

University of North Carolina School of the Arts  
SAAB 306

**COMMITTEE MEMBERS:**

John Wigodsky, Chair  
David Neill  
Ches McDowell  
Graydon Pleasants  
Peter Juran, ex officio

**COMMITTEE STAFF:**

Rod Isom, Chief Audit, Risk, and Compliance Officer  
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel  
Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff  
Wendy Emerson, Vice Chancellor for Finance and Administration  
Amanda Balwah, Associate Vice Chancellor for Institutional Integrity and Secretary of the University  
Liza Vest, Staff Council Representative  
*Faculty Council Representative*

**AGENDA**

**OPEN SESSION**

1. Call to Order and Confirm Quorum.....Chairman Wigodsky
2. Approval of Minutes from the April Meeting.....Chairman Wigodsky
3. ARCC Charter Annual Review.....Rod Isom
4. Matters of Governance, Risk and Compliance .....Rod Isom  
& UNCSA Management
  - a) Enterprise Risk Management.....Jim DeCristo
  - b) Information Governance & Security.....Terry Harmon,  
Chief Information Officer
  - c) CALEA.....Tommy McMasters, Chief of Police
5. Discussion of External Audits and Reviews (if any).....Rod Isom &  
UNCSA Management
  - a) Financial Statement Audits..... Melanie Nuckols,  
Associate Vice Chancellor for Finance
6. Discussion of Internal Audit's Activity.....Rod Isom &  
Internal Audit Staff
  - a) Risk Overview & Audit Plan Update\*\*

- b) Summary of Internal Audit Activity for Fiscal Year 2023
- c) Recent Reports and Other Communications
- d) Other Activities and Matters

❖ *Note: Information related to any internal audits or reviews released prior to the meeting will be provided at the meeting.*

**\*\* Action Item**

**CLOSED SESSION**

- 7. Approval of Minutes from the April Meeting, (if any).....Chairman Juran
- 8. Discussion of Special Items, Reviews and Investigations (if any)..... IA and David Harrison
  - a) Cybersecurity Review and IT Update.....Terry Harmon
  - b) Investigative Review
  - c) Lawsuit Updates

**OPEN SESSION**

- 9. Other Business.....Committee Members & Staff
- 10. Adjourn.....Chairman Juran

## **OPEN SESSION MINUTES**

April 27, 2023

University of North Carolina School of the Arts  
SAAB 306

## **TRUSTEES PRESENT**

**\*Denotes voting committee members**

Peter Juran (Chair)\*, Greer Cawood\*, Anna Folwell\*, Graydon Pleasants\*, Ralph Womble, Mark Land\* (ex officio)

## **TRUSTEES ABSENT**

Ches McDowell\*

## **ADMINISTRATION & STAFF PRESENT**

Rod Isom (Chief Audit Officer); David Harrison (Vice Chancellor for Institutional Integrity and General Counsel); Jim DeCristo (Vice Chancellor for Economic Development and Chief of Staff); Terry Harmon (Chief Information Officer); Cory Billings (Audit Manager); Wendy Emerson (Associate Vice Chancellor for Finance); Patrick Sims (Executive Vice Chancellor and Provost); Lissy Garrison (Vice Chancellor for Advancement); Jeff George (Faculty Council Representative); Jarrett Bailey (Staff Council Representative); Camilla Norris (HR - Employee Relations Manager); Afeni McNeely-Cobham (AVC and Vice Provost for EDIB); Amanda Balwah (AVC and Secretary of the University); Travis Andrews (IT Support)

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## **CONVENE OPEN SESSION AND CONFIRM QUORUM**

Committee Chair Peter Juran convened the April 27, 2023 meeting of the University of North Carolina School of the Arts Audit, Risk, and Compliance Committee at 4:05 p.m. A quorum was confirmed.

## **APPROVAL OF MINUTES**

**MOTION:** Graydon Pleasants moved to approve the February 2023 Open Session Minutes as presented. Mark Land seconded and the minutes were unanimously approved.

## **ENTERPRISE RISK MANAGEMENT (ERM)**

Jim DeCristo, Vice Chancellor and Chief of Staff, presented the 2023 ERM Risk Register for submission to the UNC System Office. UNCOSA's top five risks include:

- Scholarships and Salaries
- Equity, Diversity, Inclusion, and Belonging (EDIB)

- Health and Wellness
- Title IX
- Cyber Security

**MOTION: Graydon Pleasants moved to approve the 2023 ERM Risk Register as presented. Greer Cawood seconded and the motion was unanimously approved.**

## **INFORMATION GOVERNANCE & SECURITY**

Terry Harmon, Chief Information Officer, reported that the inaugural security awareness training was conducted February 15 – April 21. 480 users were enrolled in the training and 58% of users have completed all of the content. IT has contracted with MCNC for virtual Chief Information Security Officer (CISO) services after the previous CISO stepped down. It has been challenging to find a replacement for this position.

## **DISCUSSION OF INTERNAL AUDIT ACTIVITY**

Corey Billings, Audit Manager, reported that two projects have been completed since the last committee meeting and one project focused on Cyber Security, is in progress.

Mr. Billings also reported that there is currently a Facilities Management investigation regarding the groundskeeping supervisor. An anonymous complaint was received, limiting Internal Audit's ability to ask many questions for clarification. Internal Audit worked with Human Resources, Facilities, and Purchasing on the investigation and the allegations were not substantiated. Two management letters resulted from this investigation and are included in the committee packet.

Rod Isom, Chief Audit Officer, gave an audit plan update, noting that nine deliverables have been completed throughout the year.

Mr. Isom presented proposed changes to Internal Audit standards set forth by IIA. The public comment period is open now, and per the NC Internal Audit Act, Internal Audit must comply with the standards once they are issued.

The Memorandum of Understanding between UNCOSA and WSSU for internal audit services has been renewed for another three years.

Mr. Isom concluded his report by presenting the top risks from the annual risk assessment and the proposed internal audit plan for fiscal year 24.

