

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

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

Financial Report
June 30, 2013

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated (the Foundation), a component unit of The University of North Carolina at Greensboro, 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. 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 includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 Foundation 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 5 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.

McGladrey LLP

Greensboro, North Carolina
October 15, 2013

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

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2013**

Introduction

The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated (the Foundation) provides the following management discussion and analysis (MD&A) as an overview of the financial activities for the fiscal year ended June 30, 2013. This discussion, along with the following financial statements and related footnote disclosures, have been prepared by management and comprise the Foundation's complete financial report. The financial statements, footnotes and this discussion are the responsibility of management.

The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. However, this discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the related financial statements and footnotes.

Using the Financial Report

The Foundation's financial report includes two financial statements: the Statements of Net Position and the Statements of Changes in Net Position. 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 Position

The Statement of Net Position is a point of time financial statement that presents the assets, liabilities, and net position 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 Position also provides a picture of the net position (assets minus liabilities) and its availability for expenditure by the Foundation. Net position is divided into two major categories: unrestricted and restricted, which are reflected in two subcategories – expendable and nonexpendable. These two categories of net position are discussed further in the footnotes to the financial statements.

Assets	2013	2012	2011
Assets	<u><u>\$ 8,289,384</u></u>	<u><u>\$ 7,560,655</u></u>	<u><u>\$ 7,998,954</u></u>
Liabilities and Net Position			
Liabilities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,314</u></u>
Net Position			
Restricted:			
Nonexpendable	<u>4,087,342</u>	3,903,169	3,856,817
Expendable	<u>2,725,386</u>	2,300,951	2,668,922
Unrestricted	<u>1,476,656</u>	1,356,535	1,466,901
Total net position	<u><u>8,289,384</u></u>	<u>7,560,655</u>	<u>7,992,640</u>
Total liabilities and net position	<u><u>\$ 8,289,384</u></u>	<u>\$ 7,560,655</u>	<u>\$ 7,998,954</u>

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

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2013**

Statement of Net Position (Continued)

Total net position of the Foundation increased by approximately \$729,000 and \$1,210,000 for the years ended June 30, 2013 and 2011, respectively, and decreased by approximately \$432,000 for the year ended June 30, 2012. The increases in 2013 and 2011 are attributable primarily to investment performance and new gifts to the Foundation while the decrease in net position in 2012 is a result of losses in endowment investments.

The Foundation invests in The University of North Carolina at Greensboro Investment Fund, Incorporated (the Fund). The Fund invests endowment monies for five affiliated organizations. The pooled investments total approximately \$223.3 million at June 30, 2013. The Fund pooled assets are diversified with 84.0 percent equities (of which 41.6 percent are in hedge fund and alternative investments), 14.9 percent bonds, and 1.1 percent in cash. The total assets of the Fund increased by approximately \$25.3 million for the year. The Fund gained 11.2 percent for the fiscal year, underperforming the 14.4 percent gain of a passive benchmark consisting of 85 percent MSCI World Index plus 15 percent Barclays Capital Aggregate Bond Index and outperforming the 10.4 percent gain of a custom benchmark based on the Fund's target asset allocation.

Statement of Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Changes in Net Position. The purpose of the statement is to present the additions to the Foundation, both contributions and investment income, and the deductions incurred by the Foundation, including administrative expenses, investment losses, and transfers to the University.

	2013	2012	2011
Additions	\$ 995,121	\$ (125,257)	\$ 1,514,002
Deductions	<u>(266,392)</u>	<u>(306,728)</u>	<u>(304,163)</u>
Net increase (decrease) in net position	728,729	(431,985)	1,209,839
Net position:			
Beginning of year	<u>7,560,655</u>	7,992,640	6,782,801
End of year	<u><u>\$ 8,289,384</u></u>	<u>\$ 7,560,655</u>	<u>\$ 7,992,640</u>

The Statement of Changes in Net Position reflects an increase in net position in 2013 and 2011 due to positive endowment investment performance and new gifts while a decrease in net position resulted from investment losses for the year ending 2012. The most significant deduction relates to transfers to the University for scholarships, professorships, and departmental spending.

