

**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, 2011

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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, 2011 and 2010, 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, 2011 and 2010, 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 12, 2011 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.

The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads 'McGladrey & Pullen, LLP'.

Greensboro, North Carolina
October 12, 2011

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

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2011**

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, 2011. 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 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 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.

	2011	2010	2009
Assets	\$ 7,998,954	\$ 6,782,972	\$ 6,190,641
Liabilities	6,314	171	-
Net Assets			
Restricted:			
Nonexpendable	3,856,817	3,695,157	3,566,894
Expendable	2,668,922	1,840,751	1,477,544
Unrestricted	1,466,901	1,246,893	1,146,203
	\$ 7,992,640	\$ 6,782,801	\$ 6,190,641

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

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2011**

Statement of Net Assets (Continued)

Total net assets of the Foundation increased by approximately \$1,210,000 and \$592,000 for the years ended June 30, 2011 and 2010, respectively, and decreased by approximately \$1,744,000 for the year ended June 30, 2009. The decrease in net assets in 2009 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 \$204.6 million at June 30, 2011. The Fund's pool assets are diversified with 85.0% equities (of which 43.3% are in hedge fund and alternative investments), 14.5% bonds, and 0.5% in cash. The total assets of the Fund increased by approximately \$33.8 million for the year. The Fund returned 21.1% for the fiscal year, underperforming the 25.1% return of a passive benchmark consisting of 80% S&P 500 Index plus 20% Barclays Capital Aggregate Bond Index, underperforming the 25.0% return of a passive benchmark consisting of 80% MSCI World Index plus 20% Barclays Capital Aggregate Bond and outperforming the 18.7% return 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.

	2011	2010	2009
Additions	\$ 1,514,002	\$ 785,315	\$ 95,505
Deductions	(304,163)	(193,155)	(1,839,858)
Net increase (decrease) in net assets	1,209,839	592,160	(1,744,353)
Net assets:			
Beginning of year	6,782,801	6,190,641	7,934,994
End of year	\$ 7,992,640	\$ 6,782,801	\$ 6,190,641

The statement of changes in net assets reflect an increase in net assets at the end of years 2011 and 2010 while endowment investment losses caused a decrease in net assets in 2009. The largest addition during 2011 and 2010 was investment income while gifts were the largest addition during 2009. Transfers to the University for scholarships, professorships, and departmental spending remained consistent through 2009; however, unfavorable market fluctuations resulted in less transfers in 2010, while a more favorable market increased transfers in 2011.

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

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2011**

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 will see the collaborative opportunities and administrative efficiency of the new structure as a positive, but it may have some short-term effect on giving.

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 2011-12 beyond those unknown variations having a global effect on virtually all types of business operations. 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, 2011 and 2010**

	2011	2010
Assets		
Unrestricted cash and cash equivalents	\$ 47,979	\$ 75,568
Unrestricted investments	65,951	68,970
Restricted cash and cash equivalents	35,299	54,536
Restricted investments	231,379	211,925
Pledges receivable	2,870	2,870
Endowment cash	6,704	17
Endowment investments	7,605,754	6,367,270
Other receivables	3,018	1,816
Total assets	7,998,954	6,782,972
Liabilities		
Accounts payable	6,314	171
Total liabilities	6,314	171
Net Assets		
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,385,228	2,250,955
Endowed professorships	77,562	75,062
Departmental uses	555,508	530,696
Other	838,519	838,444
Expendable:		
Scholarships and fellowships	1,406,896	875,867
Endowed professorships	114,203	88,591
Departmental uses	446,747	323,669
Other	701,076	552,624
Unrestricted	1,466,901	1,246,893
	\$ 7,992,640	\$ 6,782,801