**MOTION: Anna Folwell moved to approve the internal audit plan as presented. Graydon Pleasants seconded and the motion was unanimously approved.**

Mr. Isom noted that the final plan is not due to the State until September 30<sup>th</sup>. Any changes will be presented at the September 2023 meeting before submission to the State.

## **MOTION TO GO INTO CLOSED SESSION**

**MOTION:** Graydon Pleasants moved that the ARCC committee go into closed session to prevent the disclosure of information that is privileged or confidential pursuant to Section 116-40.7 of the N.C.G.S. – Internal Auditor’s work papers. Anna Folwell seconded and the motion was unanimously approved.

## **RETURN TO OPEN SESSION**

Chairman Juran reported that the committee went into closed session to hear a report from Internal Audit.

## **ADJOURNMENT**

With no further business to discuss, Chairman Juran adjourned the meeting at 4:31 p.m.

Respectfully submitted by:  
Amanda Balwah  
Secretary of the University

## **AGENDA ITEM**

ARCC Charter Annual Review.....Rod Isom, Chief Audit Officer

### **Summary\*:**

The Audit, Risk, and Compliance Committee (ARCC) Charter (Charter) is a document that outlines the structure and governance responsibilities of the committee. ARCC oversight responsibility includes financial reporting, internal controls, enterprise risk management (ERM), the audit process, information governance and security infrastructure, ethics and compliance, and legal. The committee will take all appropriate actions to set the overall tone at the institutions for quality financial reporting, effective internal control, risk management and compliance, and ethical behavior. The offices that primarily provide standing reports to ARCC includes:

- Internal Audit;
- Risk Management;
- Information Technology; and
- Legal.

Throughout the year, updates are provided by other offices as it relates to key compliance matters. The Charter is reviewed on an annual basis. As part of the annual review requirement for fiscal year 24, no changes are needed at this time.

*Please note with the release of new audit standards, the Charter may require additional review and edits later in the current fiscal year or early in the next fiscal year.*

**Action:** This item is for informational purposes only.

## **University of North Carolina School of the Arts Board of Trustees Audit, Risk, and Compliance Committee Charter**

### **I. PURPOSE**

To assist the University of North Carolina School of the Arts (UNCSA) Board of Trustees in fulfilling its oversight responsibilities of the institution and associated entities which fall under the requirements established by the Board of Governors in the following areas:

1. The financial reporting process;
2. The effectiveness of the institution's internal control and enterprise risk management systems;
3. The audit process;
4. The information governance and security infrastructure;
5. The institution's process for monitoring compliance with laws and regulations; and
6. The institution's code of conduct.

The committee is responsible for providing open lines of communication between the university's internal audit, risk management, and compliance functions and the UNCSA Board of Trustees. The committee will take all appropriate actions to set the overall tone at the institution for quality financial reporting, effective internal control, risk management, and compliance systems, and ethical behavior. The University Chancellor, the Chief Audit Officer (CAO), and/or Audit, Risk and Compliance Committee (ARCC) Chair have the power to call a meeting whenever necessary.

### **II. AUTHORITY**

The ARCC has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

1. Appoint, compensate, and oversee the work of the North Carolina Office of the State Auditor and any other registered public accounting firm employed by the organization;
2. Resolve any disagreements between management and the auditor regarding financial reporting;
3. Pre-approve all audit and related services;
4. Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation;
5. Seek any information it requires from employees — all of whom are directed to cooperate with the committee's requests — or external parties;
6. Meet with the organization's officers, external auditors, or outside counsel as necessary; and
7. Set the university's risk appetite.

### **III. COMPOSITION**

1. The ARCC shall be a standing committee of at least three, and no more than six, members of the Board of Trustees.
2. The Chair of the Board will select both the chair of the ARCC and the members of the committee.
3. The Chair of the Board will serve as an ex officio member of the ARCC.

4. Voting committee members must be comprised only of trustees, however, committee members may be non-trustees. Non-trustee committee members shall have all of the rights and responsibilities of trustee members, except the right to vote.
5. Each ARCC member must be independent of UNCSA management and free of any relationship that would impair such independence. Members may not receive from UNCSA any consulting, advisory, or other fees paid monetarily or with other consideration. This is not intended to prevent committee members from receiving travel expense reimbursements for participating in meetings or meals furnished at meetings.
6. Each ARCC member will be financially literate. Financial literacy is defined as being able to read and understand fundamental financial statements. If possible, at least one member should be a "financial expert." This is defined as a person who has an understanding of generally accepted accounting principles and financial statements, the ability to assess the application of these principles, an understanding of ARCC functions, experience preparing, auditing, analyzing or evaluating financial statements, or experience supervising persons engaged in such activities and an understanding of internal controls and procedures for financial reporting.

#### **IV. MEETINGS**

1. The ARCC will meet at least four times a year, with authority to convene additional meetings as circumstances require.
2. All ARCC members are expected to attend each meeting in person or via teleconference or videoconference.
3. A majority of the voting members of the committee will constitute a quorum.
4. The ARCC will invite members of management, auditors, risk and compliance managers, or others to attend meetings and provide pertinent information as necessary.
5. The ARCC will hold private meetings with internal and external auditors and executive sessions. If the internal or external auditors request a meeting, the committee is required to meet as promptly as possible.
6. Meeting agendas will be prepared by UNCSA staff and provided in advance to the committee members, along with the appropriate briefing materials.
7. The committee shall maintain written minutes of its meetings.

#### **V. RESPONSIBILITIES**

With regards to each topic listed below, the ARCC will:

##### **Financial Statements**

1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and understand their impact on the financial statements.
2. Review with management and the external auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial statements and other sections of the annual report and related regulatory filings.
4. Review with management and the external auditors all matters required to be communicated to the committee under auditing standards.
5. Understand how management develops financial information, and the nature and extent of internal and external auditor involvement.

##### **Internal Control**

1. Review the effectiveness of the internal control system, including information technology security and control, through activities of the internal and external auditors.
2. Understand the scope of internal and external auditor's reviews of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.



