

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 September Meeting.....Chairman Wigodsky
3. Matters of Governance, Risk and ComplianceRod Isom & UNCSA Management
 - a) Enterprise Risk Management/Title IX.....Jim DeCristo & Valerie Thelen, Chief Compliance Officer and Director of Title IX
 - b) Information Governance & Security.....Terry Harmon, Chief Information Officer
 - c) Clery Compliance.....Valerie Thelen
4. Discussion of External Audits and Reviews (if any).....Rod Isom & UNCSA Management
 - a) Financial Statement Audits.....Wendy Emerson
5. Discussion of Internal Audit's Activity.....Rod Isom & Internal Audit Staff
 - a) Recent Reports and Other Communications
 - b) Audit Plan Project Status and Updates

c) 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

- 6. Approval of Minutes from the April & September Meeting, (if any).....Chairman Wigodsky
- 7. Discussion of Special Items, Reviews and Investigations (if any)..... IA and David Harrison
 - a) Lawsuit Updates.....David Harrison

OPEN SESSION

- 8. Other Business.....Committee Members & Staff
- 9. Adjourn.....Chairman Wigodsky

OPEN SESSION MINUTES

September 28, 2023

University of North Carolina School of the Arts
SAAB 306

TRUSTEES PRESENT

***Denotes voting committee members**

John Wigodsky (Chair)*, Jonah Bokaer, Ches McDowell (Zoom) *, David Neill (Zoom)*, Peter Juran* (ex officio)

TRUSTEES ABSENT

Graydon Pleasants *

ADMINISTRATION AND STAFF PRESENT

Rod Isom (Chief Audit Officer – via Zoom); 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); Melanie Nuckols (Associate Vice Chancellor for Finance and Administration); Patrick Sims (Executive Vice Chancellor and Provost); Lissy Garrison (Vice Chancellor for Advancement); Jeff George (Faculty Council Representative); Jarrett Bailey (Staff Council Representative); Patrice Goldman (Associate General Counsel); Tommy McMasters (Chief of Police); Amanda Balwah (AVC and Secretary of the University); Travis Andrews (IT Support); Liza Vest (Staff Council Representative); Martha Golden (Faculty Council Representative); Michael Kelly (Dean of Design & Production); Marla Carpenter (Senior Communications Manager – via Zoom)

CONVENE OPEN SESSION AND CONFIRM QUORUM

Committee Chair John Wigodsky convened the September 28, 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: Peter Juran moved to approve the April 2023 Open Session Minutes as presented. David Neill seconded and the minutes were unanimously approved.

REVIEW OF COMMITTEE CHARTER

Rod Isom, Chief Audit Officer, reviewed, the Audit, Risk, and Compliance Committee Charter. There are no changes or updates for FY24.

ENTERPRISE RISK MANAGEMENT (ERM)

Jim DeCristo, Vice Chancellor and Chief of Staff, reviewed the top five risks of the UNC System and distributed a handout from the System Office. He noted alignment between the System's priorities and UNCOSA's priorities. Expectations for future ERM updates were outlined. Over the winter, UNCOSA will need to update the campus' risk register for approval by the board in 2024.

INFORMATION GOVERNANCE & SECURITY

Terry Harmon, Chief Information Officer, thanked the Internal Audit team for their work within the Information Technology division.

CALEA ACCREDITATION

Tommy McMaster, Chief of Police, reported that the UNCOSA Police Department was awarded a law enforcement accreditation for the first time by the Commission on Accreditation for Law Enforcement Agencies (CALEA). CALEA serves as the gold standard for public safety agencies.

DISCUSSION OF EXTERNAL AUDITS AND REVIEWS

Melanie Nuckols, Associate Vice Chancellor for Finance and Administration, reported that the FY23 Finance Statement Audit and the FY23 Federal Compliance Audit, which are conducted by the Office of the State Auditor (OSA), are underway. These audits are expected to be completed by the end of December. Internal Controls Testing was completed in July.

The FY23 Financial Statement Audits for the UNCOSA Housing Corporation, UNCOSA Program Support Corporation, and the Thomas S. Kenan Institute for the Arts Supporting Organization are being conducted by Bernard Robinson & Company, LLP. The on-site fieldwork portion was recently completed for each entity and the results of the audits are expected within the next couple of weeks.

The FY23 UNCOSA Foundation Financial Statement was recently completed by Forvis, LLP. The result of the audit was an unqualified opinion or clean audit with no issues to report.

The NC Department of Administration's Purchasing and Contract review for 2023 is currently underway.

DISCUSSION OF INTERNAL AUDIT (IA) ACTIVITY

Rod Isom, Chief Audit Officer, presented Internal Audit's plan for the current fiscal year. He emphasized how IA's top risks align with ERM efforts and the university's strategy and presented the updated Audit plan for approval before it is sent to the state on September 30th.

Corey Billings, Audit Manager, presented IA's Annual Report. Three projects have been completed since the last committee meeting and one project is in process. Two projects were added to the audit plan based on the unit's continuous risk assessment efforts and one complaint was received. Mr. Billings reviewed IA's key performance metrics and their Quality Assurance Improvement Program (QAIP) which include strategic planning, follow-ups and monitoring, and the self-assessment maturity model (SAMM).

MOTION: Peter Juran moved to approve the Internal Audit Plan as presented. Ches McDowell seconded and the motion was unanimously approved.

MOTION TO GO INTO CLOSED SESSION

MOTION: Peter Juran moved that the ARCC committee go into closed session to consult with our attorney in order to preserve the attorney-client privilege, to consider and give instructions concerning the handling or settlement of:

- i. Alloways-Ramsey, et al. v. Milley, et al., Forsyth County Superior Court case 21 CVS 5899; and,**
- ii. Soderlund, et al. v. University of North Carolina School of the Arts and The University of North Carolina, North Carolina Industrial Commission case numbers TA-29599 - TA-29605; and,**
- iii. Mandzik v. UNC School of the Arts and Pegram v. UNC School of the Arts, North Carolina Industrial Commission, case numbers TA-20157 and TA-29158; and to**

Prevent the disclosure of information that is privileged or confidential pursuant to Section 116-40.7 of the North Carolina General Statutes, regarding Internal Auditor's work papers. Ches McDowell 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 and to discuss the cases named in the closed session motion with UNCSCA's General Counsel.

ADJOURNMENT

With no further business to discuss, Chairman Juran adjourned the meeting at 4:57 p.m.

Respectfully submitted by:
Amanda Balwah
Secretary of the University

AGENDA ITEM

Sexual Harassment Prevention /Title IX..... presented by
Valerie Thelen, Chief Compliance Officer, and Director of Title IX

Summary: Provide the ARCC with an update on our activities to eliminate and respond to sexual harassment. Update on completion of online and in-person trainings. Overview of ongoing Compliance and Title IX operations. Update on additional staff resources for students.