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

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2013**

Economic Outlook

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, management believes that the Foundation's overall financial condition is strong enough to weather most economic uncertainties.

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

**Statements of Net Position
June 30, 2013 and 2012**

Assets	2013	2012
Unrestricted cash	\$ 42,468	\$ 35,441
Unrestricted investments	71,019	69,316
Restricted cash	7,036	11,314
Restricted investments	267,708	232,615
Endowment cash	17	1,000
Endowment investments	7,898,136	7,210,969
Other receivables	3,000	-
Total assets	\$ 8,289,384	\$ 7,560,655

Net Position

Restricted for:

Nonexpendable:

Scholarships and fellowships	\$ 2,586,040	\$ 2,417,032
Endowed professorships	80,062	77,562
Departmental uses	582,121	570,056
Other	839,119	838,519

Expendable:

Scholarships and fellowships	1,467,110	1,177,971
Endowed professorships	115,229	103,578
Departmental uses	438,245	380,707
Other	704,802	638,695

Unrestricted	1,476,656	1,356,535
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Total net position	\$ 8,289,384	\$ 7,560,655
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See Notes to Financial Statements.

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

**Statements of Changes in Net Position
Years Ended June 30, 2013 and 2012**

	2013	2012
Additions:		
Contributions:		
Gifts	\$ 250	\$ 250
Additions to permanent endowments	182,141	43,900
	<u>182,391</u>	<u>44,150</u>
Investment Income:		
Investment earnings (losses)	840,011	(133,182)
Less investment expense	27,281	36,225
	<u>812,730</u>	<u>(169,407)</u>
Total additions (deductions)	<u>995,121</u>	<u>(125,257)</u>
Deductions:		
Administrative expense	2,478	28,372
Transfers to the University	263,914	278,356
Total deductions	<u>266,392</u>	<u>306,728</u>
Net increase (decrease) in net position	728,729	(431,985)
Net position:		
Beginning of year	<u>7,560,655</u>	7,992,640
End of year	<u>\$ 8,289,384</u>	<u>\$ 7,560,655</u>

See Notes to Financial Statements.

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

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

The Foundation exists for the exclusive benefit of the departments and center previously housed within The School of Human Environmental Sciences of The University of North Carolina at Greensboro (the University). Although legally separate from the University, the Foundation is reported as if it were part of the University because its board is appointed by the University Board of Trustees and its sole purpose is to benefit the aforementioned departments and center. The Foundation is a component unit of the University; therefore, the Foundation's financial statements are blended with those of the University.

Significant accounting policies relative to the Foundation are:

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

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

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

Net position: The Foundation'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 Foundation 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 Directors has determined are to be retained and invested. Because these 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 University of North Carolina at Greensboro
Human Environmental Sciences Foundation, Incorporated**

Notes to Financial Statements

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

Reclassifications: The Foundation's policy is to reclassify amounts reported in prior year financial statements when necessary for conformity with classifications adopted in the current year with no change to total net position or change in net position.

Recent accounting pronouncements: The Foundation implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in the fiscal year ended June 30, 2013. In accordance with GASB Statement No. 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position.

Note 2. Cash

Cash includes a bank account totaling \$49,521 and \$47,755 at June 30, 2013 and 2012, respectively, for which the bank balance was \$49,521 and \$48,249, respectively. The total bank balance was covered by federal depository insurance.

Note 3. Investments

Investments in the investment pool consist of the following at June 30:

	Fair Value	
	2013	2012
Unrestricted investments	\$ 71,019	\$ 69,316
Restricted investments	267,708	232,615
Endowment investments	7,898,136	7,210,969
	<u>\$ 8,236,863</u>	<u>\$ 7,512,900</u>

The investment pool is managed and invested by The University of North Carolina at Greensboro Investment Fund, Incorporated (the Investment Fund). The UNCG Excellence Foundation, 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 Investment Fund.

