

McGladrey & Pullen

Certified Public Accountants

The UNCG Excellence Foundation **(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 UNCG Excellence Foundation
Greensboro, North Carolina

We have audited the accompanying statements of net assets of The UNCG Excellence Foundation (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 September 25, 2007 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 audits.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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
September 25, 2007

The UNCG Excellence Foundation

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

Introduction

The UNCG Excellence Foundation (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 (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.

| | 2007 | 2006 | 2005 |
|----------------------------|----------------------|----------------------|----------------------|
| Assets | \$ 91,692,715 | \$ 74,883,796 | \$ 65,815,882 |
| Liabilities | 6,140,373 | 4,740,089 | 3,997,148 |
| Net assets | | | |
| Invested in capital assets | 84,622 | 80,905 | 54,337 |
| Restricted - nonexpendable | 42,225,870 | 35,532,662 | 32,876,596 |
| Restricted - expendable | 35,658,483 | 27,276,718 | 22,777,271 |
| Unrestricted | 7,583,367 | 7,253,422 | 6,110,530 |
| | \$ 85,552,342 | \$ 70,143,707 | \$ 61,818,734 |

The UNCG Excellence Foundation

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

The total assets of the Foundation increased by approximately \$16.8 million and \$9.1 million for the years ended June 30, 2007 and 2006, respectively. The increases in total assets is 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. At June 30, 2007, the Foundation owns 41% 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 and short-term investments. The Fund had a total rate of return of 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 such as noncapital gifts and investment gains. 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 | \$ (149,575) | \$ (133,784) | \$ (95,163) |
| Nonoperating revenues | 13,758,218 | 7,972,636 | 6,870,274 |
| Additions to permanent endowments | 4,402,113 | 3,133,186 | 2,779,808 |
| Transfers to the University | (2,602,121) | (2,647,065) | (2,151,371) |
| Increase in net assets | 15,408,635 | 8,324,973 | 7,403,548 |
| Net assets: | | | |
| Beginning | 70,143,707 | 61,818,734 | 54,415,186 |
| Ending | \$ 85,552,342 | \$ 70,143,707 | \$ 61,818,734 |

The 2007 and 2006 statements of revenues, expenses, and changes in net assets reflect increases in the net assets at the end of the years. These increases are due mostly to gains on our endowment investments, noncapital gifts and additions to permanent endowments. The most significant expenditures are transfers to the University for scholarships, fellowships, and departmental spending.

The UNCG Excellence Foundation

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 used in capital financing activities. The fourth section reflects the cash flows from investing activities and shows the net purchases, proceeds and earnings from investing activities.

| | 2007 | 2006 | 2005 |
|---|---------------------|---------------------|---------------------|
| Net cash used in operating activities | \$ (197,093) | \$ (71,736) | \$ (66,839) |
| Net cash provided by noncapital financing activities | 5,215,576 | 1,583,092 | 1,769,544 |
| Net cash used in capital financing activities | (24,200) | (35,971) | - |
| Net cash used in investing activities | (4,855,820) | (1,514,893) | (879,834) |
| Net increase (decrease) in cash and cash equivalents | 138,463 | (39,508) | 822,871 |
| Cash and cash equivalents: | | | |
| Beginning | 2,451,411 | 2,490,919 | 1,668,048 |
| Ending | <u>\$ 2,589,874</u> | <u>\$ 2,451,411</u> | <u>\$ 2,490,919</u> |

In both 2007 and 2006, the major use of funds in noncapital financing activities is endowment return that is transferred to the University for scholarships, fellowships, and departmental spending. The major sources of funds are gifts and additions to permanent endowments. The major use of funds included in operating activities is payments to vendors and suppliers.