Action: This item is for informational purposes only.



MEETING OF THE BOARD OF TRUSTEES

Audit, Risk, and Compliance Committee
Thursday, November 30, 2023

AGENDA ITEM

IT Updatepresented by
Terry Harmon, Information Technology

Summary:

Annual security training will commence on November 15, 2023, and will run through at least January 15, 2024. The training is required for all faculty and staff, and for the first time will be extended to students. Although participation in training is not required for students at this time, this will be a future consideration as UNCISA IT refines its security training program.

The October phishing campaign was targeted to HR activities, specifically our annual open enrollment period for health care. This campaign had a higher degree of difficulty because of the similarity to the actual HR campaign and is indicative of the type of attack that a bad actor would take advantage of. In all, 14.8% of message recipients clicked on this email, and 4.9% entered data which would have compromised their account. Although our goal is that no one supply credentials to a phishing email, this outcome represents a positive trend, since the 2022 baseline campaign, which was not as difficult, saw 35.2% of recipients clicking the email links.

Finally, UNCISA IT has completed an internal ISO maturity assessment with the assistance of our vCISO. We will use this assessment as a guide to inform all information security and cyber security activities in 2024.

Action: This item is for informational purposes only.

AGENDA ITEM

Financial Statement Audit Update and
Other External Financial Statement Audit Reviews.....Wendy Emerson

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 conducted the FY 2023 audits for the UNCSA Housing Corporation, UNCSA Program Support Corporation, and the Thomas S. Kenan Institute for the Arts Supporting Organization. The NC Department of Administration’s Division of Purchasing & Contract (P&C) conducted a compliance review for FY 2022.

- The UNCSA Financial Statement Audit for Fiscal Year 2023 is being finalized. The results of the audit are expected before the end of December.
- The UNCSA Federal Compliance Audit for Fiscal Year 2023 has been completed. The results of the audit will be included in a report at a future date.
- The UNCSA Housing Corporation Financial Statement Audit for Fiscal Year 2023 was recently completed. The results of the audit were an unqualified opinion (clean audit), with no findings or issues to report.
- The UNCSA Program Support Corporation Financial Statement Audit for Fiscal Year 2023 was recently completed. The results of the audit were an unqualified opinion (clean audit), with no findings or issues to report.
- The Thomas S. Kenan Institute for the Arts Supporting Organization Financial Statement Audit for Fiscal Year 2023 was recently completed. The results of the audit were an unqualified opinion (clean audit), with no findings or issues to report.
- The NC Department of Administration’s Division of Purchasing & Contract recently completed a compliance review for Fiscal Year 2022. The results of the review were no findings or issues to report.

Action: This item is for informational purposes only.

UNIVERSITY OF NORTH CAROLINA SCHOOL
OF THE ARTS HOUSING CORPORATION
(A Component Unit of the University of North Carolina School of the Arts)

FINANCIAL REPORT

JUNE 30, 2023



UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

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Independent Auditor's Report

To the Board of Directors
University of North Carolina School of the Arts Housing Corporation
Winston-Salem, North Carolina

Opinion

We have audited the accompanying financial statements of University of North Carolina School of the Arts Housing Corporation (a nonprofit corporation) (the "Corporation"), which comprise the balance sheet as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of University of North Carolina School of the Arts Housing Corporation as of June 30, 2023, and its results of operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of University of North Carolina School of the Arts Housing Corporation 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.

Responsibility of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about University of North Carolina School of the Arts Housing Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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, including omissions, 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 financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 University of North Carolina School of the Arts Housing Corporation'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about University of North Carolina School of the Arts Housing Corporation'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 28, 2023

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Management's Discussion and Analysis

Introduction

This section of the University of North Carolina School of the Arts Housing Corporation (Corporation) financial report provides an overview of the financial position and activities for the year ended June 30, 2023. This discussion has been prepared by management along with the financial statements and related notes to the financial statements and should be read in conjunction with the financial statements and the notes thereto, which follow this section. This discussion and analysis are designed to focus on current activities, resulting change, and current known facts.

Using the Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). These financial statements focus on the financial condition of the Corporation, the results of operations, and cash flows of the Corporation as a whole. The three financial statements presented include: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Cash Flows provides information relative to the Corporation's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Position. For the purpose of this discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits, detailed information on deposits, long-term liabilities, insurance against losses, and if necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the Corporation's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the Corporation as of the end of the fiscal year. The purpose of the Statement of Net Position is to present the readers of the financial statements a fiscal snapshot of the University of North Carolina School of the Arts Housing Corporation. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets plus deferred outflows minus liabilities plus deferred inflows).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Corporation. They are also able to determine how much the Corporation owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the Corporation.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Management's Discussion and Analysis

Net position is divided into three major categories. The first category, net investment in capital assets provides the Corporation's total investment in property, plant, and equipment owned by the Corporation, net of outstanding liabilities related to those capital assets. The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position relates to amounts to be retained in perpetuity. Expendable restricted net position is available for expenditure by the Corporation but must be spent for purposes as determined by donors and/or external entities that have placed certain restrictions on the use of the assets. The final category is unrestricted net position, which is available to the Corporation for any lawful purpose of the Corporation. Please refer to the financial statements and notes to the financial statements for more detail.

Condensed Statement of Net Position

	Year Ended June 30,		
	2023	2022	Change
Assets			
Current Assets	\$ 2,132,086	\$ 1,694,538	\$ 437,548
Capital Assets, Net	3,706,583	3,817,676	(111,093)
Total Assets	<u>5,838,669</u>	<u>5,512,214</u>	<u>326,455</u>
Liabilities			
Current Liabilities	408,456	371,141	37,315
Noncurrent Liabilities	<u>2,450,491</u>	<u>2,818,926</u>	<u>(368,435)</u>
Total Liabilities	<u>2,858,947</u>	<u>3,190,067</u>	<u>(331,120)</u>
Net Position			
Net Investment in Capital Assets	891,583	645,678	245,905
Unrestricted	<u>2,088,139</u>	<u>1,676,469</u>	<u>411,670</u>
Total Net Position	<u>\$ 2,979,722</u>	<u>\$ 2,322,147</u>	<u>\$ 657,575</u>

The total assets of the Corporation increased by \$326,455 for the year, with a decrease in capital assets of \$111,093 and an increase in current assets of \$437,548. The decrease in capital assets is due to annual depreciation expense. The increase in current assets is primarily due to an increase in cash of \$426,694 that was mainly a result of sustained cash receipts without the large furniture expenditure of the prior year.

