

**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, 2012

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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

We have audited the accompanying statements of net assets of The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Incorporated (the Foundation), a component unit of The University of North Carolina at Greensboro (the University), as of June 30, 2012 and 2011, and the related statements of changes in net assets 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

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, 2012 and 2011, and the changes in its net assets 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 October 15, 2012, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

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, 2012

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

**Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2012**

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**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, 2012. 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 assets and the statements of changes in net assets. The Foundation is blended in 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 30<sup>th</sup>).

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the Foundation. The statement of net assets also provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Foundation. Net assets are divided into two major categories: unrestricted net assets; and restricted net assets, which are reflected in two subcategories – expendable and nonexpendable. These two categories of net assets are discussed further in the footnotes to the financial statements.

	<b>2012</b>	2011	2010
Assets	<u><b>\$ 7,560,655</b></u>	<u>\$ 7,998,954</u>	<u>\$ 6,782,972</u>
Liabilities	<u>-</u>	<u>6,314</u>	<u>171</u>
Net Assets			
Restricted:			
Nonexpendable	<b>3,903,169</b>	3,856,817	3,695,157
Expendable	<b>2,300,951</b>	2,668,922	1,840,751
Unrestricted	<b>1,356,535</b>	1,466,901	1,246,893
	<u><b>\$ 7,560,655</b></u>	<u>\$ 7,992,640</u>	<u>\$ 6,782,801</u>

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

**Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2012**

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**Statement Of Net Assets (Continued)**

Total net assets of the Foundation decreased by approximately \$432,000 for the year ended June 30, 2012 and increased by approximately \$1,210,000, and \$592,000 for the years ended June 30, 2011 and 2010, respectively. The decrease in net assets in 2012 is a result of losses in endowment investments while the increases in 2011 and 2010 are attributable primarily to investment performance and new gifts to the Foundation.

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 \$197.9 million at June 30, 2012. The Fund's pool assets are diversified with 84.7 percent equities (of which 45.2 percent are in hedge fund and alternative investments), 14.1 percent bonds, and 1.1 percent in cash. The total assets of the Fund decreased by approximately \$6.7 million for the year. The Fund lost 2.8 percent for the fiscal year, outperforming the 3.8 percent loss of a passive benchmark consisting of 85 percent MSCI World Index plus 15 percent Barclays Capital Aggregate Bond and outperforming the 4.3 percent loss of a custom benchmark based on the Investment Fund's target asset allocation.

**Statement Of 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 changes in net assets. 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.

	2012	2011	2010
Additions	\$ (125,257)	\$ 1,514,002	\$ 785,315
Deductions	(306,728)	(304,163)	(193,155)
<b>Net increase (decrease) in net assets</b>	<b>(431,985)</b>	1,209,839	592,160
Net assets:			
Beginning of year	<b>7,992,640</b>	6,782,801	6,190,641
End of year	<b>\$ 7,560,655</b>	<b>\$ 7,992,640</b>	<b>\$ 6,782,801</b>

The statement of changes in net assets reflects a decrease in net assets resulting from investment losses for the year ending 2012 while positive endowment investment performance and new gifts caused an increase in net assets in 2011 and 2010. The largest addition during 2012 was gifts while investment income was the largest addition during 2011 and 2010. Transfers to the University for scholarships, professorships, and departmental spending consistently increased through 2012 due to a more favorable market trend.

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

**Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2012**

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**Economic Outlook**

With the University's restructuring July 1, 2011, the School of Human Environmental Sciences ceased to exist as an administrative unit of the University. The departments previously contained therein continue to thrive under different administrative structures. Several departments have been moved to the School of Health and Human Sciences, one to the Bryan School of Business and Economics, and one to the College of Arts and Sciences. It is hoped that alumni and donors see the collaborative opportunities and administrative efficiency of the new structure as a positive.

Cash gifts to the Foundation declined by 71 percent in fiscal year 2011-12 compared to the previous year. This compares to an overall decrease of cash gifts to the University and its related entities of 19 percent. While new gifts supporting the departments and center formally housed in the School of Human Environmental Sciences are being solicited through the University and its related entities, gifts considered at the School of Human Environmental Sciences level for discretionary purposes are no longer being requested as they are no longer applicable. We 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, 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 Assets  
June 30, 2012 And 2011

	2012	2011
<b>Assets</b>		
Unrestricted cash and cash equivalents	\$ 35,441	\$ 47,979
Unrestricted investments	69,316	65,951
Restricted cash and cash equivalents	11,314	35,299
Restricted investments	232,615	231,379
Pledges receivable	-	2,870
Endowment cash	1,000	6,704
Endowment investments	7,210,969	7,605,754
Other receivables	-	3,018
<b>Total assets</b>	<b>7,560,655</b>	<b>7,998,954</b>
<b>Liabilities</b>		
Accounts payable	-	6,314
<b>Total liabilities</b>	<b>-</b>	<b>6,314</b>
<b>Net Assets</b>		
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,417,032	2,385,228
Endowed professorships	77,562	77,562
Departmental uses	570,056	555,508
Other	838,519	838,519
Expendable:		
Scholarships and fellowships	1,177,971	1,406,896
Endowed professorships	103,578	114,203
Departmental uses	380,707	446,747
Other	638,695	701,076
Unrestricted	1,356,535	1,466,901
	<b>\$ 7,560,655</b>	<b>\$ 7,992,640</b>

See Notes To Financial Statements.