3. Determine whether recommendations made by the internal and external auditors have been implemented by management.

#### **Internal Audit**

1. Review with management and the CAO the charter, activities, staffing, and organizational structure of the internal audit function. Consider and review any changes to the scope of the internal audit charter. Provided the CAO has responsibilities for risk and compliance functions, ensure there are safeguards in place to limit impairments to independence or objectivity.
2. Have final authority to review and approve the annual audit plan, the internal audit budget and resource plan, and all major changes to the plans.
3. Ensure there are no unjustified restrictions, limitations, or interferences, and review and concur in the appointment, compensation, replacement, or dismissal of the CAO.
4. Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
5. On a regular basis, meet separately with the CAO to discuss any matters that the committee or internal auditing believes should be discussed privately.

#### **External Audit**

1. Review the external auditors' proposed audit scope and approach.
2. Review the performance of the external auditors and exercise final approval on their appointment or discharge.
3. On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

#### **Compliance**

1. The ARCC, through the Chancellor, his designee, or the CAO, shall receive reports from management and the organization's legal counsel regarding compliance matters institution-wide, including, but not limited to, the following areas: environmental health and safety, diversity and affirmative action, contracts and grants, and financial aid.
2. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
3. Review the findings of any examinations by regulatory agencies and any auditor observations.
4. Review the process for communicating the code of conduct to the organization's personnel and for monitoring compliance therewith.

#### **Risk Management**

1. The ARCC is responsible for oversight of the processes to identify, assess, prioritize, and manage general business risks. This includes the current risk environment, emerging risks, and the interrelationship between risks and the context of the university's risk appetite.
2. Receive reports from management regarding the risk environment for UNCOSA and ensure that management's responses to significant risks are appropriate, and that resources to address high priority risks are allocated appropriately.
3. Monitor and evaluate guidelines and policies to govern the process by which risk assessment and management is undertaken.

#### **Information Governance and Security**

1. Ensure that information governance and security is addressed in the annual audit planning and risk assessments that are conducted by the institution's internal auditor.
2. Periodically include an agenda item for emerging information governance and security matters at its regularly scheduled meetings.

3. Receive a report at least annually from the appropriate senior officer on the institution's information governance and security infrastructure and information technology security controls.

#### **Reporting**

1. Regularly report to the Board of Trustees about committee activities, issues, and related recommendations.
2. Provide an open avenue of communication among internal auditing, the external auditors, risk and compliance managers, and the Board of Trustees.
3. Report annually to the UNC Board of Governors, describing the ARCC's composition, responsibilities and how they were discharged, and any other information required.
4. Review any other reports issued by the organization that relate to the ARCC's responsibilities.

#### **Complaints and Ethics**

1. Ensure policies and procedures are established to allow employees to report alleged improper activities.

#### **Other Responsibilities**

1. Review and assess the adequacy of the ARCC charter annually, requesting board approval for updates of its charter, as necessary.
2. Perform other activities related to this charter as requested by the Board of Trustees.
3. Institute and oversee special investigations as needed.
4. Evaluate the ARCC's and individual members' performance on a regular basis.
5. Consult with UNCSCA legal counsel to review any legal matters that may have a significant financial impact.
6. Ensure the internal auditors receive continuing education annually.
7. Ensure the internal auditors participate in the University of North Carolina Auditors' Association, the Institute of Internal Auditors, and other professional organizations in order to stay updated on professional standards, developments with audit, risk, and compliance procedures and other relevant issues.

Effective Date: This Charter becomes effective upon adoption by the Board of Trustees.

Adopted: This the 9th day of February 2018



Michael D. Tiemann  
Chair, Board of Trustees  
UNC School of the Arts



Stephen R. Berlin  
Chair, Audit, Risk, and Compliance Committee  
UNC School of the Arts

**AGENDA ITEM**

ERM Update

Review 2023 UNC System Campus Risk Register Overview.....presented by Jim DeCristo

Review 2023-2024 UNCSA BOT Meeting Presentations.....presented by Jim DeCristo

2024 UNCSA Risk Register Update.....presented by Jim DeCristo

**Summary:** Provide background on systemwide campus risk registers and review alignment with UNCSA priorities. Outline expectations for future ERM updates and the winter update of UNCSA’s risk register for the approval at the May BOT meeting.

**Action:** This item is for informational purposes only.

**AGENDA ITEM**

**Internal Audit Cybersecurity Report**.....presented by Terry Harmon, Chief Information Officer

**Summary:**

I wish to address progress on the recent internal audit conducted on UNCSCA's cybersecurity practices. UNCSCA Information Technology acknowledges and fully concurs with the observations made by our Internal Audit team and further details about our progress will be discussed in closed session due to the sensitivity of the matter.

I would also like to express my appreciation for our Internal Audit team. They have consistently demonstrated the highest level of professionalism and have proven to be invaluable partners to our IT department. Their collaborative approach not only ensures compliance but contributes significantly to our overall security posture. We view their involvement as more than a mere checkbox exercise; it is a genuine partnership aimed at enhancing UNCSCA's cybersecurity resilience.

**Action:** This item is for informational purposes only.

**AGENDA ITEM**

**CALEA Accreditation**.....presented by Tommy McMasters, Chief of Police

**Summary:**

CALEA is the Commission on Accreditation for Law Enforcement Agencies and is a 21-member commission comprised of various law enforcement practitioners. The Commission houses Police Chiefs, Sheriffs, Judges, and other public and private sector professionals.

CALEA’s purpose is to improve the delivery of public safety services by maintaining a body of professional standards that support the administration of accreditation programs.

CALEA reviews an agency’s Directives, Reports, Preparedness, and Community Relationships. Additionally, CALEA has subject matter experts conduct independent reviews of the aforementioned for each agency. Finally, CALEA ensures each accredited agency maintains constant pursuit of excellence through annual reviews and other assessment measures.

Once an agency has completed the 1 – 3 year exhaustive and rigorous process, said agency is afforded the opportunity to display the CALEA seal.