The total liabilities of the Corporation decreased by \$331,120 for the year, with a decrease in long-term liabilities of \$368,435. The decrease in long-term liabilities is primarily due to the Corporation continuing to pay down its capital debt for the Series 2021 Certificates of Participation. The current portion of the Series 2021 Certificates of Participation will increase over the life of the debt.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Management’s Discussion and Analysis

The Corporation’s net position was \$2,979,722 at June 30, 2023, an increase of \$657,575 from the prior year. The significant change within net position is in the category of Net Investment in Capital Assets, which increased \$245,905 due to payments made on the Series 2021 Certificates of Participation and the aforementioned increase in cash.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reports the Corporation’s results of operation for the fiscal year. Changes in total net position presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the revenues received by the Corporation and expenses paid by the Corporation, both operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Corporation.

Generally speaking, operating revenues are received for providing goods and services to the students of the University of North Carolina School of the Arts. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. Nonoperating revenues are revenues received for which goods and services are not provided.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	2023	2022	Change
Operating Revenues	\$ 1,371,199	\$ 1,268,637	\$ 102,562
Operating Expenses			
Salaries and Benefits	141,933	162,760	(20,827)
Supplies and Services	262,302	592,642	(330,340)
Utilities	92,240	89,684	2,556
Depreciation Expense	111,093	110,634	459
Total Operating Expenses	607,568	955,720	(348,152)
Operating Income	763,631	312,917	450,714
Nonoperating Revenues (Expenses)			
Investment Income	52,726	3,999	48,727
Interest and Fees on Debt	(65,345)	(75,313)	9,968
Other Nonoperating Expenses	(93,437)	(73,165)	(20,272)
Total Nonoperating Expenses	(106,056)	(144,479)	38,423
Increase in Net Position	657,575	168,438	489,137
Beginning Net Position	2,322,147	2,153,709	168,438
Ending Net Position	\$ 2,979,722	\$ 2,322,147	\$ 657,575

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Management's Discussion and Analysis

The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in the net position at the end of the year. Total revenues for the fiscal year were \$1,423,925 compared to \$1,272,636 from the previous year, an increase of \$151,289.

The highlight of the revenue accounts presented on the Statement of Revenues, Expenses, and Changes in Net Position is as follows:

- Operating revenues increased by \$102,562. This increase was attributable to an increase in housing rates.
- Nonoperating expenses decreased by \$38,423. This increase was attributable mainly to an increase in investment income from short-term investment fund (STIF) activities.

Total expenses were \$766,350 for the fiscal year ended June 30, 2023, and \$1,104,198 for 2022. Operating expenses totaled \$607,568 for the year compared to \$955,720 from the previous year, a decrease of \$348,152. The significant change includes:

- Supplies and Services expenses decreased \$330,340 primarily due to furniture upgrades completed in the prior fiscal year.

Capital Asset and Debt Administration

The Corporation, a blended entity of University of North Carolina School of the Arts (University), took out certificates of participation in the amount of \$7,200,000 to provide funds to discharge certain indebtedness used for the acquisition, construction, equipping and subsequent improvements of the Center Stage Apartment complex. The Corporation has leased the apartment complex to the University to operate and maintain. Rentals from the apartment complex are pledged for the retirement of this debt. The debt service repayment schedule extended through June 2036 with interest rates ranging from 3.625% to 4.50%. The Corporation has extinguished these long-term debt obligations by the issuance of new long-term debt instruments.

On June 12, 2016, the Corporation issued \$5,400,000 in University of North Carolina School of the Arts Student Housing Project Refunding Certificates of Participation, Series 2015, refunding certificates of participation with an average interest rate of 2.99%. The bonds were issued for a current refunding of \$5,825,000 of outstanding University of North Carolina School of the Arts Student Housing Project Certificates of Participation, Series 2005, with an average interest rate of 3.50%. The refunding was undertaken to reduce total debt service payments by \$2,270,191 over the next 15 years.

On May 11, 2021, the Corporation issued \$3,518,000 in University of North Carolina School of the Arts Student Housing Project Refunding Certificates of Participation, Series 2021, refunding certificates of participation with an interest rate of 2.00%. The bonds were issued for a current refunding of \$3,815,000 of outstanding University of North Carolina School of the Arts Student Housing Project Certificates of Participation, Series 2005, with an average interest rate of 2.99%. The refunding was undertaken to reduce total debt service payments by \$175,714 over the next 9 years.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Management’s Discussion and Analysis

As of June 30, 2023, the Corporation has outstanding balance of \$2,815,000 in University of North Carolina School of the Arts Student Housing Project Refunding Certificates of Participation, Series 2021, and continues to make all its debt payments in a timely manner. No new debt was issued during the 2022-2023 fiscal year.

Economic Outlook

The University of North Carolina School of the Arts Housing Corporation continued to manage and use its resources wisely in fiscal year 2023. Based on currently known facts about the Corporation’s financial performance in fiscal year 2023, management is confident that its sound financial position will be maintained throughout the next operating period. University administration will continue to effectively manage the financial resources of the Corporation to serve the University of North Carolina School of the Arts and to provide the highest quality housing experience to our students.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Statement of Net Position
June 30, 2023

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,096,292
Prepaid Items	35,794
	<hr/>
Total Current Assets	2,132,086
	<hr/>

Noncurrent Assets:

Capital Assets - Nondepreciable (Note 4)	451,326
Capital Assets - Depreciable, Net (Note 4)	3,255,257
	<hr/>
Total Noncurrent Assets	3,706,583
	<hr/>
Total Assets	5,838,669
	<hr/>

DEFERRED OUTFLOWS OF RESOURCES

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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	35,330
Interest Payable	4,692
Long-Term Liabilities - Current Portion (Note 5)	368,434
	<hr/>
Total Current Liabilities	408,456
	<hr/>

Noncurrent Liabilities:

Long-Term Liabilities, Net (Note 5)	2,450,491
	<hr/>
Total Liabilities	2,858,947
	<hr/>

DEFERRED INFLOWS OF RESOURCES

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NET POSITION

Net Investment in Capital Assets	891,583
Unrestricted	2,088,139
	<hr/>
Total Net Position	\$ 2,979,722
	<hr/> <hr/>

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2023

Exhibit A-2

OPERATING REVENUES

Sales and Services	\$ 1,367,414
Other Operating Revenues	3,785
	<hr/>
Total Operating Revenues	1,371,199

OPERATING EXPENSES

Salaries and Benefits	141,933
Supplies and Services	262,302
Utilities	92,240
Depreciation	111,093
	<hr/>
Total Operating Expenses	607,568
	<hr/>
Operating Income	763,631

NONOPERATING REVENUES (EXPENSES)

Investment Income	52,726
Interest and Fees on Debt	(65,345)
Other Nonoperating Expense	(93,437)
	<hr/>
Net Nonoperating Expenses	(106,056)
	<hr/>
Increase in Net Position	657,575

