THE UNIVERSITY of NORTH CAROLINA at CHAPEL HILL

**CONFIDENTIAL DRAFT***

# The University of North Carolina at Chapel Hill

# 2016-17 Intercollegiate Athletics Report

# Executive Summary

*Prepared for submission to*

**UNC General Administration**

*This report contains data from the NCAA's new Institutional Performance Program and campus sources that had not been publicly released as of September 20, 2017. While there is no reason to doubt the accuracy of the data included here, the report should be considered as subject to change.

# Table of Contents

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## Executive Summary

In compliance with UNC Board of Governors (BOG) policy, UNC General Administration (UNC-GA) requires each constituent institution to submit an annual Intercollegiate Athletics Report on admissions, academic success, and completion rates of student-athletes (UNC Policy 1100.1); academic integrity (UNC Regulation 700.6.1.[R]); and financial indicators of campus athletics departments (UNC Regulation 1100.1.1[R]). Copies of these policies are included in Attachment A.

Further, BOG policy specifies that the Chancellor of each campus must provide information from the Intercollegiate Athletics Report to the Board of Trustees. This is a summary of UNC-Chapel Hill's report for 2016-17.

## Student-Athlete Admissions and Academic Profiles

### Undergraduate Student-Athletes

***Admission Policies***
UNC Policy 1100.1 requires the University to provide its "admission policy for student-athletes, including the definitions utilized for exceptions to campus-based criteria." UNC-Chapel Hill's policies and procedures are described in Attachment B.

***UNC System Admission Requirements***
Of the 197 new first-year recruited student-athletes who enrolled in 2016-17:

- 100% met the Minimum Course Requirements (MCR)
- 100% met the Minimum Admissions Requirements (MAR) consisting of a minimum high school GPA of 2.5 and an SAT or ACT score at or above the minimum of 800 or 17.

***Academic Profile for Recruited First-Year Student-Athletes (RFSA) in Revenue Sports***
The average high school NCAA core course GPA and average SAT and ACT scores are shown below. Exam statistics for categories with five or fewer students have been redacted.

| Academic Profile: Recruited First-Year Student-Athletes (RFSAs) in Revenue Sports, 2016-17 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Old SAT | | New SAT | | ACT | |
| Sport | RFSA (N) | Avg. High School Core Course GPA | RFSA (N) | Avg. Score | RFSA (N) | Avg. Score | RFSA (N) | Avg. Score |
| Men's Football | 24 | 3.2 | 7 | 1004 | Redacted | | 15 | 21 |
| Basketball (Men + Women) | 9 | 3.7 | Redacted | | Redacted | | Redacted | |

## Graduate Student-Athletes

***Admission Policies***

The UNC-Chapel Hill Graduate School has a policy that allows student-athletes who have earned a bachelor's degree and who have remaining NCAA eligibility to submit an application to a Graduate School program after the published application submission deadline for that program. This policy has no bearing on admissions requirements or the evaluation/review of an application for admission. With the exception of this policy regarding application deadlines, graduate student-athletes follow the same admission policies as all graduate students.

***Graduate Student-Athlete Enrollment***

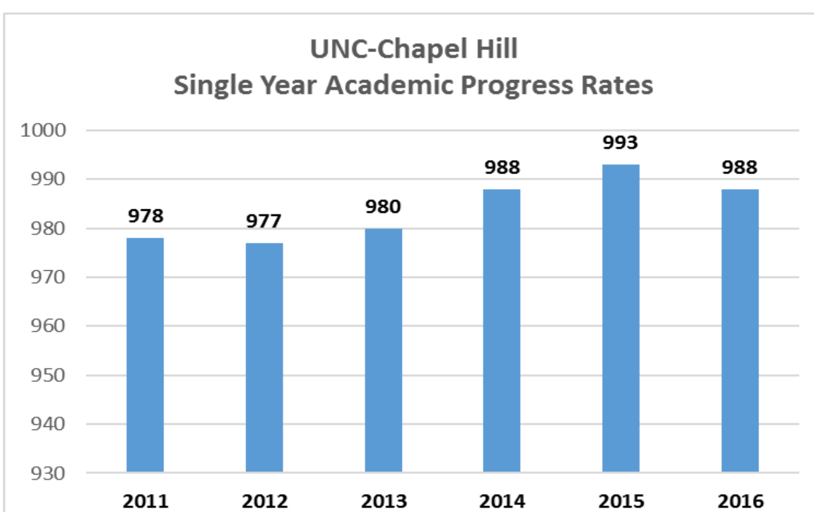
In 2016-17, seven graduate student-athletes were enrolled at UNC-Chapel Hill.

# Student-Athletes' Majors

| Most Popular Majors (Juniors and Seniors Only) Fall 2016 | |
|---|---|
| **Recruited First-Year Student-Athletes** | **All Other Undergraduate Students** |
| 1. Exercise & Sports Science | 1. Biology |
| 2. Communication Studies | 2. Psychology |
| 3. Business Administration | 3. Economics |
| 4. Economics | 4. Exercise & Sports Science |
| 5. Management & Society | 5. Media & Journalism |

# NCAA Eligibility, Retention, and Graduation Rate Reports

**The Academic Progress Rate** (APR) tracks eligibility and retention of student-athletes on each of UNC-Chapel Hill's 28 varsity teams. The NCAA requires a minimum multi-year APR of 930 to qualify for post-season play. As shown below, UNC-Chapel Hill's all-sport single year APR has increased by 10 points since 2011.



**The NCAA Graduation Success Rate Report** (see Attachment C) displays the six-year graduation rates for student-athletes who received athletics aid, by gender and sport, averaged across the most recent four years (2007 to 2010). Two rates are provided in that table and are defined as follows:

- **The Graduation Success Rate (GSR)** includes student-athletes who entered midyear or transferred into the institution and received athletics aid, and then subtracts those who left the institution prior to graduation, had athletics eligibility remaining, and would have been academically eligible to compete had they returned to the institution.

- **Federal Graduation Rate (Fed Rate)** is the six-year graduation rate for the entering first-year cohorts of student-athletes who received athletics aid.

## Academic Integrity Regulations

### UNC-Chapel Hill Review Process for Course Clustering and Determination of Irregularities

For all semesters (Fall, Spring, Summer I, and Summer II), a standing committee reviews data for courses in which student-athletes' enrollments meet or exceed the UNC Board of Governors' specified threshold of 25%. This committee consists of the following:

- Interim Registrar (Chair): Allison Legge
- Faculty Athletic Representative: Professor Lissa Broome, School of Law
- Senior Associate Dean for Undergraduate Education: Professor Abigail Panter, Department of Psychology and Neurosciences, College of Arts and Sciences
- Faculty Athletics Committee members:
  - Professor Deborah Stroman, Kenan Flagler Business School
  - Professor David Guilkey, Economics
- Associate Registrar for Compliance: Kris West
- Institutional Research – Chris Eilers

In order to identify any issues of concern about the enrollments of student-athletes, many factors are taken into consideration in these reviews, and new criteria are added as the Committee continues to refine the analysis.

The review process established by UNC–Chapel Hill is conducted at multiple points and levels. All sections that meet or exceed the threshold are reviewed twice per term. The first review occurs after the add/drop period (post-census). The second review occurs after grades have been awarded. The academic year is defined as summer 1 and 2, fall, and spring. This includes both a qualitative and quantitative assessment of the following considerations:

- **Enrollment review** - For the enrollment review at the end of the first 10 days of class, the composition of the cluster may be analyzed based on the following:
  - The majors of the students to determine if the course is required for the students' curriculum;
  - The number of students from any one team;

- The number of sections offered for the individual course and the course scheduled time of day;
- The number of clustered sections that the primary instructor teaches as compared to non-clustered sections.

- **Transcript review**
  - A transcript review is conducted for students who were enrolled in three or more clustered sections during the academic year to ensure that the enrolled courses are consistent with the context of the student's curriculum;
  - An additional transcript review may be conducted for students who have been identified based on the grade analysis below.

- **Grade review** - For the grade review at the end of the term, the grading patterns of the clustered sections may be examined based on the following:
  - Average grades awarded to student athletes versus non-student athletes; sections having a difference of greater than .50 grade points (in either direction) are reviewed at the individual course section level;
  - Grading pattern of clustered courses that are numbered higher than the student's academic class standing;
  - Grade distribution of clustered vs. non-clustered sections of the same course;
  - Grading patterns of the primary instructors in clustered sections compared to non-clustered sections.

- **Syllabus review** - A syllabus review was conducted to ensure that the course requirements, meeting patterns, and grading standards are comparable to other courses at that level. Any concerns identified in the syllabi or the grade reviews will be referred to the appropriate administrator for the relevant professional school or College.

**Summary of Findings from the Review of 2016-17 Course Sections and Student-Athlete Transcripts**

- In 2016-17, a total of 159 class sections met or exceeded the 25% threshold for student-athlete enrollments. Using the review procedures described above, none of the class sections was found to be irregular.
- The review committee examined the transcripts of 224 student-athletes flagged for review due to their enrollment in 3 or more clustered sections, and none of them was found to be irregular.

**Overall Cumulative GPA for Student-Athletes and Non-Student-Athletes**

The average cumulative GPA of student-athletes is 3.02 compared to 3.27 for non-student-athletes.

## Reporting Structure for Athletics Compliance

The Senior Associate Athletics Director who oversees the athletics compliance office reports to the Director of Athletics. The Associate Athletics Director for Compliance reports to the Senior Associate Athletics Director and also has a "dotted line" reporting relationship to the Director of Athletics. An organization chart depicting these relationships is provided in Attachment D.

## Effective Practices Employed at UNC-Chapel Hill to Reinforce the Connection Between Academics and Athletics

A comprehensive list of specific actions and initiatives implemented can be viewed on the Carolina Commitment website: http://carolinacommitment.unc.edu/actions-and-initiatives/

A host of effective practices are described on the website "Academic Processes for Student-Athletes" (http://apsa.unc.edu/), the product of the Student-Athlete Academic Initiative Working Group co-chaired by Provost Jim Dean and Athletics Director Bubba Cunningham. Each practice documented on the website is reviewed and updated at least once every two years by the Process Review Group.

## "Booster" Club Reports

The following financial and operational documents related to the Educational Foundation are provided:

- Attachment E: "The Educational Foundation, Inc., Financial Statements, June 30, 2016."
- Attachment F: "The Educational Foundation Scholarship Endowment Trust, Financial Statements, June 30, 2016."
- Attachment G: "Agreement between UNC-Chapel Hill and the Educational Foundation, Inc., 2013-2018."

## Financial Information Related to Intercollegiate Athletics

The UNC Board of Governors requires the University to report on key indicators of the financial resources and expenditures of campus athletics departments from the NCAA's Institutional Performance Program (IPP) Dashboard. The statistics reported below were the latest published on the Dashboard as of September 18, 2017.

| UNC-Chapel Hill Financial Data Related to Intercollegiate Athletics<br>**NCAA Institutional Performance Program Dashboard, 9/18/17** | |
|---|---|
| Total Number of Student-Athletes (scholarship and non-scholarship) | 818 |
| Total Athletics Revenue ($) | $95,175,985 |
| Total Athletics Generated Revenue ($) | $86,025,008 |
| Total Athletics Net Revenue ($) | $0 |
| Student Fees as a % of Revenue (%) | 7.7% |
| Total Athletics Expenses ($) | $95,175,985 |
| Total Institutional Expenses ($) | $2,827,248,586 |
| Athletics as a % of Institutional Expenditures (%) | 3% |
| Athletics Expenses per Student-Athlete ($) | $126,396 |
| Total Athletics Grant-in-Aid ($) | $14,528,812 |
| Total Compensation - Head Coaches ($) | $8,376,812 |
| Total Compensation - Assistant Coaches ($) | $7,586,265 |
| Total Compensation - Administrative Staff ($) | $15,930,254 |
| Team Travel as a % of Expenditures (%) | 6.4% |

# Attachment A:
# UNC BOG Policies 1100.1, 1100.1.1[R], and 700.6.1[R]



**Intercollegiate Athletics**

1. The Board of Governors has delegated the responsibility for intercollegiate athletics to the chancellors under the *Code's Delegation of Duty and Authority*. That delegation is subject to the requirements and mandates in this policy.

2. The chancellors shall ensure that all athletes admitted to the institution are capable of progressive academic success and graduation within six years.

3. The chancellors shall ensure that the policies for admission of student athletes are reviewed by appropriate members or bodies of the faculty and that any recommendations or advice from those members or bodies are received and considered.

4. The chancellors shall ensure that exceptions or waivers for the admission of student athletes are reviewed by appropriate members or bodies of the faculty and that any recommendation concerning these applicants are received and considered by the chancellors in a timely manner.

5. The chancellors shall ensure that student athletes follow a coherent course of study that is designed to accomplish reasonable progress toward a baccalaureate degree.

6. Chancellors shall ensure that the tutorial and remedial programs for student athletes will be administered by appropriate academic offices in cooperation with athletic department officials.

7. The chancellors shall ensure that athletes who are not making satisfactory academic progress are not allowed to continue as team players.

8. The chancellors shall ensure that a mandatory drug-testing program for student athletes is implemented and monitored.

9. The chancellors shall ensure that formal awareness programs on the dangers of gambling in athletics is implemented.

10. The chancellors shall ensure that the institutions conform with NCAA standards.

11. The chancellors shall ensure that all foundations, clubs, and associations established primarily to raise money on behalf of constituent institutions are audited annually and that those audits are reviewed by the institutional Boards of Trustees and are forwarded to the President.

12. The chancellors shall ensure that the position of director of athletics is separate and distinct from the position of a coach of any sport.

13. The chancellors shall submit an annual report to the Board of Trustees of the constituent institutions with a copy to the President, who will report to the Board of Governors. The annual report shall be designed according to criteria and format defined by the Office of the President and shall include the following elements:

    a. organization and philosophy of athletics programs;

    b. the admission policy for student athletes including the definitions utilized for exceptions to campus-based criteria;

    c. student-athlete exceptions to the minimum course requirements set by the Board of Governors and defined in Policy 700.1.1 and Regulation 700.1.1.1[R];

d. the student-athlete profiles for admitted student athletes including SAT/ACT scores, high school grade point averages and NCAA classifications;

e. information about the majors or programs of study chosen by student athletes;

f. academic progression information for student athletes and six-year graduation rates; and

g. information about "booster" club organizations and procedures.

14. The chancellors shall report to the Board of Trustees the student-athlete exceptions to the institution's undergraduate admissions criteria.

15. The chancellors shall ensure that the annual report is forwarded to appropriate members or bodies of the faculty and that any response from such members or bodies is received and considered by the chancellors.

[This policy consolidates policies 1100.1 and 1100.2]

# REGULATION

The University of North Carolina

*General Administration*

The UNC Policy Manual
1100.1.1[R]
Adopted 06/25/14

**Financial and Other Reporting for Intercollegiate Athletics**

I. Purpose

Consistent with the University of North Carolina's commitment to ensuring integrity and transparency in its financial and other operations, this regulation establishes financial and other reporting requirements for the intercollegiate athletics programs of the constituent institutions. These requirements ensure that the chancellors, the boards of trustees, the president, and the Board of Governors receive and review the information needed to understand the sources that contribute to the athletics budget, monitor institutional expenditures, and objectively consider the balance between athletics and the academic mission of each constituent institution within the University.

II. Athletically Related Financial Reporting Requirements

A. Reports to the Chancellor

1. Reports to the U.S. Department of Education and the National Collegiate Athletic Association. The chancellor of each constituent institution with an intercollegiate athletics program shall review and approve the athletically related financial information required by and reported to the National Collegiate Athletic Association ("NCAA"), the U.S. Department of Education, and the Board of Governors through applicable University policy and regulations including, but not limited to, the financial information contained in the constituent institution's Equity in Athletics Disclosure Act ("EADA") Report and in its NCAA Operating and Capital Financial Data Report.

2. Review of Financial Indicators. The chancellor of each constituent institution with an intercollegiate athletics program shall annually receive and review the most recent year's data and five-year trend data for the financial indicators contained in the NCAA Dashboard "Presidential View" for the constituent institution's NCAA division.

a. The financial indicators reviewed for Division I institutions must include, at a minimum, the following:

(1) NCAA Academic Progress Rate;

(2) Generated Revenues/Total Athletics Revenue (%);

(3) Net Athletics Revenues ($);

(4) Total Athletics Expenditures ($);

(5) Salaries and Benefits (%) (as a share of Total Athletics Expenditures);

(6) Athletics Expenditures/Student-Athlete ($);

(7) Athletics Expenditures/Institutional Expenditures (%); and

(8) Athletics Expenditures Rate of Change vs. University Expenditures Rate of Change (%).

b. The financial indicators reviewed for Division II institutions must include, at a minimum, the following:

(1) Student Fees Revenue/Total Athletics Revenue (%);

(2) Total Athletics Revenue ($);

(3) Athletic Student Aid/Total Athletics Expenses (%);

(4) Coaches Compensation/Total Athletics Expenses (%);

(5) Administrative Staff Compensation/Total Athletics Expenses (%);

(6) Team Travel Expenses/Total Athletics Expenses (%); and

(7) Average Academic Success Rates.

3. Review and Approval of Annual Intercollegiate Athletics Budget. The chancellor of each constituent institution with an intercollegiate athletics program shall review and approve the annual institutional budget for intercollegiate athletics, including:

a. Major sources of revenue and expenses;

b. Athletically related student fees data, including the institution's current athletics student fee and the percentage of student fee revenue as a share of total operating revenue for athletics; and

c. Any relevant financial reports pertaining to the operation of the institution's intercollegiate athletics program.

4. Chancellor's Role in the Annual Report. The chancellor shall ensure that the annual report required by Policy 1100.1 incorporates the information included in this regulation, including the indicators from the NCAA Dashboard "Presidential View" and the athletically related student fees data. The chancellor shall also ensure that the report is forwarded to appropriate members or bodies of the faculty and that any response from such members or bodies is received and considered by the chancellor.