Assets and ownership interests of the investment pool are determined on a market unit valuation basis. The original basis was \$1,000 per unit. For the years ended June 30, 2013 and 2012, the respective total rate of return was a gain of 11.2 percent and loss of 2.8 percent. As of June 30, 2013 and 2012, total units of 57,665.41 and 57,353.50 had a fair value of \$3,834.78 and \$3,452.91 per unit, and the Foundation owned 2,147.35 and 2,237.89 units, respectively.

The Foundation realized a net gain of \$306,743 and \$169,758 from its share of the sale of investments included in the Investment Fund 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 (decrease) in the fair value of investments. The Foundation's portion of the change in fair value of Investment Fund investments during the years ended June 30, 2013 and 2012 was a gain of \$448,577 and a loss of \$372,089, 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, 2013 and 2012, is \$2,082,420 and \$1,633,843, respectively. The Foundation's portion of Investment Fund interest and dividends earned was \$84,691 and \$69,149 for the years ended June 30, 2013 and 2012, respectively.

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

Notes to Financial Statements

Note 3. Investments (Continued)

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

	2013	2012
Short-term investments	\$ 2,422,423	\$ 2,082,088
Receivable for investments	-	7,571,624
Corporate securities:		
Common stocks	7,209,381	5,695,283
International	787,875	1,058,479
Mutual funds:		
International equity	48,478,187	33,317,101
Inflation hedging	12,419,182	11,827,414
Fixed income	33,380,133	24,717,940
U.S. equity	10,832,487	6,955,966
Partnerships:		
Fixed income global	-	3,401,261
Hedge funds	48,557,175	46,443,798
Inflation hedging	1,958,072	1,294,536
Real estate securities	4,429,791	5,302,319
U.S. equity	26,810,725	25,378,334
Venture capital	25,966,603	22,833,543
	<u>220,829,611</u>	<u>188,225,974</u>
Payable for investments	(2,128,116)	-
	<u>\$ 221,123,918</u>	<u>\$ 197,879,686</u>

Investments in the investment pool are stated at fair value. The Investment Fund invested in partnerships during the period that place funds with various managers who invest primarily in derivatives. These partnerships consist primarily of a broadly diversified group of equity long/short managers with a small allocation to distressed and merger arbitrage managers. Detailed information regarding the derivative investments is not available to the Investment Fund.

Credit risk: As it does not hold securities in its normal course of business, the Foundation has no policy regarding credit risk.

Interest rate risk: As it does not hold securities in its normal course of business, the Foundation 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.

Although the Foundation does not have a formal policy addressing credit and interest rate risks, the Investment Fund, which accounts for all of the Foundation'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 Investment Fund's formal policy limits some of 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.

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

Notes to Financial Statements

Note 3. Investments (Continued)

Investment earnings are distributed based on policy administered by the Investment Fund. Any excess return over the established policy is reinvested by the Investment Fund. For both the years ended June 30, 2013 and 2012, 4.25 percent of the average market value at December 31 of the three previous years was distributed.

The Foundation's investment in the Investment Fund exposes the Foundation to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 4. Pledges to the Foundation

As of June 30, 2013 and 2012, outstanding pledges to the Foundation totaled \$4,800 and \$23,200, respectively. Of the total pledges, \$4,800 and \$23,200, respectively, are endowment fund pledges and none are current fund pledges. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded and recognized until received due to the passage of the restrictions associated with the pledges.

Note 5. Endowments and Quasi Endowments

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

If a donor has not provided specific instructions, State law permits the Board of Directors to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) authorized by the North Carolina General Assembly in March 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the Foundation's endowment donor agreements prohibit spending of nonexpendable balances and, therefore, the related nonexpendable balances are not eligible for expenditure. During 2013 and 2012, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Note 6. Administrative Expenses

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

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

Notes to Financial Statements

Note 7. Risk Management

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; and errors and omissions. 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 8. Income Taxes

The Foundation is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.