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

Statements Of Changes In Net Assets  
Years Ended June 30, 2012 And 2011

	2012	2011
Additions:		
Contributions:		
Gifts	\$ 250	\$ 250
Additions to permanent endowments	43,900	155,020
	<u>44,150</u>	<u>155,270</u>
Investment Income:		
Investment earnings (losses)	(133,182)	1,387,857
Less investment expense	36,225	29,125
	<u>(169,407)</u>	<u>1,358,732</u>
<b>Total additions</b>	<u>(125,257)</u>	<u>1,514,002</u>
Deductions:		
Administrative expense	28,372	99,346
Transfers to the University	278,356	204,817
<b>Total deductions</b>	<u>306,728</u>	<u>304,163</u>
<b>Net increase (decrease) in net assets</b>	<u>(431,985)</u>	<u>1,209,839</u>
Net assets:		
Beginning of year	<u>7,992,640</u>	<u>6,782,801</u>
End of year	<u>\$ 7,560,655</u>	<u>\$ 7,992,640</u>

See Notes To Financial Statements.

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

**Notes To Financial Statements**

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**Note 1. Nature Of Activities And Significant Accounting Policies**

The Foundation exists for the exclusive benefit of the departments and center housed within the School of Human Environmental Sciences of The University of North Carolina at Greensboro (the University). The Foundation was restructured on July 2, 2011, to include the Consumer Apparel & Retail Studies, Human Development & Family Studies, Interior Architecture, Nutrition, Social Work, and the Center for New North Carolinians. 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 departments previously housed in the School of Human Environmental Sciences. 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.

Net assets: The Foundation's net assets are classified as follows:

Restricted net assets, nonexpendable: Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted net assets, expendable: Expendable restricted net assets include resources in which the Foundation is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties. Expendable net assets also include amounts of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure by the governing board.

Unrestricted net assets: Unrestricted net assets include resources derived from unrestricted gifts and earnings on those gifts. Similar net assets are quasi-endowment net assets (net assets functioning as endowment) which the Board of Directors has determined are to be retained and invested. As these net assets are internally designated rather than externally restricted, the Board of Directors has the right to decide at any time to expend the principal.

Cash and cash equivalents: In addition to cash in bank accounts and undeposited receipts, this classification includes all short-term investments, such as savings accounts and money market accounts.

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

**Notes To Financial Statements**

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**Note 1. Nature Of Activities And Significant Accounting Policies (Continued)**

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

Reclassifications: The Foundation's policy is to reclassify amounts reported in prior year financial statements when necessary for conformity with the classification of similar amounts reported in the current year financial statements. When made, such reclassifications do not affect total net assets or the change in net assets.

**Note 2. Cash And Cash Equivalents**

Cash and cash equivalents include bank accounts totaling \$47,755 and \$89,982 at June 30, 2012 and 2011, respectively, for which the bank balances were \$48,249 and \$119,990, respectively. The total bank balances were covered by federal depository insurance.

**Note 3. Investments**

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

	Fair Value	
	2012	2011
Unrestricted investments	\$ 69,316	\$ 65,951
Restricted investments	232,615	231,379
Endowment investments	7,210,969	7,605,754
	<u>\$ 7,512,900</u>	<u>\$ 7,903,084</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, 2012 and 2011, the respective total rate of return was a loss of 2.8 percent and a gain of 21.1 percent. As of June 30, 2012 and 2011, total units of 57,353.50 and 57,923.46 had a fair value of \$3,452.91 and \$3,531.85 per unit, and the Foundation owned 2,175.70 and 2,237.89 units, respectively.

The Foundation realized a net gain of \$169,758 and \$345,512 from its share of the sale of investments included in the Investment Fund for the years ended June 30, 2012 and 2011, 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, 2012 and 2011 was a loss of \$372,089 and a gain of \$984,627, 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, 2012 and 2011, is \$1,633,843 and \$2,005,932, respectively. The Foundation's portion of Investment Fund interest and dividends earned was \$69,149 and \$57,718 for the years ended June 30, 2012 and 2011, 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:

	2012	2011
Short-term investments	\$ 2,082,088	\$ 1,046,457
Receivable for investments	7,571,624	1,101,898
Corporate securities:		
Common stocks	5,695,283	9,451,438
International	1,058,479	2,564,651
Mutual funds:		
International equity	33,317,101	38,734,695
Inflation hedging	11,827,414	16,218,088
Fixed income	24,717,940	26,274,925
Fixed income global	-	-
U. S. equity	6,955,966	6,339,628
Partnerships:		
Fixed income global	3,401,261	3,318,814
Hedge funds	46,443,798	48,022,393
Inflation hedging	1,294,536	714,465
Real estate securities	5,302,319	6,166,919
U. S. equity	25,378,334	27,466,000
Venture capital	22,833,543	17,222,119
Payable for investments	-	(87,073)
	<u>\$ 197,879,686</u>	<u>\$ 204,555,417</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. The Foundation's investment in money market funds is unrated.

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, 2012 and 2011, 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.

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, 2012 and 2011, 4.25 percent of the average market value at December 31 of the three previous years was distributed.

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

**Notes To Financial Statements**

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**Note 3. Investments (Continued)**

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, 2012 and 2011, outstanding pledges to the Foundation totaled \$23,200 and \$62,361, respectively. Of the total pledges, \$23,200 and \$59,361, respectively, are endowment fund pledges and \$0 and \$3,000, respectively, are current fund pledges. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, endowment pledges are not recorded and recognized until received due to the passage of the restrictions associated with the pledges. Pledges that are expected to be collected and available for expenditures, that are both verifiable and measurable, are reported on the accompanying financial statements as pledges receivable. In accordance with accounting principles generally accepted in the United States of America, the original amount pledged has been discounted based on a projected interest rate for the outstanding periods. Due to the nature of the donor organizations, the Foundation considers these pledges to be collectible.

**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 2012 and 2011, 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**

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**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.