The UNC Policy Manual
1100.1.1[R]
Adopted 06/25/14

B. Reports to the Boards of Trustees

1. The board of trustees of each institution, through the chancellor, must annually receive and review the financial indicators contained in the NCAA Dashboard "Presidential View" for the institution as described in Section II.A.2., above. This "Presidential View" data should be reported on an annual basis and shall include the most recent year's data as well as five-year trend data.

2. The board of trustees shall also receive and review the annual institutional budget for intercollegiate athletics, including major sources of revenue and expenses. This budget report shall include, at a minimum:

a. Major sources of revenue and expenses;

b. Athletically related student fees data, including the institution's current athletics student fee and the percentage of student fee revenue as a share of total operating revenue for athletics; and

c. Any relevant financial reports pertaining to the operation of the institution's intercollegiate athletics program.

C. Reports to the President and the Board of Governors

1. The president and, through the president, the Board of Governors shall annually receive and review the financial indicators contained in the NCAA Dashboard "Presidential View" for each institution as described in Section II.A.2., following review by the chancellor and the board of trustees. This information shall be provided by each institution as part of its annual report described in Policy 1100.1.

2. The president and Board of Governors shall also receive and review the athletically related student fees data for each institution, including each institution's current athletics student fee and the percentage of student fee revenue as a share of total operating revenue for athletics.

III. Other Athletically Related Reporting Requirements

A. Additional Information to be Included in the Annual Report

Section 13 of Policy 1100.1 requires that chancellors submit an annual report to the board of trustees of the constituent institutions with a copy to the president, who will report to the Board of Governors. The annual report shall be designed according to criteria and format defined by the president and must include all the elements listed in the policy and the elements listed in this regulation, including the following elements:

1. As part of the discussion of the organization and philosophy of athletics programs (Section 13.a.), the chancellor shall include:

a. An explanation of the institution's reporting structure for athletics compliance and whether and to whom the athletics compliance director reports outside of the department of athletics;

b. Any especially effective practices the institution has adopted that reinforce the integral connection between academics and athletics;

The UNC Policy Manual
1100.1.1[R]


c. The indicators from the NCAA Dashboard "Presidential View" as described in this regulation; and

d. Athletically related student fees data, including the institution's current athletics student fee and the percentage of student fee revenue as a share of total operating revenue for athletics.

2. As part of the information about the admission policy for student-athletes including the definitions utilized for exceptions to campus-based criteria (Section 13.b.), the chancellor shall include:

a. Any recruited student-athlete exceptions to the Board of Governors' minimum admissions requirements.

3. As part of the provision of academic progression information for student-athletes (Section 13.f.), the chancellor shall include:

a. Information related to academic integrity and academic success measures such as the APR and six-year graduation rates;

b. A summary of student-athlete GPA comparison information as set out in Policy 700.6.1.

4. As part of the information about "booster" club organizations (Section 13.g.), the chancellor shall include:

a. Information related to any associated entity that supports its intercollegiate athletics program, including financial information, operating procedures, and annual audit reviews.

5. The institution's financial indicators contained in the NCAA Dashboard "Presidential View" as described in Section II.A.2., of this regulation, following review by the chancellor and the board of trustees.

## IV. Effective Date

These review and reporting requirements shall take effect with and be incorporated in the annual reports due in 2014.

Approved:

Thomas W. Ross, President

6/25/2014
Date

## Academic Integrity Regulations

The following set of required procedures will enhance the ability of each UNC campus to monitor and protect the integrity of its curriculum, student evaluation, and academic records. In addition, the appropriate review, evaluation, and supervision of University staff, including academic department chairs and other faculty administrators, will promote an enhanced culture of academic integrity. These procedures are to be implemented in addition to and in concert with the recommendations included in the 2011 Report of the Task Force on Athletics and Academics, the implementation of which President Ross has already required. These supplemental procedures stem from extensive discussions among campus stakeholders and incorporate concepts discussed in the UNC-Chapel Hill Report of the Independent Study Task Force, the Report of the Special Subcommittee of the Faculty Council, and specific campus policies addressing monitoring of academics and student-athletes, as well as the report of the Board of Governors Academic Review Panel.

The procedures below are grouped by functional area, and each has a corresponding implementation date.

I. Registrar and Student Records Best Practices

A. All campuses will have clear rules designating individuals (by position occupied) authorized to submit a course grade or grade change, and the circumstances under which such changes may be made. (September 2013)

B. All campuses will have audit procedures for verifying that only an authorized person submitted grades or grade changes to the student information system. (September 2013)

C. All campuses will maintain an electronic record of grade-related approvals and changes to the student information system. (December 2014)

D. All campuses will have course numbering and reporting conventions that utilize separate section numbers to identify independent study courses taught by individual faculty members. (May 2014)

II. Evaluating the Academic Performance of Student-Athletes and Other Student Subgroups

A. Using results from the 2013 Board of Governors' Intercollegiate Athletics Report, General Administration will work with campuses to develop a common threshold or definition of clustering by student-athletes or other student subgroups that will trigger an automatic review of flagged courses to determine whether there were any irregularities in the reasons clustering occurred. (December 2013)

B. On an annual basis, all campuses will review the course grade-point averages calculated for student-athletes and other student subgroups versus nonstudent-athletes and other identified subgroups. A summary of student-athlete comparisons will be included in the required Board of Governors' Intercollegiate Athletics Report, beginning in 2014.

C. All campuses will have procedures for notifying academic advisors and Academic Support Program staff of any changes made to the course grades of student-athletes and/or to their course schedules after the designated two-week drop/add period. (December 2013)

III. Review and Approval of Nonstandard Courses and Course Sections

All campuses will have processes and policies to ensure that all forms of individualized instruction conform to the basic guidelines pertaining to other undergraduate courses, including but not limited to a syllabus or learning contract specifying expected student learning outcomes, number of hours of expected work, grading information, and scheduled meeting times with the faculty member. (September 2013)

IV. Supervision and Evaluation of Faculty and Faculty Administrators

A. All campuses will have guidelines on the number of undergraduate independent studies a faculty member may teach per term. If campuses choose to enumerate a limited number of circumstances under which exceptions to these limits may be approved, guidelines must enumerate the required individuals (by position) who must grant approval. (September 2013)

B. All campuses will have criteria and processes to ensure the regular review and evaluation of all aspects of performance of department chairs. (September 2013)

# ATTACHMENT B

## University of North Carolina at Chapel Hill
## Admissions Policies and Practices Regarding Student-Athletes

The University's admissions policies and procedures derive from three sources: the Board of Governors of the University of North Carolina System; the Board of Trustees of UNC-Chapel Hill; and the Advisory Committee on Undergraduate Admissions, a Faculty Council committee chartered by the Faculty Code of University Government.

**Board of Governors of the University of North Carolina System**

The UNC Board of Governors specifies minimum undergraduate course and admission requirements, as well as the limited circumstances under which exceptions to these minimum requirements may be made. As outlined in the UNC Policy Manual, 700.1 .1, the minimum course requirements currently include:

- four course units in English,
- two course units in a language other than English,
- four course units in mathematics, including one course for which Algebra 2 (or its equivalent) is a prerequisite,
- three courses units in science, to include one life or biological science, one physical science, and at least one science with a laboratory component, and
- two course units in social science, to include at least one unit of United States history.

Also as outlined in 700.1.1.I, the minimum admissions requirements currently include:

- either 800 on the SAT (Critical Reading and Math combined) or 17 composite on the ACT, and
- a high-school grade-point average of 2.5.

By policy, the chancellor of a constituent university in the UNC System may grant exceptions to these minimum requirements. Such exceptions are limited to 1% of the total number of applicants admitted as new first-year students each year.

The Board of Governors has authorized the President of the UNC System to establish regulations to implement the minimum course and admissions requirements. These regulations, outlined in 700.1.1.1[R], specify the conditions under which certain students, including those "who demonstrate special talents," may receive "special consideration" where minimum requirements are concerned. The regulations stipulate that any student who receives such consideration for not having met the requirement for the fourth unit of mathematics "will have 12 months from the first day of the first semester of the first year to fulfill the [math] requirement." In addition, the regulations state that any student "who does not have the unit in U.S. history may be admitted on the condition that at least three semester hours in that subject will be passed by the end of the sophomore year" of university study.

Finally, the regulations require that each constituent university "establish a policy for the admission of students requiring special consideration with regard to campus-based admissions criteria." This policy must "describe the process for admitting students requiring special consideration and must include faculty participation in the decision making process."

**Board of Trustees of the University of North Carolina at Chapel Hill**

The UNC-Chapel Hill Board of Trustees maintains a "policy of competitive admissions" in which applicants are:

> … selected on the basis of a) recognition of the institution's special responsibility to residents of North Carolina and b) the institution's judgment of the applicant's relative qualifications for satisfactory performance in the specific school, department, or curriculum, or other program to which the applicant seeks admission.

Trustee policy also states that, "this policy of competitive admissions shall not prevent the admission of selected applicants … who give evidence of possessing special talents for University programs requiring such special talents."

Trustee policy assigns responsibility for the admission of all degree-seeking undergraduate students to the Office of Undergraduate Admissions. In applying the trustee policy mandate that admissions be competitive and also recognize the University's responsibility to residents of North Carolina, the admissions office conducts two concurrent competitions for admission: one for resident students and a second for non-residents. In evaluating a candidate's capacity for satisfactory academic performance, the admissions office does not consider prospective students in light of the academic requirements of any specific major. Rather, because all first-year students enroll in the College of Arts and Sciences and have two years to declare their majors and because first-year candidates frequently change their intended majors between the time they apply for admission and the time they graduate, the admissions office considers the likelihood of satisfactory performance in the undergraduate curriculum more generally.

By trustee policy, the admissions office is required to "apply policies and procedures that, not inconsistent with policies adopted by the Board of Trustees, are approved by the Advisory Committee on Undergraduate Admissions."

**Advisory Committee on Undergraduate Admissions**

The Advisory Committee on Undergraduate Admissions, which is appointed by the Chancellor, is a standing committee of the Faculty Council. As defined in § 4-24 of the Faculty Code of University Government, the committee consists of 11 voting members. Voting members must include three deans, the head of academic advising in the College of Arts and Sciences, and seven faculty members who instruct undergraduate students, at least five of whom hold primary appointments in the College of Arts and Sciences.

The *Faculty Code* stipulates that the Advisory Committee "serves in an advisory capacity to the director of undergraduate admissions." In this role, the committee "addresses the design and application of admissions policy, recommends guidelines for special talent and exceptional admissions, and monitors and responds to the national college admissions environment."

By code, the Committee meets at least once each semester, or more often upon request by the chair, who is responsible for calling meetings when requested by the director of undergraduate admissions. In practice, the Committee typically meets twice each semester (four times each academic year).

The Advisory Committee reports annually and publicly to the Faculty Council. The last two reports included detailed reports on student-athlete admissions, using a template and data definitions developed by a working group of faculty and administrators. The 2012-2013 report includes information for student-athletes who enrolled in 2013; the 2013-2014 report includes information for student-athletes who enrolled in 2014.

During the 2013-2014 academic year, the Faculty Committee on University Government reviewed the governance and membership of the Advisory Committee. The review confirmed the Advisory Committee as an appointed (rather than elected) committee of the faculty. It also confirmed the prerogative of the committee to convene and charge additional committees under its purview.

In implementing the advisory role assigned by trustee policy, the Advisory Committee has approved a Statement on the Evaluation of Candidates. This statement forms the basis for the description of admissions requirements that appears in the 2014-15 *Undergraduate Bulletin*.

The Statement on the Evaluation of Candidates begins by grounding the aims and practices of the admissions office in the broad mission of the University:

> In evaluating candidates for undergraduate admission, the University of North Carolina at Chapel Hill seeks to shape the entering class so that its collective strengths will foster excellence within the University community; enhance the education of everyone within it; provide for the leadership of the educational, governmental, scientific, business, humanistic, artistic, and professional institutions of the state, nation, and world; and enrich the lives of all the people of North Carolina.

As echoed in the description of admissions requirements in the 2014-15 *Undergraduate Bulletin*, the statement commits the University to a process of comprehensive and holistic review:

> The University evaluates individual candidates rigorously, holistically, and sympathetically. The admissions committee seeks to assess the ways in which each candidate will likely con-

tribute to the campus community and enable the University to fulfill its mission. The qualities we seek include intellect, talent, curiosity, and creativity; leadership, kindness, and courage; honesty, perseverance, perspective, and diversity. Although we expect each successful candidate to demonstrate strength in many of these areas, we do not expect every candidate to be equally strong in all of them. Just as there is no formula for admission, there is no list of qualities or characteristics that every applicant must present.

In evaluating each candidate's academic record, the admissions committee considers not only the student's grades, but also the difficulty of the courses attempted. Although each candidate's academic record and standardized test scores are important elements in the admissions decision, the candidate's essays, accomplishments outside the classroom, and personal qualities are also carefully considered.

In addition to the *Statement on the Evaluation of Candidates*, the Advisory Committee has approved Guidelines for Standardized Testing that define how the Office of Undergraduate Admissions is to use such testing in evaluating prospective students. Under these guidelines, the office may use "no cutoff or threshold scores—that is, no scores below which candidates are automatically denied admission, and no scores above which they are automatically offered admission;" rather, the office must consider test scores as "one factor among many" in the comprehensive and individualized assessment afforded to each candidate. The guidelines also specify which scores are to be used by the admissions office, when scores must be reviewed for possible irregularities, and how the admissions office must respond if irregularities are discovered.

Like the Statement on the Evaluation of Candidates, the Guidelines for Standardized Testing form the basis for the description of admissions requirements in the 2014-15 Undergraduate Bulletin. The policies and procedures described above apply to every candidate for undergraduate admission.

The Office of Undergraduate Admissions, through a policies link on its website, provides access for prospective students to all of these policies and procedures, as well as access to the charge, membership, and annual reports of the Advisory Committee.

In keeping with trustee policy regarding candidates who "give evidence of possessing special talents for University programs requiring such special talents," the Advisory Committee has approved athletics, dramatic art, and music as three such programs and has allocated a maximum of 200 spaces in the entering first-year class for this purpose: 160 for athletics and 20 each for dramatic art and music. Representatives of these programs identify students for consideration and recommend them to the Office of Undergraduate Admissions. The admissions office assesses these students individually and comprehensively and determines whether they can be admitted competitively — that is, without regard to special talent — within the relevant resident or non-resident applicant pool. Students who are judged to be competitive are offered admission and do not count among the special-talent spaces.

Special-talent candidates who are not judged to be competitive within their respective applicant pools may still be admitted, provided they are found likely to perform satisfactorily in the undergraduate curriculum at the University. All such candidates are assessed individually and comprehensively by the admissions office for their likelihood of succeeding academically, using guidelines for special-talent admissions established by the Advisory Committee. These guidelines, inscribed within the charge and procedures of the Committee on Special Talent, refer explicitly to the Statement on the Evaluation of Candidates and its emphasis on "comprehensive and individual evaluations" of all candidates, as well as to the trustee policy on the admission of students with special talent. Under these guidelines, the admissions office may directly admit special-talent candidates provided they (1) have predicted first- year grade-point averages of 2.3 or higher; (2) fulfill all minimum course and admissions requirements of the public university system, and (3) meet the same community standards for behavior required of all successful candidates for admission. No special-talent candidate who fails to meet any of these expectations may be offered admission unless the student is first reviewed and recommended by the Committee on Special Talent.

**Committee on Special Talent**

The Advisory Committee on Undergraduate Admissions has convened a Committee on Special Talent to advise the Office of Undergraduate Admissions on the admission of students recommended by the three University programs approved by the Advisory Committee — athletics, dramatic art, and music. The Committee on Special Talent reports to the Advisory Committee, which approves its charge and procedures, and whose chair names its members.

As noted above, the charge and procedures of the Committee on Special Talent are grounded in the Statement on the Evaluation of Candidates and on the trustee policy regarding special-talent admissions. Specifically, the committee is charged with:

- Recommending to the Advisory Committee policies regarding the admission of students with special talent that are consistent with the mission of the University and with policies established by the UNC-Chapel Hill Board of Trustees and the UNC Board of Governors.

- Establishing admissions procedures for students with special talent that maintain the academic integrity of the University; respecting the competitiveness of admission to Carolina; recognizing the contributions that students with special talents can make to the education and the experiences of everyone within the campus community; and encouraging the eventual success, as students and citizens, of those candidates who are admitted and choose to enroll.

- Evaluating prospective students presented by University programs requiring special talent — currently defined as programs administered by the departments of athletics, dramatic art, and music—who (1) have predicted first-year grade-point averages lower than 2.3; (2) require review for possible breaches of community standards for academic or personal behavior; or (3) may only be admitted as exceptions to UNC System policies and regulations because they do not meet minimum course or admissions requirements established by the UNC Board of Governors.

- Advising the Office of Undergraduate Admissions on the capacity of the students described above to succeed academically and personally at the University, both individually and as a class within the programs that they will join.

- Reviewing the final decisions made by the Office of Undergraduate Admissions, and receiving and responding to the explanation offered by that office should any final decision differ from the decision recommended by the committee.

- Reporting activities, decisions, and outcomes to the Advisory Committee at least once during the academic year.

The Committee on Special Talent consists of at least six voting members, the majority of whom are tenured or tenure-track faculty members in the College of Arts and Sciences. With the exception of two voting ex officio members — the Faculty Athletics Representative and the Associate Dean for Academic Advising in the College of Arts and Sciences — the voting members are appointed by the chair of the Advisory Committee. Appointed members serve an initial term of three years and may be reappointed for one additional term, but may not serve more than six consecutive years. The chair of the Committee on Special Talent — also appointed by the chair of the Advisory Committee — serves a term of one year and may be reappointed, but may not serve as chair more than three consecutive years.

The Committee on Special Talent currently consists of 7 voting members, 4 of whom are tenured faculty members in the College of Arts and Sciences.

