

**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 Statements

June 30, 2015 and 2014

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

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of University of North Carolina School of the Arts Program Support Corporation, a component unit of the University of North Carolina School of the Arts, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of North Carolina School of the Arts Program Support Corporation as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter - Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

Butler & Burke LLP

Winston-Salem, North Carolina
September 30, 2015

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM SUPPORT CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the financial report provides an overview of the financial position and activities for the years ended June 30, 2015 and 2014. 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.

OVERVIEW OF FINANCIAL STATEMENTS

The financial statements of the University of North Carolina School of the Arts Program Support Corporation (the "Corporation") were prepared in conformity with pronouncements issued by the Governmental Accounting Standard Board (GASB). These pronouncements require three basic financial statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Corporation's net position (the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources) is one indicator of the Corporation's financial health. Over time, increases or decreases in net position is one indicator of the improvement or erosion of the Corporation's financial health. The Statement of Net Position provides information about assets and liabilities in a format that distinguishes between current and noncurrent. Individual assets and liabilities are classified as current or noncurrent based on whether they are expected to generate or use cash within the twelve months following the end of the fiscal period.

Net position is divided into three major components. The first component – net investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages or notes that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows and inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The next component – restricted net position – is divided into two categories: expendable and nonexpendable. Net position is restricted when constraints are placed on amounts by either external parties (creditors, grantors, donors, etc.) or by enabling legislation or constitutional provisions. Nonexpendable restricted net position relates to amounts to be retained in perpetuity. The final component is unrestricted net position - those that are available for any lawful purpose of the Corporation.

The Statement of Revenues, Expenses and Changes in Net Position represents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Operating revenues and expenses generally result from providing goods and services and the cost of providing those goods and services. Nonoperating revenues are revenues received for which goods and services are not provided.

Another important factor to consider when evaluating financial viability is the Corporation's ability to meet financial obligations as they occur. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing, and investing activities.

The Notes to Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on deposits and investments, long-term liabilities, revenues, expenses, and if necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the Corporation's financial statement period.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM SUPPORT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following analysis provides an overview of the Corporation's financial activities as of and for the years ended June 30, 2015 and 2014.

Condensed Statements of Net Position

	<u>2015</u>	<u>2014</u>
Assets		
Current assets	\$ 109,270	\$ 104,388
Noncurrent capital assets	<u>1,082,625</u>	<u>1,082,625</u>
Total Assets	<u>1,191,895</u>	<u>1,187,013</u>
Liabilities		
Current liabilities	<u>1,287</u>	<u>4,705</u>
Total Liabilities	<u>1,287</u>	<u>4,705</u>
Net Position		
Net investment in capital assets	1,082,625	1,082,625
Unrestricted	<u>107,983</u>	<u>99,683</u>
Total Net Position	<u>\$ 1,190,608</u>	<u>\$ 1,182,308</u>

A review of the Corporation's statements of net position at June 30, 2015 and 2014 shows that the Corporation's total assets were approximately \$1.2 million, respectively. The Corporation's assets consist primarily of deposits held by the State Treasurer and the Regis Film collection.

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

	<u>2015</u>	<u>2014</u>
Operating Revenues	\$ 21,613	\$ 19,477
Operating Expenses	<u>(13,313)</u>	<u>(17,426)</u>
Operating Income	8,300	2,051
Change in Net Position	8,300	2,051
Net Position, Beginning of Year	<u>1,182,308</u>	<u>1,180,257</u>
Net Position, End of Year	<u>\$ 1,190,608</u>	<u>\$ 1,182,308</u>

Total operating revenues for the year ended June 30, 2015 of \$21,613 were comprised primarily of film rental fees and represented an increase of \$2,136 from the fiscal year 2014. Total operating expenses amounted to \$13,313, resulting in operating income of \$8,300 for the year ended June 30, 2015 compared to operating income of \$2,051 for the year ended June 30, 2014.

Condensed Statements of Cash Flows

	<u>2015</u>	<u>2014</u>
Net Cash Provided by Operating Activities	\$ 2,207	\$ 5,277
Net Increase in Cash and Cash Equivalents	2,207	5,277
Cash and Cash Equivalents, Beginning of Year	<u>104,388</u>	<u>99,111</u>
Cash and Cash Equivalents, End of Year	<u>\$ 106,595</u>	<u>\$ 104,388</u>

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM SUPPORT CORPORATION
 STATEMENTS OF NET POSITION
 June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 106,595	\$ 104,388
Accounts receivable	<u>2,675</u>	<u>-</u>
<u>Total Current Assets</u>	<u>109,270</u>	<u>104,388</u>
Film Collection	<u>1,082,625</u>	<u>1,082,625</u>
<u>TOTAL ASSETS</u>	<u>1,191,895</u>	<u>1,187,013</u>
LIABILITIES		
Current Liabilities		
Accounts payable	<u>1,287</u>	<u>4,705</u>
<u>Total Current Liabilities</u>	<u>1,287</u>	<u>4,705</u>
<u>TOTAL LIABILITIES</u>	<u>1,287</u>	<u>4,705</u>
NET POSITION		
Net Investment in Capital Assets	1,082,625	1,082,625
Unrestricted	<u>107,983</u>	<u>99,683</u>
<u>TOTAL NET POSITION</u>	<u>\$ 1,190,608</u>	<u>\$ 1,182,308</u>