**Action:** This item is for informational purposes only

**AGENDA ITEM**

Financial Statement Audit Update and  
Other External Financial Statement Audit Reviews.....Melanie Nuckols

**Summary:** The NC Office of the State Auditor is conducting the University’s financial statement audit and the Federal Compliance Audit for FY 2023. Bernard Robinson & Company, LLP is conducting the FY 2023 audits for the UNCSA Housing Corporation, UNCSA Program Support Corporation, and the Thomas S. Kenan Institute for the Arts Supporting Organization. We have been in communication with the NC Department of Administration about a Purchasing & Contract (P&C) review. Forvis, LLP conducted the Foundation’s financial statement audit for FY 2023.

- The UNCSA Financial Statement Audit for Fiscal Year 2023 is underway with an anticipated completion date before the end of December.
- The UNCSA Federal Compliance Audit for Fiscal Year 2023 is underway with an anticipated completion date before the end of December.
- The on-site audit work related to the UNCSA Housing Corporation Financial Statement Audit for 2023 was recently completed. The results of the audit are expected within the next couple of weeks.
- The on-site audit work related to the UNCSA Program Support Corporation Financial Statement Audit for 2023 was recently completed. The results of the audit are expected within the next couple of weeks.
- The on-site audit work related to the Thomas S. Kenan Institute for the Arts Supporting Organization Financial Statement Audit for 2023 was recently completed. The results of the audit are expected within the next couple of weeks.
- We have been in communication with the NC Department of Administration about a P&C review for 2023. The review is currently underway.
- The UNCSA Foundation Financial Statement Audit for 2023 was recently completed. The results of the audit were an unqualified opinion (clean audit), with no finding or issues to report.

**Action:** This item is for informational purposes only.




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# **University of North Carolina School of the Arts Foundation, Inc.**

## **Independent Auditor's Report and Consolidated Financial Statements**

June 30, 2023 and 2022

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## Independent Auditor's Report

Board of Directors  
University of North Carolina School of the Arts Foundation, Inc.  
Winston-Salem, NC

### **Opinion**

We have audited the consolidated financial statements of University of North Carolina School of the Arts Foundation, Inc. (a nonprofit organization) and its subsidiary (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Prior Period Consolidated Financial Statements**

The consolidated financial statements of University of North Carolina School of the Arts Foundation, Inc. as of June 30, 2022 were audited by other auditors whose report dated August 30, 2022 expressed an unmodified opinion on those statements.

### **Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

# FORVIS

## ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**FORVIS, LLP**

**Winston-Salem, NC  
August 30, 2023**

University of North Carolina School of the Arts Foundation, Inc.  
Consolidated Statements of Financial Position  
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15,879,570	\$ 14,229,496
Investments	80,155,390	82,989,766
Prepaid expenses and other current assets	51,210	101,218
Pledges receivable, net	2,939,225	1,368,754
Beneficial interest in perpetual trusts	313,075	493,163
Property	52,442	47,442
	<u>99,390,912</u>	<u>99,229,839</u>
Total assets	<u>\$ 99,390,912</u>	<u>\$ 99,229,839</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 55,564	\$ 56,372
Due to UNCOSA	33,469	52,573
	<u>89,033</u>	<u>108,945</u>
Total liabilities	<u>89,033</u>	<u>108,945</u>
Net assets:		
Without donor restrictions		
Unappropriated	1,515,266	1,885,643
Board appropriated	287,487	318,750
With donor restrictions	<u>97,499,126</u>	<u>96,916,501</u>
Total net assets	<u>99,301,879</u>	<u>99,120,894</u>
Total liabilities and net assets	<u>\$ 99,390,912</u>	<u>\$ 99,229,839</u>

University of North Carolina School of the Arts Foundation, Inc.  
Consolidated Statements of Activities  
For the Years Ended June 30, 2023 and 2022

(2 pages)

	2023		TOTAL
	Without Donor Restrictions	With Donor Restrictions	
Revenue, gains, and other income:			
Gifts and grants	\$ 648,227	\$ 6,009,650	\$ 6,657,877
Interest and dividend income	394,208	-	394,208
Realized and unrealized losses on other investments, net of losses and fees	(236,312)	(130,633)	(366,945)
Other income	7,718	202,613	210,331
Change in fair value of perpetual trusts	-	(32,437)	(32,437)
Loss on perpetual trust	-	(147,651)	(147,651)
Net assets released from restrictions	5,221,040	(5,221,040)	-
Total revenue, gains, and other income	<u>6,034,881</u>	<u>680,502</u>	<u>6,715,383</u>
Expenses:			
Program Services:			
Scholarships and awards	3,043,973	-	3,043,973
School programs	2,057,370	-	2,057,370
Advancement	615,638	-	615,638
Total Program services	<u>5,716,981</u>	<u>-</u>	<u>5,716,981</u>
Support Services:			
Administrative	719,540	-	719,540
Total expenses	<u>6,436,521</u>	<u>-</u>	<u>6,436,521</u>
Change in net assets before transfers	(401,640)	680,502	278,862
Transfers to UNCSCA	-	(97,877)	(97,877)
Change in net assets	(401,640)	582,625	180,985
Net assets, beginning of year	<u>2,204,393</u>	<u>96,916,501</u>	<u>99,120,894</u>
Net assets, end of year	<u>\$ 1,802,753</u>	<u>\$ 97,499,126</u>	<u>\$ 99,301,879</u>

University of North Carolina School of the Arts Foundation, Inc.  
Consolidated Statements of Activities  
For the Years Ended June 30, 2023 and 2022

(2 pages)