# Graduation Success Rate Report

**ATTACHMENT C**

## *2007 - 2010 Cohorts: University of North Carolina, Chapel Hill*

**Men's Sports**

| Sport | GSR | Fed Rate |
|---|---|---|
| Baseball | 81 | 36 |
| Basketball | 40 | 31 |
| CC/Track | 96 | 88 |
| Fencing | 100 | 100 |
| Football | 66 | 48 |
| Golf | 78 | 63 |
| Gymnastics | - | - |
| Ice Hockey | - | - |
| Lacrosse | 90 | 80 |
| Mixed Rifle | - | - |
| Skiing | - | - |
| Soccer | 64 | 53 |
| Swimming | 91 | 83 |
| Tennis | 100 | 71 |
| Volleyball | - | - |
| Water Polo | - | - |
| Wrestling | 50 | 35 |
| Men's Non-NCAA Sponsor. Sports | - | - |

**Women's Sports**

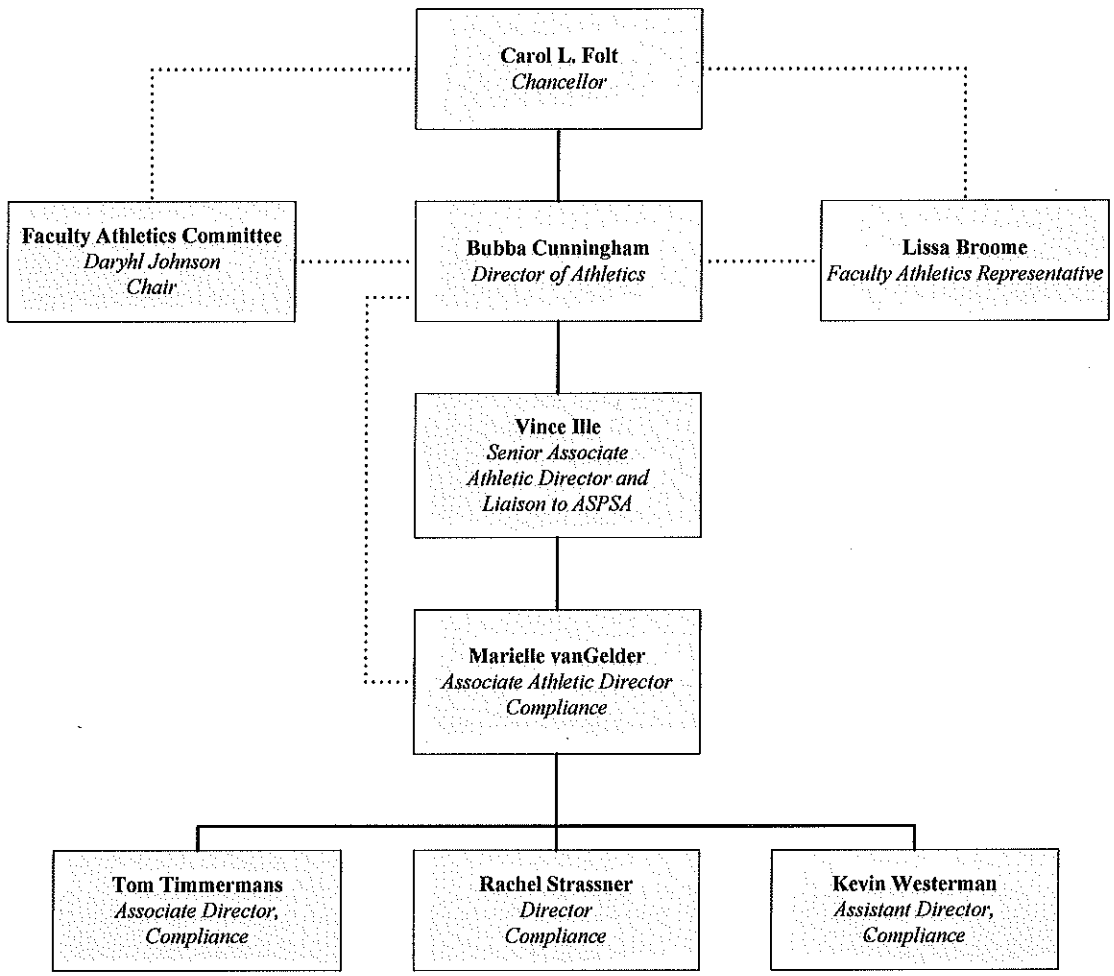
| Sport | GSR | Fed Rate |
|---|---|---|
| Basketball | 80 | 57 |
| Bowling | - | - |
| CC/Track | 95 | 74 |
| Crew/Rowing | 94 | 94 |
| Fencing | 100 | - |
| Field Hockey | 100 | 75 |
| Golf | 100 | 100 |
| Gymnastics | 100 | 100 |
| W. Ice Hockey | - | - |
| Lacrosse | 100 | 90 |
| Skiing | - | - |
| Soccer | 67 | 52 |
| Softball | 84 | 75 |
| Swimming | 100 | 93 |
| Tennis | 88 | 86 |
| Volleyball | 100 | 100 |
| Water Polo | - | - |
| Women's Non-NCAA Sponsor. Sports | - | - |

# ATTACHMENT D

**ATHLETICS**

*Organizational Chart*
*2017-18*

## Compliance



# ATTACHMENT E

THE EDUCATIONAL FOUNDATION, INC.

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

BATCHELOR, TILLERY & ROBERTS, LLP
CERTIFIED PUBLIC ACCOUNTANTS
POST OFFICE BOX 18068
RALEIGH, NORTH CAROLINA 27619

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## Independent Auditors' Report

The Executive Board of Directors
The Educational Foundation, Inc.:

***Report on the Financial Statements***
We have audited the accompanying financial statements of The Educational Foundation, Inc. (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows 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.

***Auditors' 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Batchelor, Tillery & Roberts, LLP

November 29, 2016

THE EDUCATIONAL FOUNDATION, INC.

Statements of Financial Position

June 30, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ | 24,702,519 | 26,936,199 |
| Certificate of deposit | | 262,841 | 262,579 |
| Investments, at fair value | | 41,593,832 | 41,822,483 |
| Prepaid expenses and other assets | | 1,821,769 | 1,152,664 |
| Pledges receivable, net | | 23,334,992 | 13,924,004 |
| Equipment, net | | 157,769 | 154,002 |
| Cash surrender value of life insurance | | 1,901,404 | 1,845,538 |
| Contributions receivable from split-interest agreements | | 3,334,664 | 3,646,195 |
| Total assets | $ | 97,109,790 | 89,743,664 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable | | 3,394,162 | 2,737,819 |
| Deferred revenue | | 855,886 | 887,081 |
| Notes payable | | 28,216,482 | 30,240,327 |
| Payables to University of North Carolina at Chapel Hill | | 20,366,898 | 22,546,896 |
| Retirement and other benefits payable | | 824,560 | 829,653 |
| Total liabilities | | 53,657,988 | 57,241,776 |
| Commitments and contingencies | | | |
| Net assets: | | | |
| Unrestricted – general fund | | (11,570,634) | (11,367,170) |
| Temporarily restricted – capital projects and other | | 21,959,214 | 16,535,065 |
| Permanently restricted – sport endowments | | 33,063,222 | 27,333,993 |
| Total net assets | | 43,451,802 | 32,501,888 |
| Total liabilities and net assets | $ | 97,109,790 | 89,743,664 |

See accompanying notes to financial statements.

THE EDUCATIONAL FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2016

| | Unrestricted (general fund) | Temporarily restricted (capital projects and other) | Permanently restricted (sport endowments) | Total |
|---|---|---|---|---|
| Revenues, gains, and other support: | | | | |
| Contributions: | | | | |
| Membership dues | $ 12,987,549 | - | - | 12,987,549 |
| Other unrestricted | 560,235 | - | - | 560,235 |
| Capital projects and other | - | 9,769,199 | - | 9,769,199 |
| Premium seating | 785,293 | 4,489,452 | - | 5,274,745 |
| Sport endowments | - | - | 5,729,229 | 5,729,229 |
| Investment return | (210,283) | (723,509) | - | (933,792) |
| Net assets released from restrictions | 8,060,125 | (8,060,125) | - | - |
| Total revenues, gains, and other support | 22,182,919 | 5,475,017 | 5,729,229 | 33,387,165 |
| Expenses and losses: | | | | |
| Program: | | | | |
| Scholarships | 4,407,309 | - | - | 4,407,309 |
| Construction | 3,304,707 | - | - | 3,304,707 |
| Contributions – University of North Carolina at Chapel Hill | 3,945,663 | - | - | 3,945,663 |
| Interest | 345,257 | - | - | 345,257 |
| Management, general, and fundraising: | | | | |
| Management and general | 3,782,739 | 50,868 | - | 3,833,607 |
| Fundraising | 3,740,077 | - | - | 3,740,077 |
| Member services: | | | | |
| Special events and other | 701,726 | - | - | 701,726 |
| Game day events | 1,728,278 | - | - | 1,728,278 |
| Complimentary tickets | 430,627 | - | - | 430,627 |
| Total expenses and losses | 22,386,383 | 50,868 | - | 22,437,251 |
| Change in net assets | (203,464) | 5,424,149 | 5,729,229 | 10,949,914 |
| Net assets: | | | | |
| Beginning of year | (11,367,170) | 16,535,065 | 27,333,993 | 32,501,888 |
| End of year | $ (11,570,634) | 21,959,214 | 33,063,222 | 43,451,802 |

See accompanying notes to financial statements.

THE EDUCATIONAL FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2015

| | Unrestricted (general fund) | Temporarily restricted (capital projects and other) | Permanently restricted (sport endowments) | Total |
|---|---|---|---|---|
| Revenues, gains, and other support: | | | | |
| Contributions: | | | | |
| Membership dues | $ 13,740,704 | - | - | 13,740,704 |
| Other unrestricted | 816,732 | - | - | 816,732 |
| Capital projects and other | - | 4,788,657 | - | 4,788,657 |
| Premium seating | 754,628 | 3,096,477 | - | 3,851,105 |
| Sport endowments | - | - | 3,815,354 | 3,815,354 |
| Investment return | 624,369 | 2,695,227 | - | 3,319,596 |
| Net assets released from restrictions | 8,643,129 | (8,643,129) | - | - |
| Total revenues, gains, and other support | 24,579,562 | 1,937,232 | 3,815,354 | 30,332,148 |
| Expenses and losses: | | | | |
| Program: | | | | |
| Scholarships | 3,323,606 | - | - | 3,323,606 |
| Construction | 1,219,672 | - | - | 1,219,672 |
| Contributions – University of North Carolina at Chapel Hill | 3,688,666 | - | - | 3,688,666 |
| Interest | 370,561 | - | - | 370,561 |
| Management, general, and fundraising: | | | | |
| Management and general | 5,911,623 | 40,920 | 10,452 | 5,962,995 |
| Fundraising | 2,911,951 | - | - | 2,911,951 |
| Member services: | | | | |
| Special events and other | 686,665 | - | - | 686,665 |
| Game day events | 2,126,699 | - | - | 2,126,699 |
| Complimentary tickets | 361,915 | - | - | 361,915 |
| Total expenses and losses | 20,601,358 | 40,920 | 10,452 | 20,652,730 |
| Change in net assets | 3,978,204 | 1,896,312 | 3,804,902 | 9,679,418 |
| Net assets: | | | | |
| Beginning of year | (15,345,374) | 14,638,753 | 23,529,091 | 22,822,470 |
| End of year | $ (11,367,170) | 16,535,065 | 27,333,993 | 32,501,888 |

See accompanying notes to financial statements.

THE EDUCATIONAL FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 10,949,914 | 9,679,418 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | | |
| Net realized and unrealized losses (gains) on investments | | 978,615 | (3,298,552) |
| Contributions receivable from split-interest agreements | | 311,531 | 288,298 |
| Loss on disposal of equipment | | 999 | - |
| Depreciation | | 65,205 | 51,832 |
| Contributions restricted for long-term investment | | (2,386,276) | (3,646,194) |
| Increase (decrease) in cash due to changes in: | | | |
| Prepaid expenses and other assets | | (669,105) | (747,381) |
| Pledges receivable | | (9,410,988) | 3,015,106 |
| Cash surrender value of life insurance | | (55,866) | (68,899) |
| Accounts payable | | 656,343 | 352,096 |
| Deferred revenue | | (31,195) | (4,363) |
| Payables to University of North Carolina at Chapel Hill | | (2,179,998) | (766,858) |
| Retirement and other benefits payable | | (5,093) | (8,198) |
| Net cash (used in) provided by operating activities | | (1,775,914) | 4,846,305 |
| Cash flows from investing activities: | | | |
| Purchase of investments | | (750,226) | (2,506,227) |
| Purchases of property and equipment | | (69,971) | (91,893) |
| Net cash used in investing activities | | (820,197) | (2,598,120) |
| Cash flows from financing activities: | | | |
| Proceeds from contributions restricted for long-term investment | | 2,386,276 | 3,646,194 |
| Repayments of notes payable | | (2,023,845) | (5,157,972) |
| Net cash provided by (used in) financing activities | | 362,431 | (1,511,778) |
| Net (decrease) increase in cash and cash equivalents | | (2,233,680) | 736,407 |
| Cash and cash equivalents: | | | |
| Beginning of year | | 26,936,199 | 26,199,792 |
| End of year | $ | 24,702,519 | 26,936,199 |

See accompanying notes to financial statements.

(1) Nature of Activities and Significant Accounting Policies

Nature of Activities

The Educational Foundation, Inc. (the "Foundation") operates primarily to assist The University of North Carolina at Chapel Hill (the "University") in providing financial assistance to over 400 students at the University and in supporting programs at the University by providing funds for construction and equipment.

A summary of the Foundation's significant accounting policies follows:

(a) Basis of Presentation

In preparing its financial statements, the Foundation's net assets and revenues, expenses, gains, losses and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or by the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the earnings on related investments for scholarship purposes or to support individual sport operations.

(b) Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include money market funds purchased with original maturities of three months or less. Cash and cash equivalents include restricted amounts of $1,577,664 and $1,385,948 as of June 30, 2016 and 2015, respectively. At times the Foundation places deposits with financial institutions that management considers to be of high-quality that may be in excess of federal insurance limits of $250,000.

(1) Nature of Activities and Significant Accounting Policies, Continued

(d) Investments

Investments are stated at fair value based on quoted market prices or net asset value per share as provided by the respective fund managers of the investments, determined at the financial statement date. For those investments using net asset value per share as the fair value measurement, the Foundation has applied a practical expedient and concluded that the net asset value reported by the underlying fund approximates the fair value of the investment, unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. Due to the nature of the underlying investments held by the various funds, changes in market conditions and the economic environment may significantly impact the net asset value of these funds, and consequently, the fair value of the Foundation's interest in these funds. The Foundation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, liquidity, foreign currency, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and activities (see note 3).

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Foundation's gains and losses on investments bought and sold as well as held during the year.

(e) Contributions

Contributions are recognized as revenues at fair value at the time the contribution or unconditional pledge, net of estimated uncollectible amounts, is received. Contributions with donor-imposed restrictions are recorded as temporarily restricted net assets until the restrictions are met or as permanently restricted net assets. At the time that temporary restrictions are met, the contributions are reported as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

## (1) Nature of Activities and Significant Accounting Policies, Continued

### (f) Equipment

Equipment is stated at cost, net of accumulated depreciation of $550,450 and $494,958 as of June 30, 2016 and 2015, respectively. The Foundation computes depreciation principally on the straight-line method over the estimated useful lives of the assets, which range from five to ten years.

### (g) Allowance for Doubtful Pledges

An allowance for doubtful pledges is established based on historical collection experience and management's estimates of the collectability of the outstanding pledges receivable. The allowance for doubtful pledges totaled $6,000,000 and $5,000,000 as of June 30, 2016 and 2015, respectively. The provision for uncollectible pledges included in the accompanying statements of activities was $1,050,868 and $2,704,496 for 2016 and 2015, respectively.

### (h) Deferred Revenue

Deferred revenue as of June 30, 2016 and 2015 relates to funds received from donors for premium seating (see note 4(a)).

### (i) Income Taxes

The Foundation is exempt from federal and state income taxes on related income under Internal Revenue Code 501(a) as an organization described in Section 501(c)(3) and applicable state statutes. Accordingly, no provision for income taxes has been made.

## (2) Pledges Receivable

Unconditional promises to give are expected to be collected in the following years:

| | 2016 | 2015 |
|---|---|---|
| In one year or less | $ 11,108,656 | 8,035,717 |
| Between one year and five years | 19,250,244 | 11,852,710 |
| Greater than five years | 988,023 | 53,681 |
| | 31,346,923 | 19,942,108 |
| Less unamortized discount (5.5%) | (2,011,931) | (1,018,104) |
| Less allowance for doubtful pledges | (6,000,000) | (5,000,000) |
| | $ 23,334,992 | 13,924,004 |

(3) Investments

The carrying values of investments were as follows:

| | 2016 | 2015 |
|---|---|---|
| Investment Fund | $ 41,379,587 | 41,556,933 |
| Other equity investments | 214,245 | 265,550 |
| | $ 41,593,832 | 41,822,483 |

The Foundation's holdings in The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (the "Investment Fund") are pooled investments. The Investment Fund's assets are invested entirely in shares of an external investment pool, the UNC Investment Fund, LLC (the "System Fund"). As of June 30, 2016, total Investment Fund units of 335,794 had a fair value of $8,287 per unit, and the Foundation owned 4,993 units. As of June 30, 2015, total Investment Fund units of 323,997 had a fair value of $8,901 per unit, and the Foundation owned 4,669 units.

Previously, the Foundation could redeem its units in the Investment Fund as of the first day of any month, based on the net asset value of the Investment Fund as of the last day of the preceding month. The Investment Fund could only redeem up to 10% of its total investment in a single quarter. Effective January 1, 2015, the System Fund's withdrawal provisions were amended to require a longer notice period for withdrawal requests in excess of $10 million per quarter for each Investment Fund or System Fund investor and generally limiting such withdrawals to $50 million per quarter for each Investment Fund or System Fund investor.