NET POSITION

Net Position - July 1, 2022	2,322,147
	<hr/>
Net Position - June 30, 2023	\$ 2,979,722

The accompanying notes to the financial statements are an integral part of this statement

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION**Statement of Cash Flows****For the Fiscal Year Ended June 30, 2023****Exhibit A-3****CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 1,371,199
Payments to Employees and Fringe Benefits	(142,352)
Payments to Vendors and Suppliers	<u>(338,502)</u>
Net Cash Provided by Operating Activities	<u>890,345</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Noncapital Contributions	<u>(93,437)</u>
Cash Used by Noncapital Financing Activities	<u>(93,437)</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Principal Paid on Capital Debt and Leases	(357,000)
Interest and Fees Paid on Capital Debt and Leases	<u>(65,940)</u>
Cash Used by Capital Financing and Related Financing Activities	<u>(422,940)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>52,726</u>
Net Increase in Cash and Cash Equivalents	426,694
Cash and Cash Equivalents - July 1, 2022	<u>1,669,598</u>
Cash and Cash Equivalents - June 30, 2023	<u>\$ 2,096,292</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 763,631
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	111,093
Changes in Assets and Liabilities:	
Prepaid Insurance	(10,854)
Accounts Payable and Accrued Liabilities	26,894
Compensated Absences	<u>(419)</u>
Net Cash Provided by Operating Activities	<u>\$ 890,345</u>

The accompanying notes to the financial statements are an integral part of this statement

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The University of North Carolina School of the Arts Housing Corporation (Corporation), a blended component unit of the University of North Carolina School of the Arts (University), is a North Carolina nonprofit corporation organized to benefit the University through providing privatized housing for college students. The Corporation is governed by a five-member board. Its purpose is to aid, support, and promote the University, specifically by the ownership of the Center Stage apartment complex at 900 Center Stage Court, Winston-Salem, NC 27127. Because the directors are appointed by the Chancellor and the Corporation's sole purpose is to benefit the University of North Carolina School of the Arts, its financial statements have been blended with those of the University.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, and GASB Statement No. 84, *Fiduciary Activities*, the full scope of the Corporation's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

C. Basis of Accounting - The financial statements of the Corporation have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Corporation receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. Cash and Cash Equivalents - This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts.

Donated capital assets acquired prior to July 1, 2015, are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

The Corporation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50 years
Machinery and Equipment	2-15 years

Right-to-use lease and subscription assets are recorded at the present value of payments expected to be made during the lease or subscription term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset in service. Lease liabilities are capitalized as a right-to-use asset when the leased asset has a cost of \$100,000 or greater and an estimated useful life of more than one year. Subscription liabilities are capitalized as a right-of-use asset when the underlying subscription asset has a cost of \$100,000 or greater and an estimated useful life of more than one year.

- F. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include principle amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes certificates of participation payable and other long-term liabilities include compensated absences.
- G. Compensated Absences** – The Corporation’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- G. Compensated Absences (Continued)** - In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the Corporation has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- H. Net Position** - The Corporation's net position is classified as follows:

Net Investment in Capital Assets - This represents the Corporation's total investment in capital assets, net of outstanding liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income. It also includes the net position of accrued employee benefits such as compensated absences, workers' compensation, pension plans, and other postemployment benefits.

- I. Revenue and Expense Recognition** - The Corporation classifies its revenues and expenses as operating and nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Corporation's principle ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as student rent and fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent investment income are considered nonoperating since these are either investing, capital, or noncapital financing activities.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- J. Income Tax Status** – The Corporation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose.

The Corporation's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that the Corporation has no uncertain tax positions that would be subject to change upon examination.

The Corporation is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. The Corporation is also required to file an exempt organization business income tax return (Form 990T) for any year gross unrelated business income exceeds \$1,000.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Corporation's deposits in the STIF are pooled with UNCSA. UNCSA, unless specifically exempt, is required by North Carolina General Statute (G.S.) 147-77 to deposit monies received with the State Treasurer or with a depository institution in the name of the State Treasurer. Although specifically exempted, the Corporation may voluntarily deposit bond proceeds and debt service funds with the State Treasurer.

At June 30, 2023, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$2,096,292, which represents the Corporation's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 0.7 years as of June 30, 2023. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

As of June 30, 2023, the Corporation did not have any cash deposits outside the State Treasurer's STIF; therefore, the Corporation was not exposed to custodial credit risk.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The corporation does not have a formal investment policy related to interest rate and credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2023. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Notes to Financial Statements

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Short-Term Investment Fund - At year-end, the Corporation's investments held in the STIF were valued at \$2,096,292. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The Corporation's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2023, is presented as follows:

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 451,326	\$ -	\$ -	\$ 451,326
Total Capital Assets, Nondepreciable	<u>451,326</u>	<u>-</u>	<u>-</u>	<u>451,326</u>
Capital Assets, Depreciable:				
Buildings	5,495,783	-	-	5,495,783
Machinery and Equipment	17,680	-	-	17,680
Total Capital Assets, Depreciable	<u>5,513,463</u>	<u>-</u>	<u>-</u>	<u>5,513,463</u>
Less Accumulated Depreciation for:				
Buildings	2,143,357	109,914	-	2,253,271
Machinery and Equipment	3,756	1,179	-	4,935
Total Accumulated Depreciation	<u>2,147,113</u>	<u>111,093</u>	<u>-</u>	<u>2,258,206</u>
Total Capital Assets, Depreciable, Net	<u>3,366,350</u>	<u>(111,093)</u>	<u>-</u>	<u>3,255,257</u>
Capital Assets, Net	<u>\$ 3,817,676</u>	<u>\$ (111,093)</u>	<u>\$ -</u>	<u>\$ 3,706,583</u>

During the year ended June 30, 2023, the Corporation incurred \$62,845 in interest costs related to the acquisition and construction of capital assets. All of these costs were charged in interest expense.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Notes to Financial Statements

NOTE 5 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2023, is presented as follows:

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Current Portion
Long-Term Debt					
Certificates of Participation	\$ 3,172,000	\$ -	\$ 357,000	\$ 2,815,000	\$ 368,000
Other Long-Term Liabilities					
Compensated Absences	4,344	2,327	2,746	3,925	434
Total Long-Term Liabilities, Net	\$ 3,176,344	\$ 2,327	\$ 359,746	\$ 2,818,925	\$ 368,434

B. Certificates of Participation - The Corporation was indebted for certificates of participation (COP) for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2023	See Table Below
<u>Certificates of Participation</u>						
Student Housing Project	(A)	2.00%	06/01/2030	\$ 5,400,000	\$ 2,815,000	(1)