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, 2011 and 2010

	2011	2010
Additions:		
Contributions:		
Gifts	\$ 250	\$ 10,106
Additions to permanent endowments	155,020	128,507
	<u>155,270</u>	<u>138,613</u>
Investment Income:		
Net increase in fair value of investments	1,387,857	679,164
Less investment expense	29,125	32,462
	<u>1,358,732</u>	<u>646,702</u>
Total additions	<u>1,514,002</u>	<u>785,315</u>
Deductions:		
Administrative expense	99,346	9,240
Transfers to the University	204,817	183,915
Total deductions	<u>304,163</u>	<u>193,155</u>
Net increase in net assets	<u>1,209,839</u>	<u>592,160</u>
Net assets:		
Beginning of year	6,782,801	6,190,641
End of year	<u>\$ 7,992,640</u>	<u>\$ 6,782,801</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 School of Human Environmental Sciences 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 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

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 the change in net assets.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents include bank accounts totaling \$89,982 and \$130,121 at June 30, 2011 and 2010, respectively, for which the bank balances were \$119,990 and \$130,121, 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	
	2011	2010
Unrestricted investments	\$ 65,951	\$ 68,970
Restricted investments	231,379	211,925
Endowment investments	7,605,754	6,367,270
	<u>\$ 7,903,084</u>	<u>\$ 6,648,165</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 sole 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, 2011 and 2010, the respective total rate of return was a gain of 21.1% and 10.8%. As of June 30, 2011 and 2010, total units of 57,923.46 and 58,556.93 had a fair value of \$3,531.85 and \$2,916.78 per unit, and the Foundation owned 2,237.89 and 2,279.81 units, respectively.

The Foundation realized a net gain of \$345,512 and \$76,456 from the sale of investments for the years ended June 30, 2011 and 2010, respectively. The calculation of realized gains and losses is independent of the calculation of the increase (decrease) in the fair value of investments. The change in fair value of investments during the years ended June 30, 2011 and 2010 was a gain of \$984,627 and \$524,795, 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, 2011 and 2010 is \$2,005,932 and \$1,021,305, 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:

	2011		2010
Short-term investments	\$ 1,046,457	\$	1,145,122
Receivable for investments	1,014,825		-
Corporate securities:			
Common stocks	9,451,438		7,893,993
International	2,564,651		945,443
Mutual funds:			
International equity	38,734,695		30,846,137
Inflation hedging	16,218,088		10,971,575
Fixed income	26,274,925		29,307,798
Fixed income global	-		8,166,502
U. S. equities	6,339,628		-
Partnerships:			
Fixed income global	3,318,814		-
Hedge funds	48,022,393		44,329,001
Inflation hedging	714,465		-
Real estate securities	6,166,919		4,767,890
U. S. equities	27,466,000		20,008,499
Venture capital	17,222,119		12,488,910
Payable for investments	-		(123,734)
	\$ 204,555,417	\$	170,747,136

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.

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

Notes to Financial Statements

Note 3. Investments (Continued)

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, 2011 and 2010, 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 the majority of fixed income holdings to those investments that have a high quality rating (AA/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 Investment Fund. Any excess return over the established policy is reinvested by the Investment Fund. For both the years ended June 30, 2011 and 2010, 4.25% 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, 2011 and 2010, outstanding pledges to the Foundation totaled \$62,361 and \$80,903, respectively. Of the total pledges, \$59,361 and \$77,903, respectively, are endowment fund pledges and \$3,000 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.

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

Notes to Financial Statements

Note 5. Endowments and Quasi Endowments (Continued)

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 2011 and 2010, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the book value of the original gift amount. The excess of book value over market value of these funds are reported in expendable or unrestricted net assets, which was \$0 and \$57,159 as of June 30, 2011 and 2010, respectively. The excess in 2010 was the result of unfavorable market fluctuations.

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.

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; errors and omissions; and natural disasters. These exposures to loss are handled through the University via a combination of methods, including participation in various risk pools administered by the State of North Carolina, purchase of commercial insurance and self retention of certain risks.

There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

Note 8. Income Taxes

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

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

Notes to Financial Statements

Note 9. Subsequent Event

On July 1, 2011, the University restructured academic departments, and as result 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 will see the collaborative opportunities and administrative efficiency of the new structure as a positive, but it may have some short-term effect on giving.

As a result of the University restructuring, the Foundation has planned to refrain from making a transfer to the University during fiscal 2012 because of the potential legal restrictions on the endowments previously given to the Foundation.