The following schedule summarizes investment return and its classification in the accompanying statements of activities:

| | 2016 | | |
|---|---|---|---|
| | Unrestricted | Temporarily restricted | Total |
| Interest and dividend income | $ 43,360 | 1,463 | 44,823 |
| Net realized and unrealized losses | (253,643) | (724,972) | (978,615) |
| | $ (210,283) | (723,509) | (933,792) |

| | 2015 | | |
|---|---|---|---|
| | Unrestricted | Temporarily restricted | Total |
| Interest and dividend income | $ 20,543 | 501 | 21,044 |
| Net realized and unrealized gains | 603,826 | 2,694,726 | 3,298,552 |
| | $ 624,369 | 2,695,227 | 3,319,596 |

(3) Investments, Continued

Management follows an established framework for measuring fair value, using a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of fair value inputs that may be used to measure fair value under the hierarchy are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate-debt securities, and certain alternative investments.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing and amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset and may not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset.

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

(3) Investments, Continued

As of June 30, 2016, the fair value of the Foundation's investments was determined based on:

| | | Fair value | Unobservable inputs (Level 3) |
|---|---|---|---|
| Equity investments | $ | 214,245 | 214,245 |
| Investments measured using net asset value per share - Investment Fund | | 41,379,587 | |
| | $ | 41,593,832 | |

As of June 30, 2015, the fair value of the Foundation's investments was determined based on:

| | | Fair value | Unobservable inputs (Level 3) |
|---|---|---|---|
| Equity investments | $ | 265,550 | 265,550 |
| Investments measured using net asset value per share - Investment Fund | | 41,556,933 | |
| | $ | 41,822,483 | |

The activity for investments measured at fair value based on significant unobservable information is as follows:

| | | 2016 | 2015 |
|---|---|---|---|
| Other equity investments: | | | |
| Beginning balance | $ | 265,550 | 245,903 |
| Purchases | | 24,000 | 33,500 |
| Total net unrealized losses | | (75,305) | (13,853) |
| Ending balance | $ | 214,245 | 265,550 |

(4) Related Party Transactions

(a) Premium Seating Revenues and Pledges Receivable

The Foundation and the University have a collaborative relationship regarding the premium seating in Kenan Stadium. Statements of Intent for premium seating in Kenan Stadium and Blue Zone Seat License and Suite License Agreements between the University and seat holders require the purchaser to make a contribution to the Foundation to have the right to purchase football season tickets in premium seating areas from the University and allow the purchaser to use the premium seating common areas and enjoy associated amenities (beverages, food, etc.). Payments are made under these agreements to the Foundation over varying periods. The Foundation has estimated the value of the benefits (amenities) associated with these premium seating areas and will recognize that portion of the required payments as income when the amenities are provided to the seat holders. Revenues for amenities provided to seat holders of $785,293 and $754,628 were recognized in the accompanying statements of activities for 2016 and 2015, respectively. Payments received related to estimated amenities for future football seasons in the amounts of $855,886 and $887,081 are recorded as deferred revenue in the accompanying statements of financial position as of June 30, 2016 and 2015, respectively.

Total new pledges from premium seat holders having signed Statements of Intent or License Agreements were $5,151,374 and $3,609,256 for 2016 and 2015, respectively. In 2016 and 2015, respectively, $4,489,452 and $3,096,477 of these total new pledge revenues was recognized as contribution income in the accompanying statements of activities for these new pledge revenues that were not attributable to estimated amenities, along with the amortization of the discount on previously recorded pledges receivable. Future payments due to the Foundation under these premium seating agreements that are not attributable to estimated amenities have been recorded as pledges receivable at the present value of the estimated future cash inflows using a discount rate of 5.5% in 2016 and 2015 and totaled $7,998,715 and $7,300,935 as of June 30, 2016 and 2015, respectively.

(b) Payables to the University of North Carolina at Chapel Hill

The Foundation entered into two pledge agreements with the University to provide additional funds to the University totaling $11,999,000 payable over an eight-year period commencing in July 2007 to enable the University to discharge certain financial obligations incurred by the University. During 2012, certain of the University's underlying financial obligations ceased, thereby relieving the Foundation of their corresponding future liability. The Foundation paid off these remaining pledges in full in April 2015. The additional contribution expense under the agreements for funds received in excess of the scheduled payments totaled $129,749 for 2015.

(4) Related Party Transactions, Continued

(b) Payables to the University of North Carolina at Chapel Hill, Continued

In 2007, the Foundation approved a request from the University for a contribution of up to $5,000,000 from the Foundation's restricted matching gift account toward the construction of the Bell Tower Parking Deck. This contribution was conditioned upon the availability of future gifts and interest from the matching gift account. As of June 30, 2016 and 2015, respectively, the Foundation recorded a payable related to the Bell Tower Deck contribution to the University of $203,455 and $486,623 for the gifts and interest received by the Foundation during these fiscal years that had not been contributed to the University as of year-end. The expense related to these payables totaled $203,455 and $249,776 for 2016 and 2015, respectively, and these amounts were included in contribution expense in the accompanying statements of activities.

In September 2010, the University, acting on behalf of the State of North Carolina pursuant to the terms of the Ground Lease agreement dated November 2009, purchased the Kenan Stadium Phase I improvements and certain design costs related to Phase II renovations for a total purchase price of $25,000,000. The University issued general revenue bonds in connection with this purchase. The Foundation has an informal understanding with the University that it will make annual payments to the University to fund the debt service requirements related to this bond issuance which began in November 2010. This payable to the University totaling $20,163,443 and $22,060,273, respectively, as of June 30, 2016 and 2015 has been recorded at the present value of the estimated future cash outflows using a discount rate of 5.5%. The amortization of the related discount totaled $898,165 and $1,222,312 for 2016 and 2015, respectively, and is included as contribution expense in the accompanying statements of activities. In October 2016 and September 2015 the Foundation made accelerated payments of $1,651,063 and $1,234,980, respectively, on this payable.

The Foundation periodically enters into arrangements with the University Athletic Department to fund certain expenses on their behalf. Under the terms of these agreements, certain costs incurred by the Foundation during 2016 and 2015 were reimbursed by the Athletic Department's payment of a portion of the Foundation's obligations to the University as outlined herein.

These payables to the University are expected to be paid in the following periods:

| | 2016 | 2015 |
|---|---|---|
| In one year or less | $ 1,744,425 | 2,118,200 |
| Between one year and five years | 6,161,634 | 6,512,703 |
| Greater than five years | 29,020,306 | 32,284,177 |
| | 36,926,365 | 40,915,080 |
| Less unamortized discount, with a discount rate of 5.5% | (16,559,467) | (18,368,184) |
| | $ 20,366,898 | 22,546,896 |

(4) Related Party Transactions, Continued

(c) Other

The Board of Trustees of The Educational Foundation Scholarship Endowment Trust (the "Trust") appropriates a portion of the net appreciation on its assets to the Foundation on an annual basis. The distribution from the Trust to the Foundation was $10,137,519 and $9,853,034 in 2016 and 2015, respectively. The Foundation forwards those funds to the University to provide financial assistance to students at the University. Accordingly, these amounts have not been included in the revenues and expenses of the Foundation in the accompanying statements of activities as the Foundation was acting in its capacity as an agent for the Trust, with respect to the annual endowment distribution made by the Trust, as defined in FASB ASC Topic 958, *Not-for-Profit Entities.*

In February, 2016 the Foundation agreed to provide funds on an as-needed basis, and only upon the University's specific annual request, to the University in an amount not to exceed $500,000 annually for a period of no longer than five years to discharge certain financial obligations incurred by the University. During 2016, the University notified the Foundation of its need for $500,000 to meet these financial obligations during the year ended June 30, 2016. A payable of $500,000 is included in accounts payable as of June 30, 2016 and is not discounted as it is due within one year. The expense related to this payable totaled $500,000 for 2016, which is included as contribution expense in the accompanying statement of activities for 2016.

The Foundation made contributions to the University of $834,969 and $898,466 for 2016 and 2015, respectively, to fund specific requests made by the University.

The Foundation provides complimentary tickets for athletic events to some of its contributors. Payments for these tickets are made to the University and totaled $430,627 and $361,915 in 2016 and 2015, respectively.

From time to time, the Foundation will conduct limited fundraising campaigns for capital projects constructed by the University. Contributions related to such projects totaled $116,802 and $98,115 in 2016 and 2015, respectively, and have been recorded as contribution expense in the accompanying statement of activities.

Periodically, the Foundation also provides support to the University for other various construction programs. Support for these programs has been recorded as construction expense in the accompanying statements of activities and totaled $3,304,707 and $1,219,672 in 2016 and 2015, respectively.

In December 2007, the Foundation moved into offices located in the Ernie Williamson Athletics Center on the campus of the University. The University does not charge the Foundation to occupy this space on campus. The estimated fair value of the rental expense associated with the occupancy of the approximately 9,900 square feet of on-campus office space of $246,700 has been included in the 2016 and 2015 statements of activities as both an unrestricted contribution to the Foundation and as management and general expense.

(5) Capital Projects

In March 2010, the Foundation committed to incur construction costs of up to $70,000,000 towards Phase II of a renovation of Kenan Stadium including the demolition of the existing field house in the east end zone and construction of the Loudermilk Center for Excellence (housing student-athlete academic support services and weight training areas) and the Blue Zone (additional premium seating including 20 suites and two club levels). $7,000,000 of planning and early site work costs associated with Phase II were financed under a previous credit facility associated with Phase I and were purchased by the University in 2011 (see note 4b).

The Foundation entered into a Ground Lease agreement with the University dated March 18, 2011 (the "Phase II Ground Lease") which required the University to purchase the remaining improvements related to Phase II of the Kenan Stadium renovations in an amount not to exceed $63,000,000. Certain provisions of the Phase II Ground Lease relating to the payment method for the purchase price were amended by letter agreement between the parties dated July 10, 2012. The University purchased the Phase II improvements in December 2012. In connection with the purchase, the Board of Governors of the University of North Carolina issued a general revenue bond to the Foundation with a maturity date corresponding to the maturity date of the construction loan agreement for Phase II (see note 11). Upon realization of any proceeds from the general revenue bond, the Foundation is obligated to forward such proceeds to the lender to satisfy any remaining balance of the construction loan in full. The Foundation also expects to make annual payments to the University to fund the future debt service requirements related to the general revenue bond. As a result, the Foundation recorded transfers of capital assets to the University of $9,476 and $18,104 related to Phase II of the Kenan Stadium renovation in the accompanying statements of activities in 2016 and 2015, respectively, and the cumulative transfers under this agreement totaled $62,840,563 as of June 30, 2016. In June, 2015, the Board of Governors of the University of North Carolina amended the previously issued general revenue bond to extend the maturity date to June 1, 2042 in order to allow the Foundation more time to continue to raise funds to pay down the loan. The transfers to the University related to the Phase II project occurred while the fundraising related to project is ongoing, which led to the current deficits in unrestricted net assets of ($11,570,634) and ($11,367,170) in the accompanying statements of financial position as of June 30, 2016 and 2015, respectively. New pledges towards this project and renewals of Blue Zone Seat and Suite Licenses will continue to occur in future years and as such amounts are collected, temporarily restricted net assets will be released to unrestricted net assets, thus reducing the current deficit. During that period, management expects to have sufficient cash flow to fund its operations.

In June 2014, the Foundation committed to renovations of the softball facility and the gymnastics practice area. The Foundation's commitment specified that construction costs should not exceed $1,000,000 for the two projects combined. The expectation at that time was that the budget for each project would be $500,000. In April 2015, the Management Committee, acting on behalf of the full Board pursuant to the Bylaws of the Foundation, approved an increase to the softball project budget to an amount not to exceed $700,000 and clarified that the gymnastics project budget remained approved in an amount not to exceed $500,000. In November, 2016, the Management Committee, acting on behalf of the full Board pursuant to the Bylaws of the Foundation, retroactively approved an increase to the gymnastics project budget to $569,000. Total construction-related payments on these projects were $366,221 and $804,707 for 2016 and 2015, respectively, and are included as construction expense in the accompanying statements of activities for 2016 and 2015. The maximum

(5) Capital Projects, Continued

outstanding capital project commitment for these projects was $58,072 and $355,293 as of June 30, 2016 and 2015, respectively.

In October 2014, the Foundation committed to a renovation and expansion of the volleyball locker room. The Foundation's commitment specified that construction costs should not exceed $800,000 for this project. In September 2015, the Foundation increased its commitment to this project to an amount to not to exceed $860,000. Total construction-related payments on this project were $687,375 and $102,254 for 2016 and 2015, respectively, and are included as construction expense in the accompanying statements of activities for 2016 and 2015. The maximum outstanding capital project commitment for this project was $68,001 and $682,446 as of June 30, 2016 and 2015, respectively.

In January 2016, the Foundation committed to the construction of two grass fields on the south side of Finley Fields. The Foundation's commitment specified that construction costs should not exceed $2,000,000 for this project. Total construction-related payments on this project were $91,455 for 2016 and are included as construction expense in the accompanying statement of activities for 2016. The maximum outstanding capital project commitment for this project was $1,908,545 as of June 30, 2016.

Also in January 2016, the Foundation committed to design and pre-construction services in an amount not to exceed $4,500,000 for the construction of a football practice complex, including an indoor practice facility for football and a renovation of the soccer/lacrosse stadium located at Fetzer Field, as well as the potential construction of a new field hockey facility located at Ehringhaus Field. Total payments related to these design and pre-construction services for the projects indicated above were $739,731 for 2016 and are included as construction expense in the accompanying statement of activities for 2016. The maximum outstanding capital project commitment for these projects was $3,760,269 as of June 30, 2016.

In February 2016, the Foundation committed to a renovation of the men's basketball locker room suite area of the Smith Center, including the renovation of the locker rooms, restrooms and shower facilities for the players, coaches and staff of the men's basketball program and the renovation of the therapy areas and the players' lounge. The Foundation's commitment specified that construction costs should not exceed $4,200,000 for this project. In September 2016, the Foundation increased its commitment to this project to an amount not to exceed $5,600,000. Total construction-related payments on this project were $1,337,921 for 2016 and are included as construction expense in the accompanying statement of activities for 2016. The maximum outstanding project commitment for this project was $2,862,079 as of June 30, 2016 (increased to $4,262,079, subsequently).

In April 2016, the Foundation committed to a contribution of up to $200,000 (not to exceed actual costs incurred) to the Hooker Fields project being constructed by the University for the following project upgrades: 1) field upgrade, 2) shock pad upgrade, 3) rugby package and 4) addition of logos. There have been no payments toward this commitment as of June 30, 2016 and the maximum outstanding commitment was $200,000 as of June 30, 2016.

(5) Capital Projects, Continued

In May 2016, the Foundation committed to a renovation of Boshamer Stadium to provide a new visiting team locker room and team meeting and multipurpose space. The Foundation's commitment specified that construction costs should not exceed $1,200,000 for this project. There were no construction-related payments made on this project as of June 30, 2016, and the maximum outstanding capital project commitment was $1,200,000 as of June 30, 2016.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

| | | 2016 | 2015 |
|---|---|---|---|
| Sports programs | $ | 5,168,449 | 7,303,661 |
| Capital and other projects | | 8,792,050 | 1,930,469 |
| For periods after year end | | 7,998,715 | 7,300,935 |
| | $ | 21,959,214 | 16,535,065 |

Net assets of $8,060,125 and $8,643,129 were released from donor restrictions by incurring construction and other expenses satisfying the restricted purposes specified by donors for 2016 and 2015, respectively.

(7) Contributions Receivable from Split-Interest Agreements

The Foundation has been named as a beneficiary in numerous charitable remainder trusts and split-interest agreements in which the Foundation is not the trustee. When the Foundation is notified of the existence of a trust or other split-interest agreement, a receivable and contribution revenue are recorded at the present value of the estimated future cash receipts expected to be received by the Foundation. It is the Foundation's policy (consistent with GAAP) not to record contributions receivable from split-interest agreements if the agreement is revocable or if the donor retains the unilateral right to change beneficiaries.

At the end of each fiscal year, the fair value of the contributions receivable from split-interest agreements is determined by using the fair values of the underlying assets at that date and reevaluating the estimated future cash receipts expected to be received by the Foundation utilizing estimated discount rates, future rates of return and mortality tables. Contributions receivable from split-interest agreements totaled $3,334,664 and $3,646,195 as of June 30, 2016 and 2015, respectively. Changes in the fair value of the split-interest agreements of ($311,531) and ($288,298) for 2016 and 2015, respectively, were recognized in the accompanying statements of activities through unrestricted, temporarily and permanently restricted contributions revenue.

(7) Contributions Receivable from Split-Interest Agreements, Continued

Due to the level of risk associated with certain underlying trust assets, it is reasonably possible that changes in the values of investment securities held by the trusts will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and activities.

(8) Sport Endowments and Other Permanently Restricted Activities

Permanently restricted net assets totaled $33,063,222 and $27,333,993 as of June 30, 2016 and 2015, respectively. These net assets are restricted to support the operating budgets of the twenty-eight individual sports programs at The University of North Carolina at Chapel Hill. Permanently restricted net assets are restricted to investment in perpetuity, and the income from these assets is expendable to provide operational support for the designated sports programs. The Head Coach of each sport program and the Athletic Director determine the purposes for the operational support which may include, but are not limited to, facility improvements, increased recruiting budgets, coaching staff salary supplements and other such purposes, subject to state, federal and NCAA regulations.

(9) Management and Investment of Donor-Restricted Endowments

Effective March 14, 2009, the Foundation's management and investment of donor-restricted endowment funds became subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Prior to this time, endowed funds were subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). UMIFA, in effect in North Carolina since 1985, provided a prudent standard for the spending of the net appreciation of a donor-restricted endowment fund and imposed a spending floor of an endowment's book value (referred to as historic dollar value in UMIFA). UPMIFA provides, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the institution to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility under UPMIFA allows an expenditure that lowers the value of the corpus of an endowment fund below its book value, which was not allowed under UMIFA.