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM SUPPORT CORPORATION
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUES		
Operating Revenues	\$ 21,613	\$ 19,477
EXPENSES		
Operating Expenses		
Wages and payroll taxes	9,313	13,426
Services	<u>4,000</u>	<u>4,000</u>
<u>Total Operating Expenses</u>	<u>13,313</u>	<u>17,426</u>
<u>Operating Income</u>	<u>8,300</u>	<u>2,051</u>
<u>Change in Net Position</u>	8,300	2,051
 NET POSITION		
Net Position, Beginning of Year	<u>1,182,308</u>	<u>1,180,257</u>
Net Position, End of Year	<u>\$ 1,190,608</u>	<u>\$ 1,182,308</u>

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM SUPPORT CORPORATION
 STATEMENTS OF CASH FLOWS
 For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Payments from customers	\$ 18,938	\$ 20,027
Payments for wages and payroll taxes	(12,731)	(10,750)
Payments to vendors and suppliers	<u>(4,000)</u>	<u>(4,000)</u>
<u>Net Cash Provided by Operating Activities</u>	<u>2,207</u>	<u>5,277</u>
 Change in Cash and Cash Equivalents	 2,207	 5,277
 Cash and Cash Equivalents, Beginning of Year	 <u>104,388</u>	 <u>99,111</u>
 Cash and Cash Equivalents, End of Year	 <u>\$ 106,595</u>	 <u>\$ 104,388</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 8,300	\$ 2,051
Adjustments to reconcile operating income to net cash provided by operating activities:		
(Increase) decrease in accounts receivable	(2,675)	550
Increase (decrease) in accounts payable	<u>(3,418)</u>	<u>2,676</u>
 <u>Net Cash Provided by Operating Activities</u>	 <u>\$ 2,207</u>	 <u>\$ 5,277</u>

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM SUPPORT CORPORATION
NOTES TO FINANCIAL STATEMENTS**

NOTE A: ORGANIZATION AND NATURE OF ACTIVITIES

The University of North Carolina School of the Arts Program Support Corporation (the "Corporation"), a component unit of University of North Carolina School of the Arts (the "School"), is a non-profit organization incorporated under the laws of the State of North Carolina. The Corporation was organized exclusively for charitable, educational and training objectives and for the public purpose of fostering, promoting, managing, assisting and supporting the schools of Dance, Design & Production, Drama, Filmmaking, Music and other such fields as may be deemed appropriate for study at the School with the aims of creating new knowledge and improving the lives of the people of North Carolina.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

The accompanying financial statements are presented in accordance with U.S. generally accepted accounting principles (GAAP) as prescribed by the *Governmental Accounting Standards Board* (GASB).

Pursuant to the provisions of GASB Statement Number 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement Number 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, 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.

In accordance with GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Corporation does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

The Corporation maintains its cash in an account held by the State Treasurer in a short-term investment fund. This fund 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.

Film Collection

The Regis film collection is stated at cost or fair value at the date of donation. This collection is considered inexhaustible and therefore not depreciated.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM SUPPORT CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net Investment in Capital Assets - This represents the Corporation's total investment in capital assets, net of accumulated depreciation and any outstanding debt obligations related to those capital assets.

Unrestricted - This represents resources derived from unrestricted gifts and film rentals.

Revenue and Expense Recognition

The Corporation classifies its revenues and expenses as operating or nonoperating in the accompanying Statements 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 non-capital financing or investing activities as defined by GASB Statement Number 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have characteristics of non-exchange transactions. Revenues from non-exchange transactions such as transfers from internal departments and investment income are considered nonoperating since these are either investing, capital, or non-capital asset related financing activities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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. The Corporation's Form 990 filings are generally subject to examination by the Internal Revenue Service for three years after they are filed.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM SUPPORT CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Corporation has evaluated its subsequent events (events occurring after June 30, 2015) through the date of this report, which represents the date the financial statements were available to be issued, and determined that all significant events and disclosures are included in the financial statements.

NOTE C: DEPOSITS

Unless specifically exempt, the Corporation is required by *North Carolina General Statute (G.S.) 147-11* 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, 2015 and 2014, the amounts shown on the Statements of Net Position as cash and cash equivalents of \$106,595 and \$104,388, respectively, represents the Corporation's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (STIF) is a portfolio within the State Treasurer's Investment Pool, which is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. The State Treasurer's Investment Pool had a weighted average maturity of 1.5 and 1.3 years as of June 30, 2015 and 2014, respectively. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*.