(A) The University of North Carolina School of the Arts Housing Project, Series 2021 (Refunding of 2015 COPs)

The Corporation has pledged future revenues, net of specific operating expenses, to repay certificates of participation as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	For the Year Ended June 30, 2023			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing Revenues	\$ 3,046,840	\$ 831,514	\$ 357,000	\$ 62,845	52%

C. Annual Requirements - The annual requirements to pay principal and interest on the certificates of participation at June 30, 2023, are as follows:

Fiscal Year	Annual Requirements Certificates of Participation	
	Principal	Interest
2024	\$ 368,000	\$ 56,300
2025	378,000	48,940
2026	390,000	41,380
2027	401,000	33,580
2028	413,000	25,560
2029-2033	865,000	26,080
Total Requirements	\$ 2,815,000	\$ 231,840

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

- D. Terms of Debt Agreements** – The Corporation’s debt agreements are subject to the following collateral requirements and terms with finance-related consequences:

Certificates of Participation - The University has pledged the Center Stage Apartment complex as collateral for its outstanding Certificates of Participation of \$2,815,000, maturing on June 1, 2030. Rentals from the apartment complex are pledged for the retirement of this debt. The indenture of trust, the use agreement, and the deed of trust contain provisions related to events of default and remedies.

Significant to the indenture’s provisions, an event of default occurs when: (1) the University fails to pay the principal, interest, or premium when due and payable, (2) the University or the University of North Carolina School of the Arts Housing Corporation (Housing Corporation), a blended component unit of the University, fails to observe and perform any covenant, condition, agreement, or provision within thirty days of receiving written notice by the trustee, or (3) a default, as defined in the use agreement, or the deed of trust, occurs and continues.

In addition to the above, an event of default per the deed of trust occurs if: (1) any of the representations or warranties contained in or affecting the deed of trust are untrue or incorrect in any material respect and not remedied within thirty days after notice from the trustee, or (2) the Housing Corporation exhibits that it is insolvent, is bankrupt, or otherwise cannot make payments as required per the deed of trust.

Per the use agreement, if net project revenues from the housing complex are not sufficient to cover base rental payments for two consecutive years, an event of default will occur under the indenture. Additionally, a rate covenant exists under the terms of the use agreement, wherein the University must periodically revise fees, rents, and charges so that housing complex revenues are sufficient in each fiscal year to equal an amount necessary to maintain a debt service coverage ratio of at least 1.15, plus an amount not less than the sum of the required deposit to the Maintenance and Equipment Reserve Fund and the required deposit to the Reserve Fund. In addition, such fees, rents, and charges should be sufficient in each fiscal year to equal at least 110% of the principal and interest requirements. Failure by the University to maintain the ratio and requirements for two consecutive years will be considered an event of default.

In the event of a default, the trustee of the bonds may, with the consent of or at the direction of the insurer, or shall, if required by a majority in aggregate principal amount of the owners of the Certificates, declare the obligations of the Corporation to be immediately due and payable, whereupon they will, without further action become due and payable. The trustee may also exercise all remedies available and permissible by law or in equity, to the extent provided under the applicable agreements, that may appear necessary or desirable to enforce all rights against the Corporation or the secured property.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Notes to Financial Statements

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

In addition to the above, per the deed of trust, in the event of a default, the trustee may also: (1) manage and operate the mortgaged property and carry on business and receive all earnings from the mortgaged property after deducting expenses, (2) foreclose the deed of trust, or (3) take such steps to protect and enforce its rights whether by action, suit, or proceedings in equity or at law for the specific performance of any covenant, condition, or agreement in the indenture or the deed of trust.

NOTE 6 - TRANSACTIONS WITH UNCSA

UNCSA employees provide certain services to the Corporation for which the Corporation reimburses UNCSA for salary and salary related expenses. Thus, the Corporation has no employee obligations nor employee benefit obligations. For the year ended June 30, 2023, the Corporation reimbursed UNCSA \$141,933 for these expenses.

UNCSA enters into certain contracts for maintenance, repairs, and custodial services to residence halls and apartments for UNCSA students. This includes the Center State Apartments, owned by the Corporation. Management makes estimates based on the services, time and resources devoted to allocating costs for the various residence halls and apartment buildings. The Corporation's portion of these costs are charged directly to the Corporation.

NOTE 7 - RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets and natural disasters. These exposures to loss are handled through the purchase of commercial insurance. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

**UNIVERSITY OF NORTH CAROLINA SCHOOL
OF THE ARTS PROGRAM SUPPORT CORPORATION**
(A Component Unit of the University of North Carolina School of the Arts)

FINANCIAL REPORT

JUNE 30, 2023



**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS
PROGRAM SUPPORT CORPORATION**
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Independent Auditor's Report

To the Board of Directors
University of North Carolina School of the Arts Program Support Corporation
Winston-Salem, North Carolina

Opinion

We have audited the accompanying financial statements of University of North Carolina School of the Arts Program Support Corporation (a nonprofit corporation) (the "Corporation"), which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of University of North Carolina School of the Arts Program Support Corporation as of June 30, 2023, and its results of operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of University of North Carolina School of the Arts Program Support Corporation 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.

Responsibility of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about University of North Carolina School of the Arts Program Support Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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, including omissions, 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 financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 University of North Carolina School of the Arts Program Support Corporation'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about University of North Carolina School of the Arts Program Support Corporation'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 28, 2023

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM
SUPPORT CORPORATION
Management's Discussion and Analysis**

Introduction

This section of the University of North Carolina School of the Arts Program Support Corporation (Corporation) financial report provides an overview of the financial position and activities as of and for the year ended June 30, 2023. This discussion has been prepared by management along with the financial statements and related notes to the financial statements and should be read in conjunction with the financial statements and the notes thereto, which follow this section. This discussion and analysis is designed to focus on current activities, resulting change, and current known facts.

Using the Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). These financial statements focus on the financial condition of the Corporation, the results of operations, and cash flows of the Corporation as a whole. The three financial statements presented include: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Cash Flows provides information relative to the Corporation's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Position. For the purpose of this discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits, detailed information on deposits, insurance against losses, and if necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the Corporation's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the Corporation as of the end of the fiscal year. The purpose of the Statement of Net Position is to present the readers of the financial statements a fiscal snapshot of the University of North Carolina School of the Arts Program Support Corporation. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets plus deferred outflows minus liabilities plus deferred inflows).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Corporation. They are also able to determine how much the Corporation owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the Corporation.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM
SUPPORT CORPORATION
Management's Discussion and Analysis**

Net position is divided into three major categories. The first category, net investment in capital assets provides the Corporation's total investment in property, plant, and equipment owned by the Corporation, net of outstanding liabilities related to those capital assets (if applicable). The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position relates to amounts to be retained in perpetuity. Expendable restricted net position is available for expenditure by the Corporation but must be spent for purposes as determined by donors and/or external entities that have placed certain restrictions on the use of the assets. The final category is unrestricted net position, which is available to the Corporation for any lawful purpose of the Corporation. Please refer to the financial statements and notes to the financial statements for more detail.