The Foundation decided to follow the policy adopted by the University concerning the provisions of UPMIFA. For endowments where market value has declined below the book value, this policy indicates that the Foundation shall examine the endowment-supported activity for the upcoming fiscal year for possible deferment of program expenses, and then pursue alternative funding for essential activities, and finally shall consult with donors regarding other funding options. Invasion of endowment principal is an option of last resort. Generally, the original value of all donor-restricted endowed gifts are recorded as permanently restricted net assets and any investment returns earned on endowed assets are recorded as increases or decreases to temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner that is consistent with the standard of prudence described by UPMIFA. The market value for 1 of the 33 donor-restricted endowments as of June 30, 2016 had fallen below book value as a result of unfavorable market fluctuations. In accordance with GAAP, deficiencies of this nature that are reported as unrestricted net assets were ($58,459) and ($17,950) as of June 30, 2016 and 2015, respectively.

(9) Management and Investment of Donor-Restricted Endowments, Continued

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the stability of the endowment assets. For the Foundation assets invested in the Investment Fund as described in notes 3 and 15, the Foundation has adopted the investment policies established by the Board Directors of the Investment Fund and the System Fund. Under this policy, as approved by the Foundation, the endowment assets are invested in a manner that is intended to earn an average real total return of at least 5.5% per year, net of all fees, over rolling five and ten year periods. The distribution policy is to provide a stable source of spending support that is sustainable over the long-term while preserving the purchasing power of the invested funds. The distribution rate was established at 5% of market value in 2000, with annual increases in later years based on inflationary factors. Each year's distribution is subject to a 4% floor and a 7% cap based on estimated previous fiscal year-end market value. The Foundation expects its endowment funds, over long time periods, to provide an average annual real rate-of-return of approximately 5.5%. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a long term strategy to preserve the real purchasing power of the endowment, while providing a predictable, stable and constant (in real terms) stream of earnings while reducing volatility. The Foundation targets a diversified asset allocation with emphasis on investment manager selection to achieve its long-term return objectives within prudent risk constraints.

A reconciliation of the beginning and ending balance of the Foundation's endowment investments (exclusive of pledges), which are all donor-restricted endowment funds, in total and by net asset class, is as follows:

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Endowments, beginning of year | $ (17,950) | 7,303,661 | 24,328,458 | 31,614,169 |
| Interest and dividend income | - | 1,082 | - | 1,082 |
| Reinvested payout | - | 67,779 | - | 67,779 |
| Loss on perpetual funds with a deficiency | (40,509) | 40,509 | - | - |
| Net unrealized and realized investment loss | - | (861,802) | - | (861,802) |
| Contributions | - | - | 2,386,276 | 2,386,276 |
| Transfer of endowment assets for expenditure | - | (1,382,780) | - | (1,382,780) |
| Endowments, end of year | $ (58,459) | 5,168,449 | 26,714,734 | 31,824,724 |

(9) Management and Investment of Donor-Restricted Endowments, Continued

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Endowments, beginning of year | $ - | 5,900,085 | 20,682,264 | 26,582,349 |
| Interest and dividend income | - | 1,545 | - | 1,545 |
| Reinvested payout | - | 274,067 | - | 274,067 |
| Loss on perpetual funds with a deficiency | (17,950) | 17,950 | - | - |
| Net unrealized and realized investment gain | - | 2,383,278 | - | 2,383,278 |
| Contributions | - | - | 3,646,194 | 3,646,194 |
| Transfer of endowment assets for expenditure | - | (1,273,264) | - | (1,273,264) |
| Endowments, end of year | $ (17,950) | 7,303,661 | 24,328,458 | 31,614,169 |

Amounts of endowment assets transferred for expenditure of $1,382,780 and $1,273,264 for 2016 and 2015, respectively, are included in contribution expense in the accompanying statements of activities.

(10) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and the cash surrender value of life insurance approximate fair value because of the terms and relatively short maturity of these financial instruments. The carrying amounts of pledges receivable and contributions receivable from split-interest agreements approximate fair value because these instruments are recorded at the estimated net present value of future cash flows. Investments are carried at fair value.

The carrying amounts of notes payable approximate fair value because these instruments are variable rate debt. The carrying amounts of accounts payable and payables to the University of North Carolina at Chapel Hill also approximate fair value.

(11) Line of Credit Facilities

In May 2010, the Foundation executed a construction loan agreement whereby the Foundation may borrow up to $7,050,000 to fund certain construction expenses related to the renovation of the basketball offices in the Dean E. Smith Center. Borrowings under this loan arrangement bore interest annually at a variable rate equal to the one month LIBOR plus 1%, subject to a minimum rate of 1.4%. Quarterly interest-only payments were due beginning July 1, 2011, with principal payments required quarterly commencing on the first day of the month following the Foundation's receipt of the certificate of occupancy on the project and continuing quarterly thereafter with all principal and interest due on May 20, 2015. On June 5, 2014, the Foundation and the lender modified the agreement to eliminate the interest rate floor and provide that borrowings would bear interest at a variable rate equal to the one-month LIBOR plus 1% (1.1509% as of June 30, 2015) and extended the maturity date to May 20, 2016. As of June 30, 2015, the Foundation had made draws on this

(11) Line of Credit Facilities, Continued

construction loan of $4,950,386, with principal repayments made from 2012 to 2015, leaving a balance due on the loan of $840,423. The line of credit facility was paid in full on May 20, 2016 and this credit facility was extinguished.

In August 2010, the Foundation executed a construction loan agreement whereby the Foundation may borrow up to $63,000,000 to fund certain construction expenses related to Phase II of the Kenan Stadium renovation project. Borrowings under the line bore interest annually at a variable rate equal to the LIBOR Market Index Rate plus 1%, subject to a minimum rate of 1.4%. Quarterly interest-only payments were due beginning August, 2010, with principal payments required quarterly commencing in December, 2012 (see note 5), in the amount equal to capital campaign pledges collected by the Foundation since the last principal payment date with all principal and interest due on August 18, 2016. On February 28, 2014, the Foundation and the lender modified the agreement to eliminate the interest rate floor and provide that borrowings would bear interest at a variable rate equal to the one-month LIBOR plus 1%. On June 1, 2015, the Foundation and the lender modified the agreement to decrease the interest rate and provide that borrowings would bear interest at a variable rate equal to the one-month LIBOR plus 0.85% (1.3125% as of June 30, 2016) and extended the maturity date to June 1, 2022. As of June 30, 2016 and 2015, respectively the Foundation had made draws of $62,393,376, on this construction loan, with principal repayments made from 2013 to 2016, leaving a balance due on the loan of $28,103,724 and $29,399,904 as of June 30, 2016 and 2015, respectively. Subsequent to June 30, 2016, the Foundation made additional principal payments on this loan of $309,729.

In April, 2016, the Foundation executed a construction loan agreement whereby the Foundation may borrow up to $3,500,000 to fund certain construction expenses related to the Smith Center Locker Room Suite project. Borrowings under the line bear interest annually at a variable rate equal to the LIBOR Market Index Rate plus 0.85% (1.3125% as of June 30, 2016) with quarterly interest-only payments beginning July 1, 2016, with principal payments required quarterly commencing on the first day of the month following the Foundation's receipt of the certificate of occupancy on the project and continuing quarterly thereafter with all principal and interest due on April 22, 2021. As of June 30, 2016, the Foundation had made draws on this construction loan of $105,504. Construction on this project was ongoing as of June 30, 2016.

In April, 2016, the Foundation also executed a construction loan agreement whereby the Foundation may borrow up to $4,500,000 to fund design and other soft costs related to potential projects on the University's campus including the construction of a football practice complex, renovation of the soccer/lacrosse stadium complex located at Fetzer Field and a potential relocation of field hockey facilities to Ehringhaus Field. Borrowings under the line bear interest annually at a variable rate equal to the LIBOR Market Index Rate plus 0.85% (1.3125% as of June 30, 2016) with quarterly interest-only payments beginning July 1, 2016 and continuing quarterly thereafter with one final payment of all principal and remaining interest due on April 22, 2018. As of June 30, 2016, the Foundation had made draws on this construction loan of $4,254.

(11) Line of Credit Facilities, Continued

In June, 2016, the Foundation executed a construction loan agreement whereby the Foundation may borrow up to $2,000,000 to fund design and construction costs related to improvements to the south side of the Finley Fields practice fields including construction of two new practice fields. Borrowings under the line bear interest annually at a variable rate equal to the LIBOR Market Index Rate plus 0.85% (1.3125% as of June 30, 2016) with quarterly interest-only payments beginning July 1, 2016 and continuing quarterly thereafter with one final payment of all principal and remaining interest due on June 1, 2020. As of June 30, 2016, the Foundation had made draws of $3,000 on this credit facility.

During 2016, the Foundation incurred and paid total interest on its lines of credit of $351,618, of which $6,315 was expensed as part of the substantially completed Smith Center basketball offices renovation project, $345,257 was expensed as it relates to Phase II of the substantially completed Kenan Stadium renovation project and $46 was expensed as part of the ongoing Smith Center basketball locker suite renovation project. During 2015, the Foundation incurred and paid total interest on its lines of credit of $381,794, of which $11,233 was expensed as part of the ongoing Smith Center construction project and $370,561 was expensed as it relates to Phase II of the Kenan Stadium renovation project.

(12) Lease Commitments

The Foundation leases certain equipment under various operating leases. Rent and lease expense under these operating leases was $36,942 and $52,974 for 2016 and 2015, respectively.

As of June 30, 2016, future minimum lease payments under the noncancellable operating leases are as follows:

| Year ending June 30: | |
|---|---|
| 2017 | $ 39,606 |
| 2018 | 35,826 |
| 2019 | 34,566 |
| 2020 | 17,444 |
| | $ 127,442 |

(13) Retirement Plans

In 2014, the Foundation began offering a qualified, defined-contribution retirement plan (the "Plan") that is tax-exempt under section 401(k) of the Internal Revenue code and covers substantially all employees. The Foundation has elected to make a safe harbor contribution on behalf of participating employees at 3% of eligible wages. Additionally, the Foundation matches 100% of employee salary deferrals up to 6% of the employee's annual base salary. The Foundation may also elect to make a discretionary profit sharing contribution. The Foundation contributed $211,805 and $192,360 to the Plan in 2016 and 2015, respectively.

(13) Retirement Plans, Continued

The Foundation also maintains a nonqualified retirement plan to provide supplemental retirement benefits for certain employees. The associated retirement plan expenses (benefits) are recognized in management and general expenses in the accompanying statements of activities as services are rendered by the covered employees and totaled $5,818 and ($10,320) for 2016 and 2015, respectively. The retirement and other related death benefit liabilities totaled $824,560 and $829,653 as of June 30, 2016 and 2015, respectively. These liabilities are to be funded with the life insurance policies maintained by the Foundation. The cash surrender value of life insurance policies related to the supplemental retirement program held as of June 30, 2016 and 2015 was $1,901,404 and $1,845,538, respectively. The gross face value of the seven policies held by the Foundation was $5,310,442 and $5,289,921 as of June 30, 2016 and 2015, respectively.

Assumptions used to determine the retirement benefit liability and related costs as of June 30, 2016 and 2015 were as follows:

| | |
|---|---|
| Discount rate | 5.5% |
| Rate of compensation increase | 4.0 - 5.0% |

(14) Subsequent Events

In connection with the preparation of the financial statements in accordance with GAAP, the Foundation considered for adjustment to the financial statements or disclosure subsequent events that occurred after the statement of financial position date of June 30, 2016 through November 29, 2016, which was the date the financial statements were available to be issued.

(15) External Investment Pool – The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.

Substantially all of the Foundation's investment assets are held in the Investment Fund, which is a governmental not-for-profit organization established as a separate incorporated investment fund pool. The pool is utilized to manage the investments of the Endowment Fund of the University of North Carolina at Chapel Hill (the "University), and other charitable, not-for-profit foundations, associations, trusts, endowments, and funds organized and operated external to the University.

All of the assets of the Investment Fund are invested in the UNC Investment Fund, LLC (the "System Fund"), an investment pool. The System Fund was organized in December 2002 as a North Carolina limited liability company to engage in the business of acquiring, holding and disposing of property for investment purposes on behalf of its members. Members may include The University of North Carolina and its constituent institutions and their related endowments and tax-exempt foundations.

The System Fund is designed to allow members to pool their resources and invest collectively in investment opportunities identified, structured and arranged by UNC Management Company, Inc. (the "Management Company"). The System Fund has not been registered under the Securities Act of 1933, as amended, or the securities laws or any state or other jurisdiction, nor is such registration contemplated. The System Fund's financial statements for the years ended June 30, 2016 and 2015 have been audited by an independent auditor who issued an unmodified opinion dated October 21, 2016. Audited financial statements for the System Fund may be obtained by sending a request to uncmc@uncmc.unc.edu. The System Fund's primary office is located at the following address: UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, North Carolina 27517.

The System Fund accounts for its investments at fair value in accordance with Government Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The fair values of all debt and equity securities with readily determinable fair values are based on quoted prices. Based on the System Fund's audited financial statements, investments for which a readily determinable fair value does not exist include investments in venture capital, hedge funds and limited partnerships for which the underlying securities may include marketable debt and equity securities. These investments are carried at estimated fair values as provided by the respective fund managers. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

(15) External Investment Pool – The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc., Continued

Based on the System Fund's audited financial statements, the investments of the System Fund are summarized by type as follows as of June 30, 2016 and 2015:

| | | 2016 | 2015 |
|---|---|---|---|
| Debt securities: | | | |
| Money market mutual funds | $ | 183,123,043 | 241,894,263 |
| U.S. Treasuries | | 18,468,086 | 16,735,371 |
| U.S. Agencies | | 55,621,626 | 46,474,713 |
| Collateralized mortgage obligations | | 61,374,473 | 74,741,538 |
| Asset-backed securities | | 33,108,935 | 26,329,177 |
| Debt mutual funds | | 1,816,478 | 1,712,656 |
| Domestic corporate bonds | | 4,254,360 | 3,665,430 |
| Domestic municipal bonds | | 3,204,096 | 1,693,775 |
| | | 360,971,097 | 413,246,923 |
| Other securities: | | | |
| Equity index funds | | 5,897,247 | 917,640 |
| Real estate investment trusts | | 39,477,001 | 29,217,648 |
| Long/short hedge funds | | 922,255,112 | 928,507,248 |
| Diversifying hedge funds | | 328,625,515 | 319,503,506 |
| Hedge funds in liquidation | | 7,826,769 | 40,388,425 |
| Long only equity funds | | 907,682,806 | 1,165,276,639 |
| Private equity limited partnerships | | 1,413,818,129 | 1,087,580,886 |
| Real assets limited partnerships | | 277,180,733 | 522,368,873 |
| Credit based commingled funds | | 107,501,693 | - |
| Domestic stocks | | 227,113,280 | 205,099,226 |
| International equities | | 18,319,891 | - |
| Foreign equities | | - | 6,139,791 |
| Total System Fund pool investments | $ | 4,616,669,273 | 4,718,246,805 |

# ATTACHMENT F

THE EDUCATIONAL FOUNDATION
SCHOLARSHIP ENDOWMENT TRUST

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

BATCHELOR, TILLERY & ROBERTS, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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# Independent Auditors' Report

The Board of Trustees
The Educational Foundation
Scholarship Endowment Trust:

***Report on the Financial Statements***

We have audited the accompanying financial statements of The Educational Foundation Scholarship Endowment Trust (the "Trust") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows 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.

***Auditors' 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Batchelor, Tillery & Roberts, LLP

October 31, 2016

THE EDUCATIONAL FOUNDATION SCHOLARSHIP
ENDOWMENT TRUST

Statements of Financial Position

June 30, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ | 10,929,509 | 11,853,137 |
| Pledges receivable, net of allowances for doubtful pledges | | 2,249,368 | 2,010,209 |
| Contributions receivable from split-interest agreements | | 3,584,863 | 3,744,569 |
| Investments | | 201,679,453 | 213,374,259 |
| Cash value of life insurance | | 1,753,837 | 1,743,309 |
| Total assets | $ | 220,197,030 | 232,725,483 |
| **Liabilities and Net Assets** | | | |
| Liabilities – annuities payable | | 47,626 | 56,089 |
| Commitments | | | |
| Net assets: | | | |
| Temporarily restricted | | 103,123,215 | 118,207,875 |
| Permanently restricted | | 117,026,189 | 114,461,519 |
| Total net assets | | 220,149,404 | 232,669,394 |
| Total liabilities and net assets | $ | 220,197,030 | 232,725,483 |

See accompanying notes to financial statements.

THE EDUCATIONAL FOUNDATION SCHOLARSHIP
ENDOWMENT TRUST

Statement of Activities

Year ended June 30, 2016

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Revenues, gains, and other support: | | | | |
| Contributions | $ - | - | 2,829,670 | 2,829,670 |
| Actuarial adjustment of annuities payable | - | 8,463 | - | 8,463 |
| Endowment investment return designated for current operations | - | 10,144,302 | - | 10,144,302 |
| Net assets released from restrictions | 10,144,302 | (10,144,302) | - | - |
| Total revenues, gains, and other support | 10,144,302 | 8,463 | 2,829,670 | 12,982,435 |
| Expenses and losses: | | | | |
| Scholarship expense distribution | 10,137,519 | - | - | 10,137,519 |
| Annuity payments | 6,783 | - | - | 6,783 |
| Other expense/loss | - | - | 265,000 | 265,000 |
| Total expenses and losses | 10,144,302 | - | 265,000 | 10,409,302 |
| Change in net assets before other changes | - | 8,463 | 2,564,670 | 2,573,133 |
| Other changes – endowment investment return, net of amounts designated for current operations | - | (15,093,123) | - | (15,093,123) |
| Change in net assets | - | (15,084,660) | 2,564,670 | (12,519,990) |
| Net assets: | | | | |
| Beginning of year | - | 118,207,875 | 114,461,519 | 232,669,394 |
| End of year | $ - | 103,123,215 | 117,026,189 | 220,149,404 |

See accompanying notes to financial statements.