	<b>2022</b>		<b>TOTAL</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	
Revenue, gains, and other income:			
Gifts and grants	\$ 528,768	\$ 2,392,935	\$ 2,921,703
Interest and dividend income	40,711	-	40,711
Realized and unrealized gains and losses on other investments, net of losses and fees	(431,597)	3,796,960	3,365,363
Change in fair value of perpetual trusts	-	(329,379)	(329,379)
Other income	29,119	191,198	220,317
Net assets released from restrictions	6,507,908	(6,507,908)	-
Total revenue, gains, and other income	<u>6,674,909</u>	<u>(456,194)</u>	<u>6,218,715</u>
Expenses:			
Program Services:			
Scholarships and awards	3,070,379	-	3,070,379
School programs	2,754,022	-	2,754,022
Advancement	572,249	-	572,249
Total Program services	<u>6,396,650</u>	<u>-</u>	<u>6,396,650</u>
Support Services:			
Administrative	<u>621,928</u>	<u>-</u>	<u>621,928</u>
Total expenses	<u>7,018,578</u>	<u>-</u>	<u>7,018,578</u>
Change in net assets before transfers	(343,669)	(456,194)	(799,863)
Transfers to UNCSCA	<u>-</u>	<u>(15,994)</u>	<u>(15,994)</u>
Change in net assets	(343,669)	(472,188)	(815,857)
Net assets, beginning of year	<u>2,548,062</u>	<u>97,388,689</u>	<u>99,936,751</u>
Net assets, end of year	<u>\$ 2,204,393</u>	<u>\$ 96,916,501</u>	<u>\$ 99,120,894</u>

University of North Carolina School of the Arts Foundation, Inc.  
Consolidated Statements of Functional Expenses  
For the Year Ended June 30, 2023

(2 pages)

	Program Services			Supporting Services	Total
	Scholarships and awards	School Programs	Advancement*	Administration	
Scholarships and awards	\$ 3,043,973	\$ -	\$ -	\$ -	\$ 3,043,973
Salaries and benefits	-	708,835	17,934	524,404	1,251,173
Support of school performances	-	714,023	91,408	5,443	810,874
Office supplies, services, and administrative expenses	-	261,493	110,147	91,033	462,673
Conferences, meetings, travel, and entertainment	-	31,512	110,386	8,778	150,676
Educational supplies	-	179,809	242,691	88,715	511,215
Stewardship	-	59,078	43,072	1,167	103,317
Other	-	102,620	-	-	102,620
Total functional expenses	<u>\$ 3,043,973</u>	<u>\$ 2,057,370</u>	<u>\$ 615,638</u>	<u>\$ 719,540</u>	<u>\$ 6,436,521</u>

\* Advancement expenses are classified as program services as these represent support of the School's Department of Advancement

University of North Carolina School of the Arts Foundation, Inc.  
Consolidated Statements of Functional Expenses  
For the Year Ended June 30, 2022

(2 pages)

	Program Services			Supporting Services	Total
	Scholarships and awards	School Programs	Advancement*	Administration	
Scholarships and awards	\$ 3,070,379	\$ -	\$ -	\$ -	\$ 3,070,379
Salaries and benefits	-	762,760	73,819	469,911	1,306,490
Support of school performances	-	605,314	-	-	605,314
Office supplies, services, and administrative expenses	-	195,100	454,870	74,350	724,320
Conferences, meetings, travel, and entertainment	-	207,300	32,898	10,710	250,908
Educational supplies	-	416,162	-	-	416,162
Cool building renovation	-	489,999	-	-	489,999
Occupancy costs	-	-	-	7,149	7,149
Other	-	77,387	10,662	59,808	147,857
Total expenses	<u>\$ 3,070,379</u>	<u>\$ 2,754,022</u>	<u>\$ 572,249</u>	<u>\$ 621,928</u>	<u>\$ 7,018,578</u>

\* Advancement expenses are classified as program services as these represent support of the School's Department of Advancement

**University of North Carolina School of the Arts Foundation, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
Cash flows from operating activities:		
Change in net assets	\$ 180,985	\$ (815,857)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Write-off of pledges receivables	-	35,300
Net loss (gain) on investments reported at fair value	130,633	(3,704,861)
Loss on perpetual trust	147,651	-
Changes in fair value of beneficial interest in perpetual trusts	32,437	329,379
Change in operating assets and liabilities:		
Prepaid expenses and other current assets	50,008	(53,240)
Pledges receivable, net	(1,570,471)	955,059
Accounts payable and accrued expenses	(808)	(74,232)
Due to UNCSEA	(19,104)	5,107
Net cash used by operating activities	<b>(1,048,669)</b>	<b>(3,323,345)</b>
Cash flows from investing activities:		
Net sales of investments, net of distributions	3,190,165	2,438,980
Purchase of investments	(486,422)	-
Purchase of property	(5,000)	-
Net cash provided by investing activities	<b>2,698,743</b>	<b>2,438,980</b>
Net increase (decrease) in cash and cash equivalents	<b>1,650,074</b>	<b>(884,365)</b>
Beginning cash and cash equivalents	<b>14,229,496</b>	15,113,861
Ending cash and cash equivalents	<b>\$ 15,879,570</b>	<b>\$ 14,229,496</b>



## Notes to Consolidated Financial Statements

### 1. Organization and Principles of Consolidation

University of North Carolina School of the Arts Foundation, Inc. (the "Foundation") is a not-for-profit organization founded in 1964 for the purpose of fostering and promoting the growth, progress, and general welfare of the University of North Carolina School of the Arts (the "School" or "UNCSA"). The Foundation is a component unit of the School and is discretely presented in the consolidated financial statements of the School. UNCSA Foundation Management, LLC is a wholly owned subsidiary and is a vehicle for acquiring real estate and other investments for the Foundation. All inter-entity transactions have been eliminated.

### 2. Summary of Significant Accounting Policies

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 Foundation and changes therein are classified and reported as follows:

- Without donor restrictions – net assets that are not subject to donor-imposed stipulations. These net assets are classified as either unappropriated or board appropriated.
- With donor restrictions – net assets subject to donor-imposed stipulations that are either temporary or permanent. Temporary restrictions may be met either by actions of the Foundation and/or with the passage of time. Permanently restricted funds, or endowments, are held in perpetuity and generally permit the Foundation to use all or part of the investment income on these funds for general or donor-specified purposes. Investment income on these endowment funds includes net realized and unrealized gains and losses, as well as interest and dividend income. See Note 8 for a summary of the components of net assets with donor restrictions.