Condensed Statement of Net Position

	Year Ended June 30,		
	2023	2022	Change
Assets			
Current Assets	\$ 72,928	\$ 74,626	\$ (1,698)
Capital Assets, Net	1,082,625	1,082,625	-
Total Assets	<u>1,155,553</u>	<u>1,157,251</u>	<u>(1,698)</u>
Liabilities			
Current Liabilities	463	1,130	(667)
Total Liabilities	<u>463</u>	<u>1,130</u>	<u>(667)</u>
Net Position			
Net Investment in Capital Assets	1,082,625	1,082,625	-
Unrestricted	72,465	73,496	(1,031)
Total Net Position	<u>\$ 1,155,090</u>	<u>\$ 1,156,121</u>	<u>\$ (1,031)</u>

The total assets of the Corporation decreased by \$1,698 for the year due to a decrease in current assets.

The Corporation's net position was \$1,155,090 at June 30, 2023, a decrease of \$1,031 from the prior year. The significant change was within the category of unrestricted.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports the Corporation's results of operation for the fiscal year. Changes in total net position presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the revenues received by the Corporation and expenses paid by the Corporation, both operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Corporation.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM
SUPPORT CORPORATION
Management's Discussion and Analysis**

Generally speaking, operating revenues are received for providing goods and services to the various customers of the Corporation. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. Nonoperating revenues are revenues received for which goods and services are not provided.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	2023	2022	Change
Operating Revenues	\$ 14,414	\$ 12,668	\$ 1,746
Operating Expenses			
Salaries and Benefits	5,752	7,855	(2,103)
Supplies and Services	9,693	10,553	(860)
Total Operating Expenses	15,445	18,408	(2,963)
Operating Loss	(1,031)	(5,740)	4,709
Decrease in Net Position	(1,031)	(5,740)	4,709
Beginning Net Position	1,156,121	1,161,861	(5,740)
Ending Net Position	\$ 1,155,090	\$ 1,156,121	\$ (1,031)

The Statement of Revenues, Expenses, and Changes in Net Position reflects a decrease in the net position at the end of the year. Total operating revenues for the fiscal year were \$14,414 compared to \$12,668 from the previous year, an increase of \$1,746. Operating revenues increased primarily due to continuing film rental recovery after the COVID-19 pandemic and theatre space rental in the School of Filmmaking.

Total operating expenses were \$15,445 for the fiscal year ended June 30, 2023, and \$18,408 for 2022. This decrease was primarily due to a decrease in temporary employee utilization and decreased supply and contracted services spending.

Economic Outlook

The University of North Carolina School of the Arts Program Support Corporation continued to manage and use its resources wisely in fiscal year 2023. Based on currently known facts about the Corporation's financial performance in fiscal year 2023, management is confident that its sound financial position will be maintained throughout the next operating period. University administration will continue to effectively manage the financial resources of the Corporation to serve the University of North Carolina School of the Arts and to provide the highest quality educational experience to our students.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS
PROGRAM SUPPORT CORPORATION
Statement of Net Position
June 30, 2023**

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 66,226
Receivables	1,320
Prepaid Items	5,382
	<hr/>
Total Current Assets	72,928
	<hr/>

Noncurrent Assets:

Capital Assets - Nondepreciable	1,082,625
	<hr/>
Total Noncurrent Assets	1,082,625
	<hr/>
Total Assets	1,155,553
	<hr/>

DEFERRED OUTFLOWS OF RESOURCES

-

LIABILITIES

463

DEFERRED INFLOWS OF RESOURCES

-

NET POSITION

Investment in Capital Assets	1,082,625
Unrestricted	72,465
	<hr/>
Total Net Position	\$ 1,155,090
	<hr/> <hr/>

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS
PROGRAM SUPPORT CORPORATION
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2023**

Exhibit A-2

OPERATING REVENUES

Film Rentals	\$	13,034
Other Operating Revenues		1,380
Total Operating Revenues		<u>14,414</u>

OPERATING EXPENSES

Salaries and Benefits		5,752
Supplies and Services		<u>9,693</u>
Total Operating Expenses		<u>15,445</u>
Operating Loss		<u>(1,031)</u>
Decrease in Net Position		(1,031)

NET POSITION

Net Position - July 1, 2022		<u>1,156,121</u>
Net Position - June 30, 2023	\$	<u><u>1,155,090</u></u>

The accompanying notes to the financial statements are an integral part of this statement

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS
PROGRAM SUPPORT CORPORATION
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2023

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$	14,844
Payments to Employees and Fringe Benefits		(6,419)
Payments to Vendors and Suppliers		(9,954)
		<u>(9,954)</u>
Net Cash Used by Operating Activities		<u>(1,529)</u>
Net Decrease in Cash and Cash Equivalents		(1,529)
Cash and Cash Equivalents - July 1, 2022		<u>67,755</u>
Cash and Cash Equivalents - June 30, 2023	\$	<u><u>66,226</u></u>

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$	(1,031)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Changes in Assets and Liabilities:		
Receivables		430
Prepaid Items		(261)
Accounts Payable and Accrued Liabilities		(667)
		<u>(667)</u>
Net Cash Used by Operating Activities	\$	<u><u>(1,529)</u></u>

The accompanying notes to the financial statements are an integral part of this statement

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM
SUPPORT CORPORATION**
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The University of North Carolina School of the Arts Program Support Corporation (Corporation), a blended component unit of the University of North Carolina School of the Arts (University), is a North Carolina nonprofit corporation organized to benefit the University. The Corporation is governed by at least three and no more than 12 appointed directors. Its purpose is to foster, promote, manage, assist, and support the schools of Dance, Design and Production, Drama, Filmmaking, and Music, and any other related activity of the University. Because the directors are appointed by the Chancellor and the Corporation's sole purpose is to benefit the University of North Carolina School of the Arts, its financial statements have been blended with those of the University.
- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, and GASB Statement No. 84, *Fiduciary Activities*, the full scope of the Corporation's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

- C. Basis of Accounting** - The financial statements of the Corporation have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Corporation receives (or gives) value without directly giving (or receiving) equal value in exchange. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM
SUPPORT CORPORATION
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Capital Assets** – Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation.