THE EDUCATIONAL FOUNDATION SCHOLARSHIP
ENDOWMENT TRUST

Statement of Activities

Year ended June 30, 2015

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Revenues, gains, and other support: | | | | |
| Contributions | $ - | - | 3,279,447 | 3,279,447 |
| Actuarial adjustment of annuities payable | - | 3,934 | - | 3,934 |
| Endowment investment return designated for current operations | - | 9,858,904 | - | 9,858,904 |
| Net assets released from restrictions | 9,858,904 | (9,858,904) | - | - |
| Total revenues, gains, and other support | 9,858,904 | 3,934 | 3,279,447 | 13,142,285 |
| Expenses and losses: | | | | |
| Scholarship expense distribution | 9,853,034 | - | - | 9,853,034 |
| Annuity payments | 5,870 | - | - | 5,870 |
| Other expense/loss | - | - | 350,985 | 350,985 |
| Total expenses and losses | 9,858,904 | - | 350,985 | 10,209,889 |
| Change in net assets before other changes | - | 3,934 | 2,928,462 | 2,932,396 |
| Other changes – endowment investment return in excess of amounts designated for current operations | - | 8,584,978 | - | 8,584,978 |
| Change in net assets | - | 8,588,912 | 2,928,462 | 11,517,374 |
| Net assets: | | | | |
| Beginning of year | - | 109,618,963 | 111,533,057 | 221,152,020 |
| End of year | $ - | 118,207,875 | 114,461,519 | 232,669,394 |

See accompanying notes to financial statements.

THE EDUCATIONAL FOUNDATION SCHOLARSHIP
ENDOWMENT TRUST

Statements of Cash Flows

Years ended June 30, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | (12,519,990) | 11,517,374 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | | |
| Net realized and unrealized losses (gains) on investments | | 4,948,821 | (18,443,882) |
| Contributions restricted for investment in endowment | | (2,989,376) | (3,425,123) |
| Increase (decrease) in cash due to changes in: | | | |
| Pledges receivable | | (239,159) | 397,368 |
| Contributions receivable from split-interest agreements | | 159,706 | 145,676 |
| Cash value of life insurance | | (10,528) | 200,291 |
| Annuities payable | | (8,463) | (3,934) |
| Net cash used in operating activities | | (10,658,989) | (9,612,230) |
| Cash flows from investing activities: | | | |
| Purchases of investments | | (3,716,902) | (2,730,324) |
| Proceeds from sales of investments | | 10,462,887 | 10,210,660 |
| Net cash provided by investing activities | | 6,745,985 | 7,480,336 |
| Cash flows from financing activities-proceeds from contributions restricted for investment in endowment | | 2,989,376 | 3,425,123 |
| Net (decrease) increase in cash and cash equivalents | | (923,628) | 1,293,229 |
| Cash and cash equivalents: | | | |
| Beginning of year | | 11,853,137 | 10,559,908 |
| End of year | $ | 10,929,509 | 11,853,137 |

See accompanying notes to financial statements.

(1) Nature of Activities and Significant Accounting Policies

Nature of Activities

The Educational Foundation Scholarship Endowment Trust (the "Trust") operates solely to assist The University of North Carolina at Chapel Hill (the "University") in providing financial assistance to students at the University. On an annual basis, the Board of Trustees of the Trust appropriates a portion of the net appreciation on its assets to The Educational Foundation, Inc. (the "Foundation") in its capacity as agent for the Trust. The distributions from the Trust to the Foundation were $10,137,519 in 2016 and $9,853,034 in 2015. The Foundation then forwards these funds to the University to provide financial assistance to over 400 students at the University.

A summary of the Trust's significant accounting policies follows:

(a) Basis of Presentation

In preparing its financial statements, the Trust's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Trust and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Trust and/or by the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the Trust. Generally, the donors of these assets permit the Trust to use all or part of the earnings on related investments for scholarship purposes.

(b) Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include certificates of deposit and money market funds purchased with original maturities of three months or less. Cash and cash equivalents totaled $10,929,509 and $11,853,137 as of June 30, 2016 and 2015, respectively. At times, the Trust places deposits with financial institutions that management considers to be of high-quality that may be in excess of federal insurance limits of $250,000.

(1) Nature of Activities and Significant Accounting Policies, Continued

(d) Investments

Investments are stated at fair value based on quoted market prices or net asset value per share as provided by the respective fund managers of the investments, determined at the financial statement date. For those investments using net asset value per share as the fair value measurement, the Trust has applied a practical expedient and concluded that the net asset value reported by the underlying fund approximates the fair value of the investment, unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. Due to the nature of the underlying investments held by the various funds, changes in market conditions and the economic environment may significantly impact the net asset value of these funds, and consequently, the fair value of the Trust's interest in these funds. The Trust utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, liquidity, foreign currency, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and activities.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Trust's gains and losses on investments bought and sold as well as held during the year.

(e) Contributions

Contributions are recognized as revenues at fair value at the time the contribution or unconditional pledge, net of estimated uncollectible amounts, is received. Contributions with donor-imposed restrictions are recorded as temporarily restricted net assets until the restrictions are met or as permanently restricted net assets. At the time that temporary restrictions are met, the contributions are reported as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the period in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

(f) Allowance for Doubtful Pledges

An allowance for doubtful pledges is established based on historical collection experience and management's estimates of the collectability of the outstanding pledges receivable. The allowance for doubtful pledges totaled $750,000 as of June 30, 2016 and 2015. The provision for uncollectible pledges included in the accompanying statements of activities was $265,000 and $350,985 for 2016 and 2015, respectively.

## (1) Nature of Activities and Significant Accounting Policies, Continued

### (g) Income Taxes

The Trust is exempt from Federal and state income taxes on related income under Internal Revenue Code 501(a) as an organization described in Section 501(c)(3) and applicable state statutes. Accordingly, no provision for income taxes has been made.

### (h) Scholarship Expense

Scholarship expense is recorded when the Trust has committed scholarship funds to the Foundation, in its capacity as agent for the Trust, for financial assistance for the current school year.

## (2) Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Contributions expected to be received in periods greater than one year are recorded at the discounted present value of the estimated future cash flows.

Unconditional promises to give are expected to be collected in the following periods:

| | | 2016 | 2015 |
|---|---|---|---|
| In one year or less | $ | 1,132,171 | 932,011 |
| Between one year and five years | | 1,853,880 | 1,932,228 |
| Greater than five years | | 150,000 | - |
| | | 3,136,051 | 2,864,239 |
| Less unamortized discount (5.5%) | | (136,683) | (104,030) |
| Less allowance for doubtful pledges | | (750,000) | (750,000) |
| | $ | 2,249,368 | 2,010,209 |

## (3) Contributions Receivable from Split-Interest Agreements

The Trust has been named as a beneficiary in numerous charitable remainder trusts and split-interest agreements in which the Trust is not the trustee. When the Trust is notified of the existence of a trust or other split-interest agreement, a receivable and contribution revenue are recorded at the present value of the estimated future cash receipts expected to be received by the Trust. It is the Trust's policy not to record contributions receivable from split-interest agreements if the agreement is revocable or if the donor retains the unilateral right to change beneficiaries.

(3) Contributions Receivable from Split-Interest Agreements, Continued

At the end of each fiscal year, the fair value of the contributions receivable from split-interest agreements is determined by using the fair values of the underlying assets at that date and re-evaluating the estimated future cash receipts expected to be received by the Trust utilizing estimated discount rates, future rates of return and mortality tables. Contributions receivable from split-interest agreements totaled $3,584,863 and $3,744,569 as of June 30, 2016 and 2015, respectively. Changes in the fair value of the split-interest agreements of ($159,706) and ($145,676) for 2016 and 2015, respectively, were recognized in the accompanying statements of activities through permanently restricted contributions revenue.

Due to the level of risk associated with certain underlying trust assets, it is reasonably possible that changes in the values of investment securities held by the trusts will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and activities.

(4) Investments

The carrying values of investments were as follows:

| | 2016 | 2015 |
|---|---|---|
| Investment Fund | $ 201,143,362 | 212,788,362 |
| Fixed income mutual funds | 294,538 | 297,098 |
| Venture capital fund | 241,553 | 288,799 |
| | $ 201,679,453 | 213,374,259 |

The Trust's holdings in The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (the "Investment Fund") are pooled investments. The Investment Fund's assets are invested entirely in shares of an external investment pool, the UNC Investment Fund, LLC ("System Fund"). As of June 30, 2016, total units of 335,794 had a market value of $8,287 per unit, and the Trust owned 24,273 units. As of June 30, 2015, total units of 323,997 had a market value of $8,901 per unit, and the Trust owned 23,906 units.

Previously, the Trust could redeem its units in the Investment Fund as of the first day of any month, based on the net asset value of the Investment Fund as of the last day of the preceding month. The Investment Fund could only redeem up to 10% of its total investment in a single quarter. Effective January 1, 2015, the System Fund's withdrawal provisions were amended to require a longer notice period for withdrawal requests in excess of $10 million per quarter for each Investment Fund or System Fund investor and generally limiting such withdrawals to $50 million per quarter for each Investment Fund or System Fund investor.

(4) Investments, Continued

The Board of Trustees of the Trust appropriate as much of the net appreciation as is deemed prudent by the Board of Trustees considering the Trust's long-and short-term needs, present and anticipated scholarship requirements, expected total return on its investments, and general economic conditions. Under the Trust's endowment spending policy, approximately 5% of the fair value of net investments at the end of the previous year is appropriated to support current operations. The following schedule summarizes the investment return, all of which is classified as temporarily restricted in the accompanying statements of activities:

| | | 2016 | 2015 |
|---|---|---|---|
| Net realized and unrealized (losses) gains | $ | (4,948,821) | 18,443,882 |
| Endowment investment return designated for current operations | | 10,144,302 | 9,858,904 |
| Endowment investment return, (net of) in excess of amounts designated for current operations | $ | (15,093,123) | 8,584,978 |

Management follows an established a framework for measuring fair value, using a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of fair value inputs that may be used to measure fair value under the hierarchy are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate-debt securities, and certain alternative investments.

(4) Investments, Continued

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing and amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset and may not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset.

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

As of June 30, 2016, the fair values of the Trust's financial instruments that are measured at fair value on a recurring basis were determined based on:

| | Fair value | Quoted prices in active markets (Level 1) |
|---|---|---|
| Fixed income mutual funds | $ 294,538 | 294,538 |
| Investments measured using net asset value per share: | | |
| Investment Fund | 201,143,362 | |
| Venture capital fund | 241,553 | |
| | $ 201,679,453 | |

(4) Investments, Continued

As of June 30, 2015, the fair values of the Trust's financial instruments that are measured at fair value on a recurring basis were determined based on:

| | | Fair value | Quoted prices in active markets (Level 1) |
|---|---|---|---|
| Fixed income mutual funds | $ | 297,098 | 297,098 |
| Investments measured using net asset value per share: | | | |
| Investment Fund | | 212,788,362 | |
| Venture capital fund | | 288,799 | |
| | $ | 213,374,259 | |

(5) Cash Value of Life Insurance

The cash value of life insurance policies contributed to the Trust and held as of June 30, 2016 and 2015 was $1,753,837 and $1,743,309, respectively. As of June 30, 2016 and 2015, 112 and 116 policies, with an aggregate face value of $10,603,446 and $10,660,402, respectively, were held by the Trust.

(6) Restricted Net Assets and Endowment

Temporarily restricted net assets (consisting of realized gains and unrealized appreciation on investments) are available for scholarships and totaled $103,123,215 and $118,207,875 as of June 30, 2016 and 2015, respectively.

Permanently restricted net assets (consisting of original gift amounts received in the form of cash, investments, pledges receivable, life insurance policies and receivables from split-interest agreements) are invested in perpetuity and the income from those investments is expendable in accordance with the Trust's endowment spending policy to support scholarships. Total permanently restricted net assets were $117,026,189 and $114,461,519 as of June 30, 2016 and 2015, respectively.

(6) Restricted Net Assets and Endowment, Continued

Effective March 14, 2009, the Trust's management and investment of donor-restricted endowment funds became subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Prior to this time, endowed funds were subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). UMIFA, in effect in North Carolina since 1985, provided a prudent standard for the spending of the net appreciation of a donor-restricted endowment fund and imposed a spending floor of an endowment's book value (referred to as "historic dollar value" in UMIFA). UPMIFA provides, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the institution to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility under UPMIFA allows an expenditure that lowers the value of the corpus of an endowment fund below its book value, which was not allowed under UMIFA.

The Trustees have decided to follow the policy adopted by the University concerning the provisions of UPMIFA. For endowments where market value has declined below the book value, this policy indicates that the Trust shall examine the endowment-supported activity for the upcoming fiscal year for possible deferment of program expenses, and then pursue alternative funding for essential activities, and finally shall consult with donors regarding other funding options. Invasion of endowment principal is an option of last resort. Generally, the original value of all donor-restricted endowed gifts are recorded as permanently restricted net assets and any investment returns earned on endowed assets are recorded as increases or decreases to temporarily restricted net assets until those amounts are appropriated for expenditure by the Trustees in a manner that is consistent with the standard of prudence prescribed by UPMIFA. The market value for the Trust's endowment had not fallen below book value as of June 30, 2016 and 2015, and therefore no restrictions on endowment spending were deemed necessary.

The Trust has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the stability of the endowment assets. For the Trust assets invested in the Investment Fund as described in notes 4 and 11, the Trustees have adopted the investment policies established by the Board Directors of the Investment Fund and the System Fund. Under this policy, as approved by the Trustees, the endowment assets are invested in a manner that is intended to earn an average real total return of at least 5.5% per year, net of all fees, over rolling five and ten year periods. The distribution policy is to provide a stable source of spending support that is sustainable over the long-term while preserving the purchasing power of the invested funds. The distribution rate was established at 5% of market value in 2000, with annual increases in later years based on inflationary factors. Each year's distribution is subject to a 4% floor and a 7% cap based on estimated previous fiscal year-end market value. The Trust expects its endowment funds, over long time periods, to provide an average annual real rate-of-return of approximately 5.5%. Actual returns in any given year may vary from this amount.

(6) Restricted Net Assets and Endowment, Continued

To satisfy its long-term rate-of-return objectives, the Trust relies on a long term strategy to preserve the real purchasing power of the Trust, while providing a predictable, stable and constant (in real terms) stream of earnings while reducing volatility. The Trust targets a diversified asset allocation with emphasis on investment manager selection to achieve its long-term return objectives within prudent risk constraints.

A reconciliation of the beginning and ending balance for 2016 of the Trust's donor-restricted endowment, in total and by net asset class, is as follows:

| | 2016 | | |
|---|---|---|---|
| | Temporarily restricted | Permanently restricted | Total |
| Endowment, beginning of year | $ 118,207,875 | 114,461,519 | 232,669,394 |
| Net realized and unrealized investment losses | (4,948,821) | - | (4,948,821) |
| Contributions | - | 2,829,670 | 2,829,670 |
| Transfer of endowment assets for expenditure | (10,144,302) | - | (10,144,302) |
| Other changes: | | | |
| Actuarial adjustment of annuities payable | 8,463 | - | 8,463 |
| Other expense/loss | - | (265,000) | (265,000) |
| Endowment, end of year | $ 103,123,215 | 117,026,189 | 220,149,404 |

A reconciliation of the beginning and ending balance for 2015 of the Trust's donor-restricted endowment, in total and by net asset class, is as follows:

| | 2015 | | |
|---|---|---|---|
| | Temporarily restricted | Permanently restricted | Total |
| Endowment, beginning of year | $ 109,618,963 | 111,533,057 | 221,152,020 |
| Net realized and unrealized investment gains | 18,443,882 | - | 18,443,882 |
| Contributions | - | 3,279,447 | 3,279,447 |
| Transfer of endowment assets for expenditure | (9,858,904) | - | (9,858,904) |
| Other changes: | | | |
| Actuarial adjustment of annuities payable | 3,934 | - | 3,934 |
| Other expense/loss | - | (350,985) | (350,985) |
| Endowment, end of year | $ 118,207,875 | 114,461,519 | 232,669,394 |

## (7) Net Assets Released from Donor Restrictions

During 2016 and 2015, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows:

| | | 2016 | 2015 |
|---|---|---|---|
| Scholarships | $ | 10,137,519 | 9,853,034 |
| Annuity payments | | 6,783 | 5,870 |
| | $ | 10,144,302 | 9,858,904 |

## (8) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and the cash value of life insurance approximate fair value because of the terms and relatively short maturity of these financial instruments. The carrying amounts of pledges receivable, contributions receivable from split-interest agreements and annuities payable approximate fair value because these instruments are recorded at the estimated net present value of future cash flows. Investments are carried at fair value, as previously disclosed.

## (9) Commitments

The Trust has an investment in a venture capital fund with a fair value of $241,553 and $288,799 as of June 30, 2016 and 2015, respectively. Based on the subscription agreement with this fund, the Trust has potential future capital funding requirements of up to $86,124 as of June 30, 2016. Management believes that the remaining capital will be called or the subscription amount reduced by the investment fund's management within one year. The maximum contractual life of the investment fund has been extended through December 31, 2016.

## (10) Subsequent Events

In connection with the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, the Trust considered for adjustment to the financial statements or disclosure subsequent events that occurred after the statement of financial position date of June 30, 2016 through October 31, 2016, which was the date the financial statements were available to be issued.

(11) External Investment Pool – The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.

Substantially all of the Trust's investment assets are held in the Investment Fund, which is a governmental not-for-profit organization established as a separate incorporated investment fund pool. The pool is utilized to manage the investments of the Endowment Fund of The University of North Carolina at Chapel Hill (the "University"), and other charitable, not-for-profit foundations, associations, trusts, endowments, and funds organized and operated external to the University.

All of the assets of the Investment Fund are invested in the UNC Investment Fund, LLC (the "System Fund"), an investment pool. The System Fund was organized in December 2002 as a North Carolina limited liability company to engage in the business of acquiring, holding and disposing of property for investment purposes on behalf of its members. Members may include The University of North Carolina and its constituent institutions and their related endowments and tax-exempt foundations.