Endowment returns subject to future appropriation - Undistributed investment income on endowment funds is reported within net assets with donor restrictions as endowment returns subject to future appropriation. See endowment distribution policy in this note.

Net assets released from restrictions - In the consolidated statements of activities, revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. All expenses are reported as decreases in net assets without donor restrictions. The compliance with temporary donor restrictions (i.e., the donor-imposed stipulation has been fulfilled and/or the stipulated time period has elapsed) is reported as net assets released from restrictions.

#### ***Use of estimates***

The preparation of consolidated financial statements in accordance with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Gifts and grants***

The Foundation recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions of assets other than cash are recorded at estimated fair value. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at a risk-adjusted market rate. As of June 30, 2023 and 2022, the rate used was 4.5%. Amortization of the discount is recorded as additional contribution revenue. Allowance is made for uncollectible pledges receivable based upon an analysis of past collection experience and other relevant factors.

Revenue from grants is recognized based on the performance objectives in the grant agreement. Revenue is recognized when all objectives of the grant agreement have been completed.

The ability of the Foundation's contributors to continue giving amounts comparable with prior years is dependent, amongst other factors, upon current and future economic conditions and the continued deductibility for income tax purposes of contributions to the Foundation. While the Foundation's Board of Directors ("Board") believes the Foundation has the resources to continue to support the School's programs, its ability to do so, and the extent to which it continues, may be dependent on the above factors.

Except as discussed in Note 10, no amounts have been reflected in the consolidated financial statements for donated services as the Foundation generally pays for such expertise. Individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services.

***Cash and cash equivalents***

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash balances are maintained with various banks, the amounts of which may at times exceed federally insured limits. Credit risks associated with cash balances are mitigated by banking with credit worthy institutions. Cash equivalents comprise mainly federal money market funds.

***Investments***

The Foundation's endowment investments are managed within the UNC Investment Fund ("UNCIF"), a pooled investment fund vehicle for constituent institutions of the University of North Carolina System. Securities and other assets of UNCIF are primarily held by an independent custodian. UNCIF is designed to provide long-term stable rates of return on the invested assets through the use of a diversified portfolio strategy. The investment objective is to earn an average real total return of at least 5.5% per year, net of fees, over rolling 5-10 year periods. Investments held in alternative structures are reported at fair value based on estimates provided by UNCIF and their advisors. Interest and dividend income is recorded when earned.

UNCIF's investments may be held in a variety of investment forms. Investment securities and other investments, including alternative investments in general, are exposed to various risks, such as interest rate risk, credit risk, liquidity risk, foreign currency risk, and overall market volatility. Although the market value of investments is subject to fluctuations, management believes the investment policy is prudent for the long-term welfare of the Foundation. UNCIF limits the amounts that can be withdrawn for spending distributions, as well as capital withdrawals.

From time to time, other listed investments may be held by a financial institution and are carried at fair value.

### ***Endowments***

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanent endowment funds (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the permanent endowment fund that does not have donor restrictions is held until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation’s investment policies.

In accordance with UPMIFA, if an institution determines a restriction on funds is impracticable, the institution may release or modify the restriction if the fund has a total value of less than \$100,000, more than 10 years have elapsed since the fund was established, and the institution uses the property in a manner consistent with the charitable purposes expressed in the gift instrument. This process is subject to the oversight of the Attorney General of North Carolina.

### ***Endowment distribution policy***

Endowment funds are accounted for using a unitized investment pool, with each endowment being assigned units in the pool. The per unit distribution is adjusted by the change in the All Urban Consumer Price Index. Annual distributions are limited (subject to donor stipulations) to a maximum of 6% with a minimum of 3.5% of ending unit value at the calculation date. When unit values fall below the original gift amount (referred to as “underwater endowments”), distributions continue; however, these instances are monitored by the Board. There were no underwater endowments at June 30, 2023 or 2022. Distributions amounted to approximately 4% of unit values in 2023 and 2022.

In establishing these policies, the Board considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Board expects its spending policies to allow its endowment funds to grow at a rate consistent with the Board’s objective to maintain the purchasing power of the endowment assets, as well as to provide additional growth through investment return.

### ***Perpetual trusts***

The Foundation is the beneficiary of perpetual trusts held and administered by outside trustees. These trust assets are reported at fair value. The related net assets are classified as with donor restrictions.

During 2023, the Foundation was notified by an outside trustee that certain trust assets were not the property of the Foundation and should be written off. As such, \$147,651 has been written off within the consolidated statements of activities as of June 30, 2023.

**University of North Carolina School of the Arts Foundation, Inc.**  
**Notes to Consolidated Financial Statements**

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***Property***

The Foundation may receive property to be transferred to the School, which is not capitalized. Otherwise, the Foundation capitalizes property with a value over \$5,000. Lesser amounts are expensed. Property is stated at cost at date of acquisition or fair value at date of donation in the case of gifts.

***Income taxes***

The Foundation is exempt from income taxes on related income under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. No material unrelated business taxable income has been identified by management. Accordingly, no provision for income taxes is made in the consolidated financial statements.

It is the Foundation's policy to evaluate all tax positions and to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the consolidated financial statements. Any changes in the amount of a tax position will be recognized in the period the change occurs. Currently, the statute of limitations remains open subsequent to and including fiscal year 2019; however, no examinations are in process.

***Functional expenses***

The Foundation's expenses are directly attributable to specific program or support services. Therefore, the preparation of the consolidated statement of functional expenses does not require estimation for allocation of expenses by functional category.

***Change in accounting principle***

In February 2016, the FASB issued Account Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of the consolidated financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, i.e., the comparatives under ASC 840 option.

The Foundation adopted Topic 842 on July 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Foundation elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. Also, the Foundation elected to keep short-term leases with an initial term of 12 months or less off the consolidated statements of financial position. The Foundation did not elect the hindsight practical expedient in determining the least term for existing leases as of July 1, 2022.