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 UNCG Excellence Foundation

Statements of Net Assets
June 30, 2007 and 2006

| | 2007 | 2006 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,630,242 | \$ 1,574,730 |
| Investments | 314,988 | 294,978 |
| Restricted cash and cash equivalents | 579,276 | 686,890 |
| Restricted investments | 2,943,735 | 2,647,112 |
| Accrued interest receivable | 1,635 | 722 |
| Pledges receivable, net | 185,016 | 346,835 |
| Endowment cash | 380,356 | 189,791 |
| Endowment investments | 73,836,843 | 60,846,593 |
| Other long-term investments | 10,817,323 | 7,296,481 |
| Capital assets, net | 84,622 | 80,905 |
| Other assets | 918,679 | 918,759 |
| Total assets | 91,692,715 | 74,883,796 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 277 | 2,013 |
| Other liabilities | 57,169 | 50,764 |
| Deferred revenue - split interest agreements | 273,334 | 286,871 |
| Funds held for others | 414,434 | 430,663 |
| Liabilities under unitrust agreements | 2,318,393 | 1,421,914 |
| Annuities payable | 3,076,766 | 2,547,864 |
| Total liabilities | 6,140,373 | 4,740,089 |
| Net Assets | | |
| Invested in capital assets, net | 84,622 | 80,905 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | 25,545,960 | 20,252,645 |
| Professorships | 1,319,137 | 946,926 |
| Departmental uses | 10,620,671 | 9,939,284 |
| Art | 1,480,109 | 1,421,756 |
| Other | 3,259,993 | 2,972,051 |
| Expendable: | | |
| Scholarships and fellowships | 20,944,230 | 14,730,477 |
| Professorships | 1,975,147 | 1,577,094 |
| Departmental uses | 7,568,111 | 5,944,813 |
| Art | 1,125,832 | 997,853 |
| Other | 4,045,163 | 4,026,481 |
| Unrestricted | 7,583,367 | 7,253,422 |
| Total net assets | \$ 85,552,342 | \$ 70,143,707 |

See Notes to Financial Statements.

The UNCG Excellence Foundation

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

| | 2007 | 2006 |
|--|----------------------|----------------------|
| Expenses: | | |
| Operating expenses: | | |
| Transportation | \$ 10,871 | \$ 13,768 |
| Depreciation | 20,483 | 19,603 |
| Other administrative | 118,221 | 100,413 |
| Operating loss | (149,575) | (133,784) |
| Nonoperating revenues (expenses): | | |
| Noncapital gifts, net | 1,910,228 | 1,541,776 |
| Investment gain, net of investment expense 2007 \$361,430; 2006 \$354,935 | 11,682,072 | 6,474,830 |
| Change in value of split-interest agreements | 92,652 | (148,917) |
| Other nonoperating revenues | 73,266 | 104,947 |
| Net nonoperating revenues | 13,758,218 | 7,972,636 |
| Income before additions to permanent endowments and transfers to the University | 13,608,643 | 7,838,852 |
| Additions to permanent endowments | 4,402,113 | 3,133,186 |
| Transfers to the University | (2,602,121) | (2,647,065) |
| Increase in net assets | 15,408,635 | 8,324,973 |
| Net assets: | | |
| Beginning | 70,143,707 | 61,818,734 |
| Ending | \$ 85,552,342 | \$ 70,143,707 |

See Notes to Financial Statements.

The UNCG Excellence Foundation

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

| | 2007 | 2006 |
|---|---------------------|---------------------|
| Cash Flows Used In Operating Activities | | |
| Payments to vendors and suppliers | \$ (197,093) | \$ (71,736) |
| Cash Flows From Noncapital Financing Activities | | |
| Noncapital gifts | 3,665,359 | 2,188,861 |
| Additions to permanent endowments | 4,402,113 | 2,410,686 |
| Payments to annuitants | (323,040) | (474,337) |
| Other receipts | 73,265 | 104,947 |
| Transfers to the University | (2,602,121) | (2,647,065) |
| Net cash provided by noncapital financing activities | 5,215,576 | 1,583,092 |
| Cash Flows From Capital Financing Activities | | |
| Acquisition of capital assets | (24,200) | (51,671) |
| Proceeds from the sale of capital assets | - | 15,700 |
| Net cash used in capital financing activities | (24,200) | (35,971) |
| Cash Flows From Investing Activities | | |
| Interest on investments | 154,482 | 244,695 |
| Net purchases of investments | (5,010,302) | (1,759,588) |
| Net cash used in investing activities | (4,855,820) | (1,514,893) |
| Net increase (decrease) in cash and cash equivalents | 138,463 | (39,508) |
| Cash and cash equivalents: | | |
| Beginning | 2,451,411 | 2,490,919 |
| Ending | \$ 2,589,874 | \$ 2,451,411 |

(Continued)

The UNCG Excellence Foundation

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 | \$ (149,575) | \$ (133,784) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation expense | 20,483 | 19,603 |
| Gain on sale of capital assets | - | (10,200) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in other assets | (72,670) | 84,253 |
| Decrease in accounts payable and accrued liabilities | (1,736) | (2,322) |
| Increase (decrease) in other liabilities | 6,405 | (29,286) |
| Net cash used in operating activities | \$ (197,093) | \$ (71,736) |
| Supplementary Schedule of Noncash Investing, Capital and Noncapital Financing Activities | | |
| Change in fair value of investments for realized and unrealized gains | \$ 10,816,716 | \$ 5,665,816 |
| Liabilities assumed through split-interest agreements | \$ 1,593,312 | \$ 959,389 |
| Noncash receipt of land | \$ 72,750 | \$ 907,500 |
| Reconciliation of Cash and Cash Equivalent Balances | | |
| Cash and cash equivalents | \$ 1,630,242 | \$ 1,574,730 |
| Restricted cash and cash equivalents | 579,276 | 686,890 |
| Endowment cash and cash equivalents | 380,356 | 189,791 |
| Total cash and cash equivalent balances | \$ 2,589,874 | \$ 2,451,411 |

See Notes to Financial Statements.