The System Fund is designed to allow members to pool their resources and invest collectively in investment opportunities identified, structured and arranged by UNC Management Company, Inc. (the "Management Company"). The System Fund has not been registered under the Securities Act of 1933, as amended, or the securities laws or any state or other jurisdiction, nor is such registration contemplated. The System Fund's financial statements for the years ended June 30, 2016 and 2015 have been audited by an independent auditor which issued an unmodified opinion dated October 21, 2016. Audited financial statements for the System Fund may be obtained by sending a request to uncmc@uncmc.unc.edu. The System Fund's primary office is located at the following address: UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, North Carolina 27517.

The System Fund accounts for its investments at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The fair values of all debt and equity securities with readily determinable fair values are based on quoted prices. Based on the System Fund's audited financial statements, investments for which a readily determinable fair value does not exist may include investments in venture capital, hedge funds and limited partnerships for which the underlying securities may include marketable debt and equity securities. These investments are carried at estimated fair values as provided by the respective fund managers. The Management Company reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

(11) External Investment Pool – The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc., Continued

Based on the System Fund's audited financial statements, the investments of the System Fund are summarized by type as follows as of June 30, 2016 and 2015:

| | | 2016 | 2015 |
|---|---|---|---|
| Debt securities: | | | |
| Money market mutual funds | $ | 183,123,043 | 241,894,263 |
| U.S. Treasuries | | 18,468,086 | 16,735,371 |
| U.S. Agencies | | 55,621,626 | 46,474,713 |
| Collateralized mortgage obligations | | 61,374,473 | 74,741,538 |
| Asset-backed securities | | 33,108,935 | 26,329,177 |
| Debt mutual funds | | 1,816,478 | 1,712,656 |
| Domestic corporate bonds | | 4,254,360 | 3,665,430 |
| Domestic municipal bonds | | 3,204,096 | 1,693,775 |
| | | 360,971,097 | 413,246,923 |
| Other securities: | | | |
| Equity index funds | | 5,897,247 | 917,640 |
| Real estate investment trusts | | 39,477,001 | 29,217,648 |
| Long/short hedge funds | | 922,255,112 | 928,507,248 |
| Diversifying hedge funds | | 328,625,515 | 319,503,506 |
| Hedge funds in liquidation | | 7,826,769 | 40,388,425 |
| Long only equity funds | | 907,682,806 | 1,165,276,639 |
| Private equity limited partnerships | | 1,413,818,129 | 1,087,580,886 |
| Real assets limited partnerships | | 277,180,733 | 522,368,873 |
| Credit based commingled funds | | 107,501,693 | - |
| Domestic stocks | | 227,113,280 | 205,099,226 |
| International equities | | 18,319,891 | - |
| Foreign equities | | - | 6,139,791 |
| Total System Fund pool investments | $ | 4,616,669,273 | 4,718,246,805 |

# ATTACHMENT G

**STATE OF NORTH CAROLINA**

**COUNTY OF ORANGE**

**AGREEMENT BETWEEN**

**The Educational Foundation, Inc.**

**AND**

**The University of North Carolina at Chapel Hill**

THIS AGREEMENT, made and entered into this the 1st day of July, 2013, by and between The University of North Carolina at Chapel Hill, hereinafter referred to as the "University", and The Educational Foundation, Inc., hereinafter referred to as "Foundation."

**WITNESSETH:**

WHEREAS, Foundation is organized for the purpose of assisting and providing support to the University; and

WHEREAS, if the Foundation receives various administrative services from the University it will be enabled to provide a greater level of support to the University through its fund raising and other activities in support of the University; and

WHEREAS, the University is capable of and desires to furnish such administrative services to Foundation; and

WHEREAS, it is in the University's best interest to provide such administrative services to Foundation; and

NOW, THEREFORE, in consideration of the greater level of support to the University that the Foundation will be able to provide through fund raising efforts and other types of support activities and other good and valuable consideration the parties made the following agreement:

1. In recognition that fund raising and other activities in support of the University by the Foundation ultimately benefit the University and that such fund raising and other activities are desired by the University, the University agrees to provide to the Foundation the

administrative services listed on Exhibit A attached hereto, which services will enable the Foundation to undertake fund raising and other activities in support of and on behalf of the University greater than it could do without such support and will free greater time for Foundation support activities. Any University administrative services or facilities will be provided in accordance with and pursuant to applicable University policies and procedures. The parties acknowledge that coordination of fund raising activities is desirable and beneficial to both parties and their donors, and to that end, the parties agree that they will discuss and implement mutually agreeable mechanisms by which gifts to the Foundation may be reported to the University.

X KRS DSA X

2. The Foundation agrees, in consideration for the services to be provided to it, that the University may retain any income that University may earn on proceeds from gifts received by University as agent for Foundation for that period of time during which the receipts on behalf of the Foundation are temporarily managed by the University on behalf of the Foundation, but in no event shall the time period exceed that shown on Exhibit B attached hereto.

3. The Foundation represents that it is in compliance with the Board of Governors' Required Elements of University-Associated Entity Relationship, adopted November 16, 2005 (attached as Exhibit C) and acknowledges that continued compliance with Exhibit C is a condition for the Foundation's continued use of University's name or other University resources. Exhibit D contains the annual certification form submitted by the Foundation to assist with documentation of its compliance.

4. The Foundation acknowledges that when it is a participant in the University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (Investment Fund), the Investment Fund may charge a fee of up to 80 basis points on funds invested in the Investment Fund and transferred to the University to support the University's effort to enhance funds that can be invested through the Investment Fund. The University agrees to use that portion of the fee attributable to the Foundation to support the University's central development efforts. Notwithstanding the foregoing, effective July 1, 2008 (based on an initial June 30, 2008 calculation), the Foundation agrees that Investment Fund will charge a fee of 10 basis points on Foundation funds invested in the Investment Fund.

5. Employees of the University shall remain for all purposes employees of the University.

6. This Agreement shall run for a period of five (5) years from the 1st day of July, 2013 to the 30th day of June, 2018 and shall be renewable upon written notice executed by both parties.

7. This Agreement or its renewals may be terminated at any time without penalty by either party provided that written notice of such termination is furnished to the other party at least thirty (30) days prior to termination.

8. Foundation and the University hereby agree that in their educational and/or employment practices, each will comply with such non-discrimination laws as may be applicable to them in the performance of this Agreement.

9. This Agreement contains the entire understanding of the parties and shall not be altered, amended or modified, except by an agreement in writing executed by the duly authorized officials of both parties.

10. The laws of North Carolina shall govern the validity and interpretation of the provisions, terms and conditions of the Agreement.

IN WITNESS WHEREOF, the parties have hereunto signed this Agreement in their official capacities of the day and year listed below.

**THE EDUCATIONAL FOUNDATION, INC.**

BY: [signature]

TITLE: Executive Director

DATE: August 7, 2013

**THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL**

BY: Kevin R Seitz

~~Karol Kain Gray~~ Kevin R. Seitz

Interim **TITLE: Vice Chancellor for Finance and Administration**

DATE: 4/30/14

**EXHIBIT A**

**(Please check and initial services to be provided)**

Administrative services provided to The Educational Foundation, Inc.

✓ Make available office space for the Foundation.

____ Provide staff services to assist the Foundation.

____ Provide computerized recordkeeping and reports using the University's financial accounting system.

____ Provide accounting services to the Foundation.

____ Hold and disburse monies as agent for the Foundation.

✓ Interact with Foundation's independent auditors.

✓ Provide evaluation of and recommendations concerning gifts of real property.

✓ Provide upon request investment management services including periodic investment reporting services. The University will invest as agent for the Foundation any Foundation designated monies in the University's Temporary Pool and the rate of return will be computed in accordance with the policies and procedures contained in the University's Business Manual.

____ Provide computerized recordkeeping, gift processing and other assistance for development and fund raising activities. In connection with the processing of stock gifts, all Foundation accounts will be credited with the value of the gift as of the date of the gift without reference to actual monies received upon sale of the stock. The University receives a separate fee for its services in the creation, establishment and maintenance of endowment and capital accounts (except where restricted by donor).

✓ Serve as an agent for receipt, deposit and temporary management and distribution of gifts to the Foundation as described in the attached memorandum (Exhibit B).

✓ Provide access to University ~~email,~~ internet and telephone services.

____ Provide other services as requested by the Foundation and mutually agreed upon by the Parties.

EXHIBIT B

## PROCESSING OF CASH GIFTS AT UNC-CH

*Originally Issued: July 20, 1992*
*Revised: October 15, 2001*
*Revised: July 1, 2004*
*Revised: June 11, 2010*
*Revised: June 1, 2013*

### Introduction

This document describes how cash gifts received by the Office of University Development are processed by the University. The chart contained in Exhibit I illustrates the processing flow described herein.

Each day the University Development Office receives both solicited and unsolicited cash gifts. If the gift is from an annual fund solicitation or a pledge billing, it is accompanied by a gift slip or pledge reminder sent to the donor by the University Development Office or by one of the constituent development offices across campus. Preprinted on the gift slip is the donor's name, address, i.d. number, and gift designation, which is either a University endowment or trust fund, or a University affiliated foundation (sometimes also referred to as an associated entity).

If the gift is not accompanied by a gift slip or other written instruction, or the slip contains no designation, one of the following will happen: (1) if the donor has an outstanding pledge on University Development Office's gift records, the gift is credited to the appropriate fund or foundation in accordance with the pledge, (2) if there is no outstanding pledge but the donor has a history of giving to a certain area, the gift is credited to the fund or foundation associated with that area, (3) if the Development Office has no information about where the gift should go and the gift is for more than $1,000, the Gift Processing Clerk will contact the development officer who is the listed contact for the donor, or (4) if none of the other procedures is applicable, the gift will automatically be credited to the Chancellor's University Fund, which is a University unrestricted expendable trust account (3-15400). Subsequent to this, the Gift Processing Clerk fills out a gift slip for all such gifts and indicates on the slip the source of the designation.

Only cash gifts made to designated University funds, including the UNC-CH Endowment and gifts automatically credited to the Chancellor's University Fund in accordance with the procedures described above, will be credited to the University. All other gifts will be credited to the University's affiliated foundations.

### Processing Flow

*DAILY*

As cash gifts are received by the Office of University Development, a Gift Processing Clerk batches the gifts, fills out a deposit slip, and deposits the gifts daily in the Bank of America "Gift Account", a University demand deposit agency account. Accounting Services reviews the balance in the "Gift Account" on a daily basis and transfers funds to the University's Bank of America "Endowment, Trust, & Special Funds Account" when the balance reaches $100,000. The deposit slips are consecutively numbered for the fiscal year and have the Clearing Account (0-94999) preprinted on them. The Clearing Account is a commingled agency account in the University's Financial Records System ("FRS/PeopleSoft"), which is the official accounting record for the University. The Clearing Account is maintained by the University as agent for itself and its affiliated foundations. A data entry clerk then posts the gifts to the Development Office's Gift Processing System ("GPS") by keying in the information contained on the batch cards and gift slips. The deposit slips are transmitted to the Accounting Services Office ("Accounting") and an Accounting Technician records the deposit in account 0-94999, referencing the date, number of the deposit, and the amount of the deposit.

To summarize, at this point in the processing the following has occurred:

(1) Cash Movement

The cash gifts have been deposited with Bank of America in a University demand deposit agency account. Even though most of these gifts are designated to be received by one of the affiliated foundations, they are all on deposit in a University bank account. The University agency bank account is interest bearing in that each month it is credited, in a bookkeeping sense only, with the average of the 91-day Treasury Bill Rate based on its average daily collected balance. This credit is then available to the University to use to offset banking charges on this and all other accounts established at Bank of America in the University's name;

(2) Bookkeeping

The donor records on the University Development Office's Gift Processing System have been updated with the amount of the cash gift and the donor's designation. The University's Financial Records System reflects the deposits in the Clearing Account.

*WEEKLY*

Each week (usually on a Monday) account designation information in the GPS for gifts that were deposited at Bank of America during the prior week is used to create a distribution in FRS/PeopleSoft. The gifts are distributed from the Clearing Account to either individual foundation accounts, or, in the case of still undesignated gifts and gifts for which donor accounts have not yet been established, the Holding Account, which is also a University commingled agency account maintained on FRS/PeopleSoft by the University as agent for itself and its affiliated foundations. After the posting takes place, all gifts which fall into the category of "Institutional Trust Funds" (i.e. gifts made to designated University funds) are transferred by check to the State Treasurer's Short Term Investment Fund. All other gifts, i.e. gifts to the UNC-CH Endowment Fund and the affiliated foundations, continue to remain on deposit in the Bank of America "Gift Account." As information is received about the undesignated gifts in the Holding Account, that Account is debited and the proper donor accounts are credited by the automated distribution feature of the GPS.

Because those University's affiliated foundations which process gifts centrally through the Development Office typically maintain their accounts in FRS/PeopleSoft, once the gifts have been posted to the individual donor accounts, the foundations have access to these funds and may, (1) spend the gifts if they are classified as expendable, (2) invest the gifts themselves or with an outside money manager, (3) invest the gifts in The University Temporary Pool or the University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. ("Investment Fund") or (4) select any combination of (1), (2), and (3). If a foundation decides to invest all or some portion of the gifts in the Temporary Pool or the Investment Fund, they must wait until the first of the calendar month following the month in which the gifts were received to buy into either of these funds. Thus, if foundations choose option (3) they will earn no return on those gifts for a period possibly as long as thirty days. However,. offsetting this loss is the administrative ease with which gifts will automatically be invested by Accounting and the UNC Management Company (UNCMC) as of the first day of each month.

*MONTHLY*

After each FRS/PeopleSoft month-end close, Accounting Services receives a special purpose Z writer file sorted by endowment and associated entity, FRS/PeopleSoft account number, donor name, and gift amount. Accounting Services uploads this file into the Unit Accounting System ("UAS") and generates a monthly gifts and additions report. This report is edited and verified against each associated entity's FBM094 report to confirm that claim-on-cash ties for each FRS/PeopleSoft account. Once the monthly gifts and additions report and the FBM094 report's claim-on-cash are in agreement, then the total amount of gifts and additions across all UNC associated entities and the University Endowments are wire transferred to the custodian of the Investment Fund. Each individual FRS/PeopleSoft account buys proportional shares in UAS at the current share value based on the amount of each account's monthly gifts and additions. Each account's market value is determined on a monthly basis based on the current share value and total shares in UAS. Finally, an upload file is created from UAS to move cash from the 1100 object code to the investment object code in FRS/PeopleSoft.

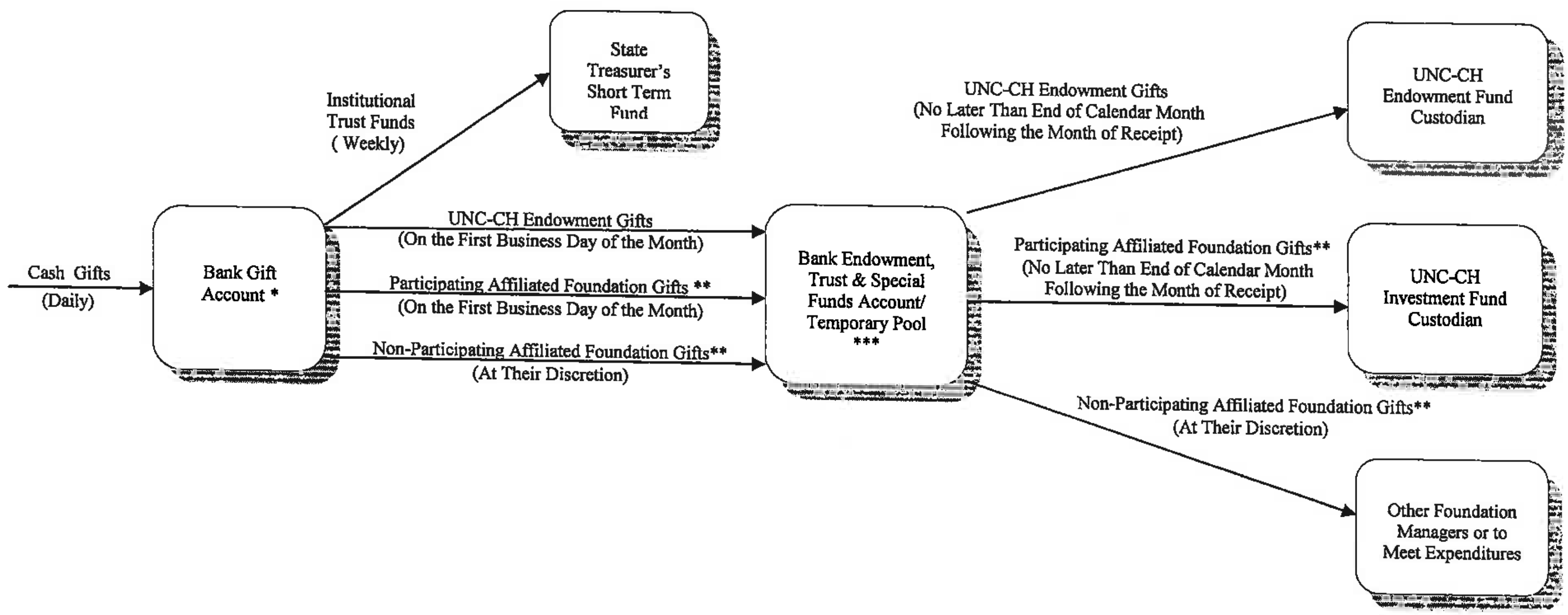
In addition, Accounting Services credits participation of these gifts in the Temporary Pool for one month to provide compensation for the time period between the University receiving the funds and the date the funds are transferred from Bank of America to the current custodian of Investment Fund. On a quarterly basis Accounting Services posts the interest earned on these gifts to the respective FRS/PeopleSoft income accounts.