The Corporation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

The Regis film collection, acquired prior to July 1, 2015, is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

Right-to-use lease and subscription assets are recorded at the present value of payments expected to be made during the lease or subscription term, plus any upfront payments and ancillary charges paid to place the underlying right-to-use asset into service. Lease liabilities are capitalized as a right-to-use asset when the underlying leased asset has a cost of \$100,000 or greater and an estimated useful life of more than one year. Subscription liabilities are capitalized as a right-to-use asset when the underlying subscription asset has a cost of \$100,000 or greater and an estimated useful life of more than one year.

- F. Net Position** - The Corporation's net position is classified as follows:

Net Investment in Capital Assets - This represents the Corporation's total investment in capital assets, net of outstanding liabilities related to those capital assets.

Unrestricted Net Position - Unrestricted net position includes resources derived from unrestricted gifts and film rentals.

Unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are established for unrestricted activities. Net position includes consideration of deferred outflows of resources and deferred inflows of resources.

- G. Revenue and Expense Recognition** - The Corporation classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Corporation's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as film rentals. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM
SUPPORT CORPORATION
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions are considered nonoperating since these are either investing, capital, or noncapital financing activities

H. Income Tax Status - The Corporation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose.

The Corporation's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that the Corporation has no uncertain tax positions that would be subject to change upon examination.

The Corporation is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. The Corporation is also required to file an exempt organization business income tax return (Form 990-T) for any year gross unrelated business income exceeds \$1,000.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Corporation's deposits in the STIF are pooled with UNCSA. UNCSA, unless specifically exempt, is required by *North Carolina General Statute (G.S.) 147-77* to deposit monies received with the State Treasurer or with a depository institution in the name of the State Treasurer. Although specifically exempted, the Corporation may voluntarily deposit bond proceeds and debt service funds with the State Treasurer.

At June 30, 2023, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$66,226, which represents the Corporation's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 0.7 years as of June 30, 2023. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM
SUPPORT CORPORATION
Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2023, the Corporation did not have any cash deposits outside the State Treasurer's STIF; therefore, the Corporation was not exposed to custodial credit risk. The corporation does not have a formal investment policy related to interest rate and credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2023. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- | | |
|---------|---|
| Level 1 | Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date. |
| Level 2 | Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly. |
| Level 3 | Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment. |

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM
SUPPORT CORPORATION**
Notes to Financial Statements

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Short-Term Investment Fund - At year-end, the University's investments held in the STIF were valued at \$66,226. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The Corporation's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

NOTE 4 - TRANSACTIONS WITH UNCSA

UNCSA employees provide certain services to the Corporation for which the Corporation reimburses UNCSA for salary and salary related expenses. Thus, the Corporation has no employee obligations nor employee benefit obligations. For the year ended June 30, 2023, the Corporation reimbursed UNCSA \$5,752 for these expenses.

NOTE 5 - RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets and natural disasters. These exposures to loss are handled through the purchase of commercial insurance. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Purchase & Contract Division
David O'Neal | State Purchasing Officer

Roy Cooper | Governor
Pamela B. Cashwell | Secretary

October 20, 2023

Jeanette M. Valentine
Director of Purchasing, Contract, and Auxiliary Services
University of North Carolina School of the Arts
1533 South Main Street
Winston-Salem, NC 27127

Dear Ms. Valentine,

The compliance review conducted for University of North Carolina School of the Arts has been completed. This was a routine review. A final copy of the compliance review report, including a summary of the observations and recommendations, is attached.

I would like to thank you and your purchasing staff for your cooperation and assistance during the compliance review process. The Division of Purchase & Contract shares the goals of all purchasing personnel to implement the most professional, productive, and efficient purchasing process possible. If I can be of any assistance to you and your purchasing team, please do not hesitate to call me at 984-236-0223 or email me at mona.lawson@doa.nc.gov.

Sincerely,

Mona Lawson

Mona Lawson
Compliance Officer

cc: Beth Wood, State Auditor
Kristin Walker, State Budget Director
David O'Neal, State Purchasing Officer, Department of Administration
Brian Cole, Chancellor, University of North Carolina School of the Arts
Wendy Emerson, CFO, University of North Carolina School of the Arts



The background of the top half of the page features a large, faint, light blue seal of the State of North Carolina. The seal is circular and contains the text "THE GREAT SEAL OF THE STATE OF NORTH CAROLINA" around the perimeter and "MAY 20, 1775" at the top. The central image depicts two female figures: Liberty on the left, holding a staff with a Phrygian cap and a scroll, and Justice on the right, seated and holding a scale and a sword. A ship is visible in the background.

University of North Carolina School of the Arts Compliance Review October 2023

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¹ Pages have been intentionally left blank to conform to double-sided print format.

TABLE OF CONTENTS

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Objectives, Scope, and Methodology	1
Findings and Recommendations Summary	2
Appendices:	
Appendix A: Administrative Code	A-1
Appendix B: Agency Response	B-1

OBJECTIVES, SCOPE, AND METHODOLOGY

North Carolina Administrative Code, Title 1, Chapter 5, Section .1605, requires the Division of Purchase and Contract to conduct compliance reviews on purchasing practices at all agencies. The purpose of the compliance review is to determine if an agency is complying with North Carolina's purchasing laws and regulations and whether the agency should continue having the same delegation amount, have it reduced, or increased (See Appendix A for Administrative Code).

The compliance review objectives are to:

1. Determine that University of North Carolina School of the Arts' purchasing staff understands and adheres to North Carolina General Statute Article 3 of Chapter 143 and Administrative Code Title 1, Chapter 5, Section .1605.
2. Determine that University of North Carolina School of the Arts' internal policies, procedures, and processes accurately reflect the applicable requirements of North Carolina General Statutes and the Administrative Code.
3. Exchange ideas of how the State of North Carolina can become more efficient and cost effective.
4. Communicate and offer training opportunities via the Division of Purchase and Contract or in conjunction with professional organizations (i.e., CAGP, NIGP, etc.) to better educate and, in turn, increase productivity of purchasing personnel.
5. Develop a mutually beneficial working relationship between University of North Carolina School of the Arts and the Division of Purchase and Contract.

The scope and methodology of this review included²:

- Review of the purchasing organization.
- Analysis of current policies, procedures, and processes.
- Review of procurement risk assessment.
- Examination of purchasing transactions.
- Review of direct payments.
- Review of procurement card transactions. (If Applicable)

The review of purchasing transactions were for the period July 1, 2021 through June 30, 2022. The Purchase orders were selected from E-Procurement, Direct payments were selected from accounting payment files. P-Card purchases were selected from Works purchase files. The transactions for review include contracts (term, agency specific, service), requisitions, approvals, purchase orders, file documentation, the receiving process, invoices, retention, etc.

² **Disclaimer:** A Compliance Review is limited in scope and will not disclose all exposures in a purchasing practice.

FINDINGS AND RECOMMENDATIONS SUMMARY

Policies, Procedures, and Processes

Finding: None

The North Carolina Purchasing Statutes and North Carolina Administrative Code along with the agency's internal policies & procedures were found to be 100% in compliance.