The UNCG Excellence Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

The UNCG Excellence Foundation (the "Foundation") exists to aid and promote excellence in education for the exclusive benefit 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 University of North Carolina at Greensboro. 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 resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the 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:

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. 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.

The UNCG Excellence Foundation

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 and money market accounts.

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, 2007 and 2006. 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. Assets subject to split interest agreements, net of the projected liabilities, are considered deferred revenue until the Foundation has the right to expend these gifts. The deferred revenue is recorded as deferred revenue – split interest 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 5-year estimated useful life. Depreciation expense amounted to \$20,483 and \$19,603 in fiscal years 2007 and 2006, 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 effect the change in net assets or total net assets.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents include bank accounts totaling \$2,589,874 and \$2,451,411 at June 30, 2007 and 2006, respectively, for which the bank balance was \$2,575,872 and \$2,454,347, respectively. Of the bank balance, \$306,222 and \$258,648, respectively, was covered by federal depository insurance with the remaining balance being uncollateralized.

The UNCG Excellence Foundation

Notes to Financial Statements

Note 3. Investments

Investments consist of the following:

| | Fair Value | |
|--|----------------------|----------------------|
| | 2007 | 2006 |
| Adelaide Fortune Holderness Fund | \$ 1,207,640 | \$ 997,902 |
| H. Michael Weaver Investment Fund | 189,175 | 167,277 |
| Brown Unitrust Fund | 84,776 | 79,964 |
| Eury Unitrust Fund | 72,193 | 69,472 |
| Fisher Unitrust Fund | 262,828 | 250,003 |
| Hill Unitrust Fund | 1,013,096 | 847,163 |
| Lewis Unitrust Fund | 92,292 | 88,917 |
| Moore Annuity | 1,247,056 | - |
| Moore #2 Annuity | 831,394 | - |
| Reece Unitrust Fund | 89,002 | 84,668 |
| Samet Annuity | 136,890 | - |
| Summerlin Unitrust Fund | 313,971 | 291,902 |
| Summerlin #2 Unitrust Fund | 815,236 | 775,077 |
| Tew Unitrust Fund | 100,130 | 94,387 |
| Wells Unitrust Fund | - | 87,251 |
| Lloyd Annuity | 988,878 | 942,009 |
| Reid Annuity | 931,314 | 902,949 |
| Webb Annuity | 113,751 | 111,835 |
| Pooled gift annuities | 3,181,131 | 2,161,634 |
| Pooled life income fund | 543,385 | 509,251 |
| Cash value of life insurance contracts | 351,310 | 383,581 |
| | <u>12,565,448</u> | <u>8,845,242</u> |
| Investment pool | 75,347,441 | 62,239,922 |
| | <u>\$ 87,912,889</u> | <u>\$ 71,085,164</u> |

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

| | Fair Value | |
|---------------------------|----------------------|---------------------|
| | 2007 | 2006 |
| Cash and cash equivalents | \$ 280,194 | \$ 147,165 |
| Mutual funds | 10,532,425 | 6,778,854 |
| Corporate securities: | | |
| Corporate bonds | 52,078 | 318,276 |
| Common stocks | 1,349,441 | 1,020,072 |
| U. S. Treasury notes | - | 197,294 |
| | <u>\$ 12,214,138</u> | <u>\$ 8,461,661</u> |

The UNCG Excellence Foundation

Notes to Financial Statements

Note 3. Investments (Continued)

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, 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 22,570.65 and 21,964.74 units, respectively.

The Foundation realized net gains of \$2,802,262 and \$2,715,656 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 change in the fair value of investments. The net increase in the fair value of investments during the years ended June 30, 2007 and 2006 was \$7,875,319 and \$2,950,160, 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 \$22,691,480 and \$14,816,161, respectively.

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

| | Fair Value | |
|------------------------|-----------------------|-----------------------|
| | 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> |

The UNCG Excellence Foundation

Notes to Financial Statements

Note 3. Investments (Continued)

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.