*EXCEPTIONS*

Exceptions to the above procedures may be made when very large gifts (i.e. individual gifts greater than $1 million) are received by the University. If a gift of this magnitude is made to the Endowment, it can either immediately be transferred to the Investment Fund's custodian or invested in the Temporary Pool. If it is transferred to the Investment Fund, the account will buy in units based upon the valuation as of the beginning of the calendar month following the month in which the gift was received. If it is invested in the Temporary Pool, any interest earned on the gift until the time it is transferred to the Endowment Fund will, at the direction of the Vice Chancellor for Finance and Administration, either be added to principal or retained as expendable income.

*EXHIBIT I: Gift Processing Flow Chart*

# CASH GIFTS PROCESSING FLOW




* This is a University account that would be credited monthly with an Earnings Credit equal to the 91 Day T-Bill Rate. The Credit would offset banking expenses.

** Participating refers to whether or not a foundation participates (invests) in either the Temporary Pool or the Investment Fund.

*** Once cash moves into this bank account, it loses its identity and may be swept to custodian for investment as part of the Temporary Pool. Affiliated Foundation gifts which remain in the Temporary Pool receive credit on their balances of the beginning of the month following the month in which the gift was received. Affiliated Foundation gifts which are transferred to the Investment Fund, and Endowment gifts, receive (1) credit in the Investment Fund and the Endowment as of the first of the month following the month in which the gift was received and (2) one month of Temporary Pool interest.

## EXHIBIT C

600.2.5.2[R]

Adopted 11/16/2005

**Required Elements of University-Associated Entity Relationship**

The following requirements apply to any University Associated Entity.

**A. Definitions**. As used in these regulations:

1. An "Associated Entity" means any foundation, association, corporation, LLC, partnership or other non profit entity that was established by officers of the University that is controlled by the University that raises funds in the name of the University that has a primary purpose of providing services or conducting activities in furtherance of the University's mission pursuant to an agreement with the University or that has a tax exempt status that is based on being a support organization for the University.

2. "Approving Institution" means a constituent institution of the University of North Carolina or the General Administrator that approves an Associated Entity.

3. "General Administration" means the Office of the President and the affiliated programs of the University that are not centers or institutes of a constituent institution.

4. "Major Associated Entity" means an Associated Entity which has annual expenditures of $100,000 or more.

5. "Minor Associated Entity" means an Associated Entity which has annual expenditures of less than $100,000.

6. "Specified purpose entity" means an Associated Entity or an approved subsidiary or LLC of an Associated Entity that is established by the officers of the University or is controlled by the University has at its sole purpose the constructing or managing facilities for the University and does not engage in fundraising activities.

7. "State" means the State of North Carolina.

8. "University" means the University of North Carolina, including its constituent institutions.

9. When "president or chancellor" is used in these regulations, it means the chancellor if the approving institution is a constituent institution and it means the president if the approving institution is the General Administration.

## B. Creation of University-Approved Associated Entities

1. Associated Entity Must be Approved - An Associated Entity must be approved in writing by the president, the chancellor, or the president or chancellor's designee. An entity must be approved in order to receive University-provided services or to be able to use an institution's or the University's name or an institution's or the University's logo/trademark in fundraising. If an approved entity establishes a subsidiary entity or an LLC, then the subsidiary entity or LLC must be separately approved.

2. Abide by Relevant University Policies– In order to obtain approved status, the associated Entity must formally agree to abide by the policies or regulations established by the University and by the Approving Institution regarding the University's and the Approving Institution's relationship with related Associated Entities.

3. Periodic Review of Status– The Approving Institution may remove the approved status of any Associated Entity which fails to abide by the Approving Institution's or the University's policies or regulations which govern Associated Entities.

## C. Organizational Requirements of an Associated Entity

1. Purpose to Benefit University– The Associated Entity must be organized for the primary purpose of (i) supporting the University or one or more of its constituent institutions or programs, and/or (ii) conducting activities that are in furtherance of the mission of the University or of one or more of its constituent institutions or programs.

2. State Nonprofit Corporation – The Associated Entity must be organized on a nonprofit basis, and, if a corporation, be incorporated in North Carolina, and comply with the requirements of Chapter 55A of the North Carolina General Statutes. If a constituent institution proposes to establish or approve an associated entity on a for profit basis, it must receive approval from the Board of Governors before establishing the entity.

3. Tax Exempt Status – Except as provided in paragraph C.2., an Associated Entity must apply for, receive, and maintain both federal and State tax exempt status.

4. Dissolution of Associated Entity – The Associated Entity's articles of incorporation must include a clause which provides that, upon dissolution of the Associated Entity, all of its assets will revert to the University or the Approving Institution or another University approved Associated Entity unless otherwise designated by the donor of an asset.

5. University Representative(s) on Board –At least one Senior Academic or Administrative Officer of the Approving Institution or a designee of the president or the chancellor must sit as an ex-officio (either voting or non-voting) or regular member of the Associated Entity's governing board.

6. Audit Committee Required –

(a) A major Associated Entity's by-laws must provide for an audit committee which has no University employee as a member. The audit committee must receive the report of the independent CPA firm that conducts the Associated Entity's annual audit and relevant tax forms to be submitted by the Associated Entity.

(b) A minor Associated Entity's by-laws must provide for a committee which has these audit functions and which has a majority of members that are not University employees.

(c) No employee of the Associated Entity may serve on an audit committee or a committee with an audit function. If practical, each audit committee or committee with an audit function should have a financial expert as a member.

(d) A Specified Purpose Entity is not required to have an audit committee provided that it is subject to independent audit at the request of one or more designated trustees, sureties, insurers, certificate holders or bondholders.

**D. Financial and Accounting Controls**

1. Sound Accounting and Business Principles– An Associated Entity must use sound fiscal and business principles, ensure that a sound internal control structure is in place, and follow generally accepted accounting procedures.

2. Annual CPA Audit– A major Associated Entity must be audited on an annual basis by an independent CPA firm. A minor Associated Entity must have an annual audit conducted either by the Approving Institution's internal auditor, another University internal auditor, or an independent CPA firm. A CPA firm providing an audit for a major Associated Entity may not provide non-auditing services to the Associated Entity other than tax preparation services that are pre-approved by the audit committee.

(a) An Associated Entity of a constituent institution must provide copies of the audit report, management letters, and responses to management letters to the chancellor of the Approving Institution, through the chancellor to the governing board of the Approving Institution and the president, and through the president to the Board of Governors.

(b) An Associated Entity of the General Administration must provide copies of the audit report, management letters, and responses to management letters to the president, and through the president to the Board of Governors.

3. Annual Budgets - The Associated Entity must create an annual operations and capital budget.

4. Officer and Employee Compensation - All salary and non-salary compensation provided by the Associated Entity to its officers or employees must be approved by the Associated Entity's governing board. The Associated Entity must comply with Board of Governors Policy §300.1.1 concerning the prohibition of payments to specified University employees. This requirement does

not prohibit the Associated Entity from reimbursing its officers or employees for expenditures made on behalf of the Associated Entity.

5. Indemnification of University -The Approving Institution may require an Associated Entity to indemnify and hold the Approving Institution and the University harmless from any damages or liabilities that the Approving Institution or the University incurs as a result of the Associated Entity's actions.

6. University- Associated Entity Monetary Transfers - All transfers of funds from the Associated Entity to the University or to the Approving Institution must be documented in writing or electronically in a form that has a retrievable transaction trail.

7. Whistle Blower Protection - An Associated Entity must have a confidential and anonymous mechanism to encourage employees to report any inappropriateness within the entity's financial management and must prohibit punishment of or retaliation against any employee for reporting problems.

8. Chief Executive Officer - The Chief Financial Officer of the Approving Institution may not be the chief executive officer of an Associated Entity.

9. Acquisition of debt - A Minor Associated Entity may not acquire debt in excess of $100,000 that is not to be publicly traded without first notifying the president or the chancellor of the Approving Institution and then consulting with the Vice President for Finance of the University. A Major Associated Entity may not acquire debt in excess of $500,000 that is not to be publicly traded without first notifying the president or the chancellor of the Approving Institution and then consulting with the Vice President for Finance of the University. In determining the level of scrutiny to give to the proposed transaction, the Vice President shall take into account the amount of the debt in relationship to the Associated Entity's assets and income and the extent of experience of the Associated Entity in entering into similar debt transactions. A Specified Purpose Entity that issues debt to construct facilities for the University must provide a financial or construction audit to the Vice President for Finance of the University at the Vice President's request or to the governing board of the Approving Institution at the request of the chair of the governing board.

10. Audit findings. Within 90 days of the issuance of the audit report with audit findings, the Associated Entity must demonstrate to the president or the chancellor of the Approving Institution and to the Vice President for Finance that satisfactory progress has been made to implement a corrective action plan. Failure of an Associated Entity to receive an unqualified audit opinion, to comply with the reporting requirements of this regulation, or to satisfactorily implement a corrective action plan in response to an audit finding may result in the Associated Entity's losing its approved status.

**E. Insurance and Bonding**

1. Bonding Required–Officers and employees of major Associated Entities who have check signing authority or who handle cash or negotiable instruments must be bonded in an amount

determined to be reasonable by the Associated Entity's board. The Board of a minor Associated Entity should consider requiring bonding of appropriate employees.

2. Liability Insurance– The governing board of an Associated Entity must consider whether to obtain general liability and directors'/officers' insurance in an amount determined to be reasonable by the Associated Entity's board.

**F. Provision of Administrative and Other Services by University for Associated Entity**

1. Written Agreement Required– All services provided by the Approving Institution or the University for the Associated Entity (including use of University or constituent institution assets, facilities, and personnel) must be pursuant to a written agreement setting forth the terms under which such services will be provided.

2. Reimbursement of Costs– Any reimbursement to the Approving Institution or the University for services the Approving Institution or the University provides to the Associated Entity must be made pursuant to a written agreement between the University or the Approving Institution and the Associated Entity entered into before the service is provided.

3. Control of University Personnel– When University personnel provide services for the Associated Entity and there arises a conflict between the University and the Associated Entity, the University's employee must comply with the policies, regulations and directives of the University.

**G. Acceptance of Gifts by Associated Entity**

1. Restricted Gifts That Require University Approval– An Associated Entity may not accept any restricted or conditional gifts that impose an obligation on the University or the State to expend resources in addition to the gift without first receiving the Approving Institution's approval. In addition, an Associated Entity may not accept a gift which has any restriction that is unlawful.

2. Notification to Donors of Restricted Gift Policies– An Associated Entity must advise prospective donors of all restricted or conditional gifts to the Associated Entity if acceptance of the gift is conditioned upon the Approving Institution's approval.

3. Coordination with University Development Office- In soliciting and accepting gifts in the name of the University, an Associated Entity must coordinate with the Approving Institution's development office.

**H. Conflict of Interest and Ethics Policies**

1. Policies Required-The Associated Entity must have in place conflict of interest and ethics policies pertaining to relationships between the Approving Institution, the Associated Entity, members of the governing board of the Associated Entity and persons doing business with the Associated Entity and establishing required ethical standards for the members of the governing board and employees of the Associated Entity.

2. Transactions Between Associated Entity and its Employees-All transactions (other than reimbursements as provided in §D.5.) between the Associated Entity and an officer, director, or employee of the Associated Entity must be approved by the Associated Entity's governing board.

3. Recusal from Business Decisions-No Associated Entity officer, director, or employee having a private business interest in an Associated Entity business transaction may be involved in the decision with respect to whether the Associated Entity should enter into such transaction.

4. Associated Entity Scholarships-No Associated Entity scholarship or fellowship award may be made to an officer, director, or employee of the Associated Entity or to a family member of such person unless the recipient of the award is determined by an independent awards committee.

**I. Reports required to be submitted by Associated Entity to University**

1. The Associated Entity must file annual reports with the president or chancellor of Approving Institution covering the following items:

a. A list of all members of the Associated Entity's board;

b. A copy of the publicly disclosed portion of the Associated Entity's Form 990, or other series 990 form.

c. A copy of the Associated Entity's CPA audit report and related management letters and responses to management letters

2. At the request of the chancellor, president, or the chair of governing board of the Approving Institution, for an articulated legitimate reason, the Associated Entity must meet with the requesting person, his or her designee, or the internal auditor of the Approving Institution and allow that person to inspect any of the following information that is related to the articulated reason:

a. A description of all monetary transfers from the Associated Entity to the Approving Institution or the University;

b. A description of all transactions entered into during the year between the Associated Entity and the Approving Institution or the University.

c. A copy of the Associated Entity's operating and capital expenditure budget for the year and a comparison of actual expenditures to budgeted expenditures.

d. A description of all real estate purchases, material capital leases, and investment/financing arrangements entered into during the year;

e. Copies of the minutes of all regular and special meetings of the Associated Entity's board;

f. The portions of the 990 forms that are not publicly disclosed and all other federal and state tax returns; and

g. Any other documents and records which are relevant to the articulated reason.

**J. Miscellaneous Requirements**

1. Associated Entity Communications-An Associated Entity must conduct business in its own name and all correspondence, advertisements, and other communications by the Associated Entity must clearly indicate that the communication is from the Associated Entity, and not from the Approving Institution or the University.

2. Lobbying and Political Activities-An Associated Entity must comply with all provisions of the Internal Revenue Code and all State laws regarding lobbying and political activity.

3. Associated Entity Courses and Seminars-An Associated Entity may not offer any course or seminar in which the University's name is used without first obtaining the permission the institution or institutions whose name will be used.

4. Destruction of Documents—An Associated Entity must have a policy governing retention and destruction of documents including electronic files and which prohibits destruction of documents if an investigation into wrongdoing or litigation is anticipated or underway.

**K. Waiver**

If the application of any of the requirements of these regulations to a particular Associated Entity in specific circumstances is of limited benefit and is unduly burdensome, the President may waive that requirement as to that specific Associated Entity under circumstances that are set out in writing. The Associated Entity shall notify the Chancellor of the Approving Institution prior to making a request for a waiver under this section.

**L. Effective Date**

Every Associated Entity shall be in compliance with these regulations no later than July 1, 2006.

EXHIBIT D

11/07/12

## Required Elements of University-Associated Entity Relationship
## Certification of Financial Issues for FY 2011-12

| Yes | No | **Audit Report** (Required Elements C.6, D.2, D.10, State Auditor policy) |
|---|---|---|
| | | We certify that the audit report, management letters, and responses to management letters are enclosed with this certification statement. It is our understanding the items will be routed through the Chancellor, through the Board of Trustees, through the President, to the Board of Governors. |
| | | We certify that we have presented or will present the aforementioned items and relevant tax forms to the audit committee. |
| | | We certify that within 90 days of the issuance of the audit report with audit findings, we will demonstrate that satisfactory progress has been made to implement a corrective action plan. |
| | | If applicable, we certify that contractual agreements for auditing services adhere to the policy and guidelines prescribed by the State Auditor as provided in the State Auditor's letter dated August 4, 2011. [Write in "n/a" unless your entity is a University component unit and disclosed in Note 1.A of the University's *Comprehensive Annual Financial Report* at http://www.unc.edu/finance/fd/c/docs/2010_cafr.pdf]. |
| **Yes** | **No** | **Audit Committee** (Required Element C.6) |
| | | We certify that if we are a major associated entity, the by-laws provide for an audit committee which has no University employee as a member. If we are a minor Associated Entity, we certify that the by-laws provide for a committee which has audit functions and which has a majority of members that are not University employees. (A Specified Purpose Entity is not required to have an audit committee provided that it is subject to independent audit at the request of one or more designated trustees, sureties, insurers, certificate holders or bondholders. |
| | | We certify that employees of the Associated Entity do not serve on the audit committee or a committee with an audit function. |
| | | We certify that where practical the audit committee or committee with an audit function has a financial expert as a member. |
| **Yes** | **No** | **Internal Controls / Risk Management** (Required Elements D.1, E.1, E.2) |
| | | We certify that our Associated Entity uses sound fiscal and business principles, ensures that a sound internal control structure is in place, and follows generally accepted accounting procedures. [Sound business practices would include compliance with University Business Manual - Accounting Services Policy Statement 33 regarding *Credit Card Merchant Services*. The policy statement indicates that campus units that function as credit card merchants shall be compliant with the *Payment Card Industry Data Security Standards*]. |
| | | If we are a major associated entity, we certify that officers and employees who have check signing authority or who handle cash or negotiable instruments are bonded in an amount determined to be reasonable by our board. If a minor associated entity we certify that our board has considered requiring bonding of appropriate employees. |

**Required Elements of University-Associated Entity Relationship**
**Certification of Financial Issues**

| Yes | No | **Internal Controls / Risk Management** (*continued*) |
|---|---|---|
| | | We certify our governing board has considered whether to obtain general liability and directors'/officers' insurance in an amount determined to be reasonable by the Associated Entity's board. |
| **Yes** | **No** | **Budgets** (Required Element D.3) |
| | | We certify that we create an annual operations and capital budget. |
| **Yes** | **No** | **Transfers** (Required Element D.6) |
| | | We certify that all transfers of funds from our associated entity to the University are documented in writing or electronically in a form that has a retrievable transaction trail. |
| **Yes** | **No** | **Compensation/ Personal Loans**<br>(Required Element D.4, Best Practice – Personal Loans, Other) |
| | | We certify that all salary and non-salary compensation provided by our associated entity to officers or employees of the associated entity have been approved by the Associated Entity's governing board. |
| | | We certify that our associated entity is in compliance with Board of Governors Policy §300.1.1 concerning the prohibition of payments to specified University employees. This requirement does not prohibit the Associated Entity from reimbursing its officers or employees for expenditures made on behalf of the Associated Entity. |
| | | We certify that we have not made personal loans to trustees or executive officers regardless of the funding source. |
| | | We certify that loans to other employees are from funds restricted for that purpose by donors. If loans have been made to other employees, a list of those loans is attached. |
| | | We certify that information required for tax reporting on the W-2 forms of University employees for salary and non-salary compensation including a foundation-provided vehicle or club memberships for personal use is provided to the University Controller's Office. |

**Name of Associated Entity:** ______________________________

______________________ ______________________ ____________

**Signature** **Title** **Date**

______________________

**Printed Name**