The Foundation's operating leases as a lessee are immaterial and the Foundation has therefore not recorded an ROU asset and lease liability at June 30, 2023. The standard did not significantly affect the Foundation's consolidated statements of activities or cash flows.

### Subsequent events

Management evaluated the effect subsequent events would have on the consolidated financial statements through August 30, 2023, which is the date the consolidated financial statements were available to be issued.

### 3. Fair Value of Financial Instruments

The fair value of cash and cash equivalents, accounts payable, and accrued expenses are not materially different than their carrying amounts, as reported, since they approximate the amount for which the assets could be sold, or the liabilities could be settled. The discount rate used for pledges receivable approximates a market interest rate. Accordingly, the carrying value approximates fair value. Investments and perpetual trusts are carried at fair value.

Assets and liabilities carried at fair value are classified and disclosed within categories based on the inputs used in determining fair value. However, Accounting Standards Codification Topic 820, *Fair Value Measurement*, Subtopic 820-10, provides a practical expedient allowing investments that are measured at fair value using the net asset value per share (or its equivalent) not to be classified in the fair value hierarchy. The Foundation's investments with UNCIF (Note 4) and beneficial interests in perpetual trusts are measured at net asset value, and are therefore, excluded from fair value classifications.

There were no other assets or liabilities measured at fair value at June 30, 2023 and 2022.

### 4. Investments

Investments comprise endowment investments with UNCIF. Depending on the amount and purpose, UNCIF may require advance notice of withdrawals. Currently, UNCIF may require 30 days-notice for endowment spending distributions and withdrawals of less than \$10 million and 90 days-notice for withdrawals of more than \$10 million.

### 5. Pledges Receivable, Net

Pledges receivable, net consist of the following June 30:

	<u>2023</u>	<u>2022</u>
Due within one year	\$ 968,276	\$ 802,112
Due in one to five years	2,155,423	521,592
Due in more than five years	<u>110,000</u>	<u>175,000</u>
Total unconditional pledges	<u>3,233,699</u>	<u>1,498,704</u>
Less:		
Discount to present value at 4.5%	(165,126)	(70,002)
Allowance for uncollectible pledges	<u>(129,348)</u>	<u>(59,948)</u>
Total pledges receivable, net	<u>\$ 2,939,225</u>	<u>\$ 1,368,754</u>

**University of North Carolina School of the Arts Foundation, Inc.**  
**Notes to Consolidated Financial Statements**

Two donors accounted for 81% and three donors accounted for 54% of gross pledges receivable at June 30, 2023 and 2022, respectively. Two donors accounted for 52% and two donors accounted for 27% of gifts and grants in 2023 and 2022, respectively.

**6. Property**

Property consists of land carried at cost of \$52,442 and \$47,442 at June 30, 2023 and 2022, respectively.

**7. Liquidity and Availability**

Financial assets available for general expenditure within one year of June 30 are as follows:

	<u>2023</u>	<u>2022</u>
Total assets	\$ 99,390,912	\$ 99,229,839
Less assets not available for general expenditures within one year:		
Endowment funds with donor restrictions	83,929,732	86,407,427
Prepaid expenses	51,210	101,218
Pledges receivable due greater than one year	2,265,423	696,592
Beneficial interests in perpetual trusts	313,075	493,163
Property	52,442	47,442
Board appropriated	<u>287,487</u>	<u>318,750</u>
Total assets available for general expenditures	<u>\$ 12,491,543</u>	<u>\$ 11,165,247</u>

As part of the Foundation's liquidity management, financial assets are structured to be available for general expenditures, liabilities, and obligations as they become due. Cash in excess of daily requirements are invested in cash equivalents, primarily federal money market funds.

**8. Restrictions on Net Assets**

Net assets with donor restrictions are either temporarily or permanently restricted and available for the following purposes:

	<u>2023</u>	<u>2022</u>
Time or purpose restrictions (temporarily restricted):		
School programs	\$ 13,253,777	\$ 10,015,911
Endowment returns subject to future appropriation	31,963,630	35,000,752
Perpetual restrictions (permanently restricted):		
Permanent endowment funds	51,968,644	51,406,675
Interest in perpetual trusts held by others	<u>313,075</u>	<u>493,163</u>
Total net assets with donor restrictions	<u>\$ 97,499,126</u>	<u>\$ 96,916,501</u>

**University of North Carolina School of the Arts Foundation, Inc.**  
**Notes to Consolidated Financial Statements**

In 2023 and 2022, Board appropriated net assets without donor restrictions represent amounts set aside for property improvements and support of the School.

**9. Endowment Net Assets**

Changes in endowment net assets during the year ended June 30, 2023 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 86,407,427	\$ 86,407,427
Gifts and grants	-	559,526	559,526
Realized and unrealized gains, net of losses	-	(133,036)	(133,036)
Investment management fees	(236,312)	-	(236,312)
Amounts appropriated for expenditure, reclassifications, and transfers	<u>236,312</u>	<u>(2,904,185)</u>	<u>(2,667,873)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 83,929,732</u>	<u>\$ 83,929,732</u>

Changes in endowment net assets during the year ended June 30, 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 85,040,324	\$ 85,040,324
Gifts and grants	-	441,647	441,647
Realized and unrealized gains, net of losses	-	3,796,960	3,796,960
Investment management fees	(339,498)	-	(339,498)
Amounts appropriated for expenditure, reclassifications, and transfers	<u>339,498</u>	<u>(2,871,504)</u>	<u>(2,532,006)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 86,407,427</u>	<u>\$ 86,407,427</u>

**10. Related Party Transactions**

Reimbursements to the School for school employees assigned to the Foundation amounted to \$283,767 and \$282,506 in 2023 and 2022, respectively. Reimbursements to the School for school employee supplements amounted to \$698,857 and \$770,232 in 2023 and 2022, respectively. The School also provides the Foundation with various services, including office space, technology, and legal services. In fiscal 2023 and 2022, the Foundation recorded expenses of \$7,719 and \$13,212, respectively, for services provided by employees of the School and also other income for the same amount.

At June 30, 2023 and 2022, \$33,469 and \$52,573 is due to the School for salary and miscellaneous reimbursements, respectively.