At June 30, 2007 and 2006, the Foundation held the following investments, measured at fair value, which are subject to credit and interest rate risk.

Interest rate risk: The Foundation does not have a formal policy regarding interest rate risk.

| Investment Type | 2007 | | | | Fair Value |
|--------------------------|----------------------------------|-------------------|---------------------|--------------|---------------------|
| | Investment Maturities (in Years) | | | | |
| | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 | |
| Mutual bond fund | \$ - | \$ 250,161 | \$ 3,671,604 | \$ - | \$ 3,921,764 |
| Domestic corporate bonds | - | 52,078 | - | - | 52,078 |
| | <u>\$ -</u> | <u>\$ 302,239</u> | <u>\$ 3,671,604</u> | <u>\$ -</u> | <u>\$ 3,973,842</u> |
| Allocation | 0.0% | 7.6% | 92.4% | 0.0% | 100.0% |

| Investment Type | 2006 | | | | Fair Value |
|--------------------------|----------------------------------|---------------------|------------------|------------------|---------------------|
| | Investment Maturities (in Years) | | | | |
| | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 | |
| U. S. Treasury notes | \$ 55,192 | \$ 130,274 | \$ - | \$ 11,828 | \$ 197,294 |
| Mutual bond fund | - | 2,824,834 | - | - | 2,824,834 |
| Domestic corporate bonds | 24,985 | 254,247 | 39,044 | - | 318,276 |
| | <u>\$ 80,177</u> | <u>\$ 3,209,355</u> | <u>\$ 39,044</u> | <u>\$ 11,828</u> | <u>\$ 3,340,404</u> |
| Allocation | 2.4% | 96.1% | 1.2% | 0.3% | 100.0% |

The UNCG Excellence Foundation

Notes to Financial Statements

Note 3. Investments (Continued)

Credit risk: The Foundation does not have a formal policy regarding credit risk. The Foundation's investments in U. S. Treasury notes and money market funds are unrated. The Foundation's annuity investments are rated by Standard & Poor's and Moody's Rating Services as follows:

| Investment Type | 2007 | | | | Fair Value |
|--------------------------|---------------------|------------------|------------------|-------------|---------------------|
| | Credit Rating | | | | |
| | AAA | AA | A | BBB | |
| Mutual bond fund | \$ 3,921,764 | \$ - | \$ - | \$ - | \$ 3,921,764 |
| Domestic corporate bonds | | 25,804 | 26,274 | | 52,078 |
| | <u>\$ 3,921,764</u> | <u>\$ 25,804</u> | <u>\$ 26,274</u> | <u>\$ -</u> | <u>\$ 3,973,842</u> |
| Allocation | 98.7% | 0.6% | 0.7% | 0.0% | 100.0% |

| Investment Type | 2006 | | | | Fair Value |
|--------------------------|---------------------|------------------|-------------------|-----------------|---------------------|
| | Credit Rating | | | | |
| | AAA | AA | A | BBB | |
| Government bonds | \$ 2,824,834 | \$ - | \$ - | \$ - | \$ 2,824,834 |
| Mutual bond fund | 140,816 | 25,935 | 142,640 | 8,885 | 318,276 |
| Domestic corporate bonds | <u>\$ 2,965,650</u> | <u>\$ 25,935</u> | <u>\$ 142,640</u> | <u>\$ 8,885</u> | <u>\$ 3,143,110</u> |
| Allocation | 94.4% | 0.8% | 4.5% | 0.3% | 100.0% |

Although the Foundation does not have a formal policy addressing credit and interest rate risks, the Investment Fund, which accounts for approximately 86% and 88% of the Foundation'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 Investment Committee. Any excess return over the established policy is reinvested by the Fund. For 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.

The UNCG Excellence Foundation

Notes to Financial Statements

Note 4. Pledges to the Foundation

As of June 30, 2007 and 2006, outstanding pledges to the Foundation totaled \$3,975,533 and \$5,588,873, respectively. Of the total pledges, \$3,790,517 and \$5,242,038, respectively, are endowment fund pledges and \$185,016 and \$346,835, respectively, are current fund pledges. 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. Due to the nature of the donor organizations, the Foundation considers these pledges to be collectible. The pledges receivable are due over the next five years as follows: \$110,394; \$58,325; \$13,140; \$3,013, and \$144.

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 from services arising 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.

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 UNCG Excellence Foundation
Greensboro, North Carolina

We have audited the financial statements of The UNCG Excellence Foundation (the "Foundation") as of and for the year ended June 30, 2007, and have issued our report thereon dated September 25, 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, Finance 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
September 25, 2007