Delegations and Benchmarks

Finding: None

The North Carolina Purchasing Statutes and North Carolina Administrative Code along with the agency's internal policies & procedures were found to be 100% in compliance.

Payment Methods Internal Reviews

Finding: None

The North Carolina Purchasing Statutes and North Carolina Administrative Code along with the agency's internal policies & procedures were found to be 100% in compliance.

Conclusion

In summary, we determined that University of North Carolina School of the Arts has adequate management controls in place for complying with North Carolina's purchasing laws, regulations, policies, and procedures. We did not identify any significant reportable issues and, as such, are not making any recommendations.

ADMINISTRATIVE CODE

Chapter 5 - PURCHASE AND CONTRACT**.1605 COMPLIANCE REVIEWS**

- (a) The Division of Purchase and Contract shall conduct compliance reviews on purchasing practices at all agencies. The purpose of the compliance review shall be for determining if an agency is complying with North Carolina's purchasing statutes and rules adopted thereunder, and whether it should continue having the same level of delegation, have it reduced, or if it qualifies for an increase. A copy of the compliance report shall be provided to the agency's executive officer, the State Auditor, the State Budget Officer, the local school administrative unit's Board, any of which are applicable.
- (b) The Division's staff may enter the premises and obtain an agency's purchasing records for the purpose of the compliance review. The agency shall cooperate with the Division's staff, providing them with requested records, adequate office space for conducting the review, and agency purchasing staff for discussion of purchase transactions. The Division shall not unnecessarily require of the agency any more than is needed to complete the review.
- (c) The SPO may lower, or raise if requested, an agency's (excluding the universities) general delegation, if the results of a compliance review by the compliance staff of the Division merit such action as determined by the SPO. The SPO may lower the delegation to any level, including the complete removal of the delegation, depending on the nature of any violations found. The SPO shall report to the University's Board of Governors the results of any compliance review conducted at any of the universities, and shall provide to them the SPO's recommendation, based on those results, on what that university's benchmark should be.
- (d) The SPO shall provide to each agency, upon request, the Division's assistance in educational training for the agency's staff, to better acquaint them with the purchasing statutes and rules.

History Note: Authority G.S. §143-53;
Eff. April 1, 1999

AGENCY RESPONSE



Jeanette M. Valentine, Director
Purchasing, Contract, and Auxiliary
Services

65 East Acadia Avenue
Winston-Salem, NC 27127

(336) 770-3319
(336) 631-1536

valentinej@uncsa.edu
www.uncsa.edu

October 16, 2023

Mona L. Lawson, NCCM
Compliance Officer, Division of Purchase and Contract
116 West Jones St.
Raleigh, NC 27603

Dear Ms. Lawson,

Thank you for your time in conducting our recent Compliance Review at the University of North Carolina School of the Arts. Following purchasing processes and policies to ensure compliance is essential for any organization to maintain transparency, accountability, and cost-efficiency in their purchasing operations.

Guaranteeing compliance in purchasing processes requires diligence and attention to detail. It is also important to foster a culture of compliance within our organization to ensure that all team members understand the importance of adhering to purchasing policies and procedures.

My staff and I are committed to the following standards set forth below.

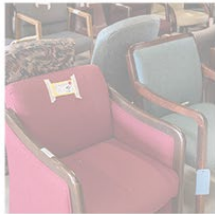
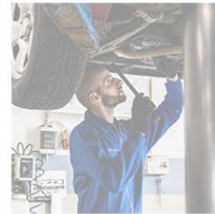
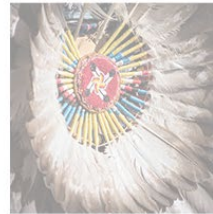
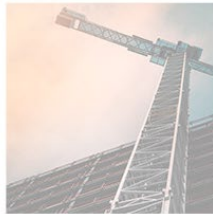
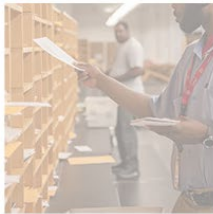
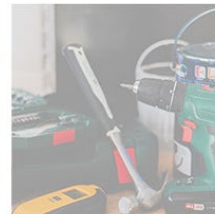
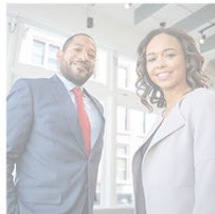
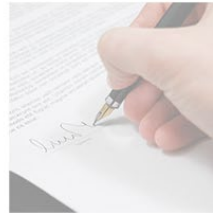
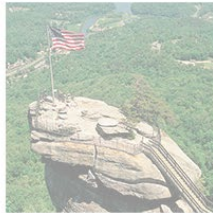
- Ensure that our purchasing processes and policies are well-documented and easily accessible to all staff involved in purchasing.
- Conduct regular training sessions for staff involved in purchasing to keep them updated on regulations and best practices.
- Regularly conduct our own compliance audits to review our purchasing activities to identify any potential issues or areas for improvement.
- Establish clear criteria for selecting and evaluating vendors. Ensure that vendor selection is fair and transparent, and that we have a process for managing vendor relationships and addressing any conflicts of interest.
- Maintain transparent records of all purchasing activities, including contracts, purchase orders, and invoices.
- Periodically review and update our purchasing processes and policies to adapt to changing regulations and best practices.

By consistently following these standards, we can ensure that our university maintains 100 percent compliance in its purchasing processes.

As always, the University, my staff and I appreciate the excellent job that the Department of Purchase and Contract does to support our efforts to maintain compliance with the State of North Carolina laws, policies, and procedures.

Sincerely,

Jeanette M. Valentine



NC★DOA
Department of Administration

AGENDA ITEM

Internal Audit Activity Update Rod Isom & IA Staff

Summary*:

a) Recent Reports and Other Communications*

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

b) Audit Plan Project Status and Update

The status of projects or any updates to Internal Audit's audit plan will be discussed.

c) 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.

Fiscal Year 24 Plan Component Project Status

Plan Component	Last Milestone*	Progress Status^
FY2023 Self Assessment Maturity Model	FR	Complete
Investigation: Wig Inventory – <i>9/15/23</i>	FR	Complete
Planned: Student Mental Health Services	DR	Some Delays
Follow-up Project – Historical Observations	OG	On Track

^Progress Status

Red - Major Delays

Orange - Some Delays

Green - On Track

Blue - Not Started

*Milestones

- (PC) Planning Complete
- (EC) Entrance Conference
- (FC) Fieldwork Commenced
- (FCP) Fieldwork Complete
- (EXC) Exit Conference
- (DR) Draft Report Issued
- (FR) Final Report Issued
- (OG) Ongoing