the principal.

Cash with State Treasurer: The Fund deposits its cash with the State Treasurer of North Carolina. At June 30, 2013 and 2012, the Fund’s portion of cash deposited with the State Treasurer was $135,115 and $2,968, 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.
The Endowment Fund of The University of North Carolina at Greensboro

Notes to Financial Statements

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


Note 2. Investments

Investments consist of the following at June 30:

<table>
<thead>
<tr>
<th></th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td>Investment pool</td>
<td>$120,120,426</td>
</tr>
</tbody>
</table>

The investment pool is managed and invested by The University of North Carolina at Greensboro Investment Fund, Incorporated (the Investment Fund). The UNCG Excellence Foundation, The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated, The Endowment Fund of The 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 only 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, 2013 and 2012, the total rate of return was a gain of 11.2% and a loss of 2.8%, respectively. As of June 30, 2013 and 2012, total units of 57,665.41 and 57,353.50 had a market value of $3,834.78 and $3,452.91 per unit, and the Fund owned 31,315.34 units and 31,192.37 units, respectively.

The Fund realized a net gain of $4,414,636 and $2,424,016 from the sale of investments for the years ended June 30, 2013 and 2012, respectively. The calculation of realized gains and losses is independent of the calculation of the increase in the fair value of investments. The respective net change in the fair value of investments during the years ended June 30, 2013 and 2012, was a gain of $6,470,464 and a loss of $5,175,951. 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, 2013 and 2012, is $26,432,970 and $19,962,506, respectively.
Notes to Financial Statements

Note 2. Investments (Continued)

The University of North Carolina at Greensboro Investment Fund, Incorporated investment pool is diversified as follows at June 30:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short-term investments</strong></td>
<td>$2,422,423</td>
<td>$2,082,088</td>
</tr>
<tr>
<td><strong>Receivable for investments</strong></td>
<td>-</td>
<td>7,571,624</td>
</tr>
<tr>
<td><strong>Corporate securities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic common stocks</td>
<td>7,209,381</td>
<td>5,695,283</td>
</tr>
<tr>
<td>International stocks</td>
<td>787,875</td>
<td>1,058,479</td>
</tr>
<tr>
<td><strong>Mutual funds:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International equity</td>
<td>48,478,187</td>
<td>33,317,101</td>
</tr>
<tr>
<td>Inflation hedging</td>
<td>12,419,182</td>
<td>11,827,414</td>
</tr>
<tr>
<td>Fixed income</td>
<td>33,380,133</td>
<td>24,717,940</td>
</tr>
<tr>
<td>U. S. equity</td>
<td>10,832,487</td>
<td>6,955,966</td>
</tr>
<tr>
<td><strong>Partnerships:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed income global</td>
<td>-</td>
<td>3,401,261</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>48,557,175</td>
<td>46,443,798</td>
</tr>
<tr>
<td>Inflation hedging</td>
<td>1,958,072</td>
<td>1,294,536</td>
</tr>
<tr>
<td>Real estate securities</td>
<td>4,429,791</td>
<td>5,302,319</td>
</tr>
<tr>
<td>U. S. equity</td>
<td>26,810,725</td>
<td>25,378,334</td>
</tr>
<tr>
<td>Venture capital</td>
<td>25,966,603</td>
<td>22,833,543</td>
</tr>
<tr>
<td><strong>Payable for investments</strong></td>
<td>(2,128,116)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$221,123,918</td>
<td>$197,879,686</td>
</tr>
</tbody>
</table>

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 Fund.

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

The Fund's investment in the Investment Fund exposes the Fund 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.

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

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, 2013 and 2012, 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 policy states that some of the fixed income holdings to those investments that have a high quality rating (AA/Aa or better) and those with a sufficient duration (four years or more) to provide effective protection in a deflationary environment.

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, 2013 and 2012, 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, 2013 and 2012, outstanding endowment pledges to the Fund total $894,481 and $1,640,695, respectively. 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.

Note 4. Endowments and Quasi Endowments

Fund endowments consist of donor-restricted funds established to support scholarships and fellowships, endowed professorships, departmental uses and various other purposes. The Fund’s Board of Trustees 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 Trustees 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 Fund’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 is reported in expendable or unrestricted net assets, was $338 and $26,722 as of June 30, 2013 and 2012, respectively. This excess was the result of unfavorable market fluctuations that occurred subsequent to the receipt of endowment gifts.
Notes to Financial Statements

Note 5. 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 practical to determine the amount of such costs and no allocation has been made between the other funds of the University and the Endowment Fund.

Note 6. 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 7. Income Taxes
The Fund is exempt from federal income tax under the provisions of the Internal Revenue Code Section 115.