**11. Investment Income**

Realized and unrealized gains and losses on other investments, net of fees consist of the following:

	<u>2023</u>	<u>2022</u>
Gain (loss) on investments reported at fair value	\$ (130,633)	\$ 3,704,861
Investment management fees	<u>(236,312)</u>	<u>(339,498)</u>
Realized and unrealized (loss), net of fees	<u>\$ (366,945)</u>	<u>\$ 3,365,363</u>

**12. Retirement Plan**

The Foundation contributes to a retirement account a percentage based on its employee’s salary. Contributions amounted to \$8,725 and \$8,400 in 2023 and 2022, respectively.



## **AGENDA ITEM**

Internal Audit Activity Update ..... Rod Isom & IA Staff

### **Summary\*:**

**a) Risk Overview and Audit Plan Update\*\***

*Discuss IA's methodology of how risk is assessed at the university. Results of IA's annual risk assessment process, the current risk landscape, and update to the audit plan which will be discussed. The audit plan update will require approval from the ARCC and Board.*

**b) Summary of Operations and Audit Activity for Fiscal Year 2023\***

*Review of IA's performance metrics and other activity for the fiscal year.*

**c) Recent Reports and Other Communications\***

*Recent reports or other audit communications that have been released will be discussed.*

**d) Other Activities and Matters\***

*Other relevant matters or significant activities related to Internal Audit, the profession, or risk in general will be discussed.*

*\*Additional information related to these items or any internal audits or reviews released prior to the meeting will be provided at the meeting.*

**\*\* Action Item**

**Action:** These items are for informational purposes only. One item does require an approval.



**WINSTON-SALEM**  
STATE UNIVERSITY



**Office of Internal Audit**

Rod Isom, Chief Audit Officer

1600 Lowery Street, Winston-Salem, North Carolina 27110

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June 29, 2023

Wendy Emerson

Vice Chancellor for Finance and Administration

University of North Carolina School of the Arts

1533 South Main Street

Winston-Salem, NC 27127

Dear Ms. Emerson:

The Winston-Salem State University (WSSU) Office of Internal Audit (IA) has completed its planned review of cybersecurity at the University of North Carolina School of the Arts (UNCSA). The scope of the review was calendar year 2022. The report that follows includes the results of the review, inclusive of recommendations and management's response. Other observations, considered minor or outside of the scope of our review, will be communicated to management by way of a management letter, risk monitoring memo, or verbally. This report contains IT security matters that are not subject to public disclosure under NCGS 132-6.1. Consequently, we have limited the recipients of this document to protect the security of the university's systems and data.

Engagements completed by IA at UNCSA are conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Respectfully submitted,

Rod Isom

Chief Audit Officer

cc: Brian Cole, Chancellor  
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel  
Terry Harmon, Chief Information Officer  
Audit, Risk, and Compliance Committee, UNCSA Board of Trustees

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## EXECUTIVE SUMMARY

Based on the results of IA's annual risk assessment and other discussions with leadership, an audit of Cybersecurity was included in the annual audit plan. Risks to the university's information assets are of critical concern as the frequency and severity of cyberattacks continue to rise dramatically. Educational and research institutions are among the most frequent targets, with ransomware, data theft, and denial of service among the top threats.

IA hopes the efforts and outcome of the review will assist the university with strategic success, specifically as it relates to *Institutional Sustainability*, and assist the university with risk mitigation efforts for one of its top enterprise risks, *Cybersecurity*.

The objectives of the review were as follows:

- To assess cybersecurity risk management to ensure risks are identified, evaluated, and appropriately mitigated;
- To evaluate the management of cybersecurity policies, standards, and procedures;
- To determine if security event management is appropriate to monitor, investigate, and resolve security incidents and threats; and,
- To assess cybersecurity awareness efforts and other activities related to end users and remote device security.

This section of the report contains IT security matters that are not subject to public disclosure under NCGS 132-6.1. Consequently, we have limited the recipients of this information to protect the security of the university's systems and data.

## BACKGROUND, OBJECTIVE, AND SCOPE

### **BACKGROUND:**

Based on the results of IA's annual risk assessment and other discussions with leadership, an audit of Cybersecurity was included in the annual audit plan. Risks to the university's information assets are of critical concern as the frequency and severity of cyberattacks continue to rise dramatically. The "Cost of Data Breach Report 2022" report, based on a survey of executives and security professionals at 550 companies, says the average cost of a data breach continued to rise in 2022, reaching an average of \$4.4 million globally (up 13% since 2020) and \$9.4 million in the United States. Educational and research institutions are among the most frequent targets, with ransomware, data theft, and denial of service among the top threats. While UNCSA has avoided significant problems so far, at least two North Carolina universities have experienced significant operational disruptions due to cyber attacks within the last few years.

UNCSA's Information Technologies Department (IT) provides and supports software and hardware solutions for the university, and it has primary responsibility for establishing safeguards and controls to manage information security risks. IT's information security team utilizes policies and procedures, software tools, and other methods to protect the university's information assets from cyber threats.

### **OBJECTIVE:**

The objectives of the review were as follows:

- To assess cybersecurity risk management to ensure risks are identified, evaluated, and appropriately mitigated;
- To evaluate the management of cybersecurity policies, standards, and procedures;
- To determine if security event management is appropriate to monitor, investigate, and resolve security incidents and threats; and,
- To assess cybersecurity awareness efforts and other activities related to end users and remote device security.

To conduct the review, IA performed the following procedures:

- Reviewed university policies and procedures;
- Interviewed university employees; and
- Examined relevant documents and records.

<b>BACKGROUND, OBJECTIVE, AND SCOPE</b>
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**SCOPE:**

The scope of the review was calendar year 2022.

This report presents the results of IA's review.

**AUDIT OBSERVATIONS AND RECOMMENDATIONS**

This section of the report contains IT security matters that are not subject to public disclosure under NCGS 132-6.1. Consequently, we have limited the recipients of this information to protect the security of the university's systems and data.