

University of North Carolina School of the Arts  
SAAB 306

**COMMITTEE MEMBERS:**

Peter Juran, Chair  
Anna Folwell  
Mark Land  
Ches McDowell  
Ralph Womble, 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  
Michael Smith, Vice Chancellor for Finance and Administration  
Amanda Balwah, Associate Vice Chancellor for Institutional Integrity and Secretary of the University

**AGENDA**

**OPEN SESSION**

1. Call to Order and Confirm Quorum.....Chairman Juran
2. Approval of Minutes from the April 27, 2021 Meeting..... Chairman Juran
3. Matters of Governance, Risk and Compliance .....Rod Isom & UNCSA Management
  - a) Enterprise Risk Management.....Jim DeCristo
  - b) Information Governance & Security.....Greg Gleghorn, Director of Information Security
  - c) Title IX Update.....Valeire Thelen, Chief Compliance Officer and Director of Title IX
4. Discussion of External Audits and Reviews (if any).....Rod Isom & UNCSA Management
  - a) Housing Corporation Financial Statement Audit for 2021.....Wendy Emerson
  - b) Program Support Corporation Financial Statement Audit for 2021.....Wendy Emerson
  - c) UNCSA Financial Statement Audit for Fiscal Year 2021.....Wendy Emerson
  - d) UNCSA Foundation Annual Financial Statement Audit for 2021.....Cindy Liberty
5. Discussion of Internal Audit's Activity.....Rod Isom
  - a) IA Operations Update
  - b) Summary of Internal Audit Activity for Fiscal Year 2021
  - c) Recent Reports and Other Communications

- d) Internal Audit Plan Project Status and Updates
- e) Other Activities and Matters
- f) Review Committee Charter

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

**CLOSED SESSION**

- 6. Approval of Minutes from the April 27, 2021 meeting (if any).....Chairman Juran
- 7. Discussion of Special Items, Reviews and Investigations (if any).....Rod Isom, Valerie Thelen, and David Harrison

**OPEN SESSION**

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

## **OPEN SESSION MINUTES**

April 27, 2021

University of North Carolina School of the Arts

Zoom Video Conference

### **TRUSTEES PRESENT**

**\*denotes voting committee members**

Steve Berlin (Chair)\*, Anna Folwell\*, Rob King\*, and Ralph Womble (ex officio)\*

### **ADMINISTRATION & STAFF PRESENT**

Rod Isom (Interim Chief Audit, Risk, and Compliance Officer), David Harrison (VC and General Counsel), Jim DeCristo (VC and Chief of Staff), Michael Smith (VC for Finance & Administration), Amanda Balwah (AVC and Secretary of the University), Greg Gleghorn (Director of Information Security), Wendy Emerson (AVC and Controller), Martha Golden (Faculty Council Representative), Cory Billings (Internal Auditor), Valerie Thelen (Chief Compliance Officer and Director of Title IX), Marla Carpenter (Senior Communications Manager)

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

Committee Chair Steve Berlin convened the April 27, 2021 meeting of the University of North Carolina School of the Arts Audit, Risk, and Compliance Committee at 4:00 p.m. A quorum was present.

### **APPROVAL OF MINUTES**

**MOTION: Ralph Womble moved to approve the February 23, 2021 Open Session Minutes as presented. Anna Folwell seconded and the minutes were unanimously approved.**

### **INFORMATION GOVERNANCE & SECURITY**

Greg Gleghorn, Director of Information Governance and Security, provided the following update:

- UNCSA's first cybersecurity tabletop exercise was conducted. The exercise was a simulated ransomware attack and assessed how UNCSA would respond. Cabinet-level members attended the activity and were informed of our current cybersecurity incident response plans, posture, and status as well as our weaknesses and strategies for improving.
- The process to hire an Information Security Specialist is underway.

- Two additional cyber technologies are in the process of being added, which will give further insight into UNCSCA's local area on-premises transactions and traffic flows. UNCSCA's endpoints, both local and remote, will benefit from these technologies.

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

Amanda Balwah, Associate Vice Chancellor for Institutional Integrity, and Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff, provided an Enterprise Risk Management (ERM) update:

- A majority of ERM efforts since March of last year have been focused on Covid-19. Risk priorities continued to make progress over the past several months, including the new residence hall project, faculty and student support through the comprehensive campaign, and implementation of new Title IX regulations.
- Ms. Balwah shared the results of UNCSCA's 2021 Risk Priorities Survey. The new top five risks will be submitted to the UNC System Office on April 30<sup>th</sup>, 2021:
  - **Scholarships and Salaries** – Scholarship, financial aid, and compensation packages offered by UNCSCA may not be sufficiently competitive to attract top student, faculty, and staff talent, making it increasingly difficult to maintain the School's national reputation.
  - **Equity, Diversity, and Inclusion** – UNCSCA may be unable to attract sufficiently diverse faculty, staff, and students needed to evolve and prosper as an institution. Combined with the lack of infrastructure for training faculty and staff, UNCSCA risks repeating past mistakes that will further erode trust and confidence in the Institution, especially from minoritized communities.
  - **Health and Wellness** – The rigorous workload, external cultural upheaval, mental health trends, and economic uncertainty experienced by students, faculty, and staff at UNCSCA may have a significant negative effect on their mental health.
  - **Title IX** – UNCSCA, as an arts conservatory, poses unique challenges to ensuring compliance with Title IX regulations and institutional policies on harassment and discrimination due to the nature of the curriculum. As an arts conservatory, the level of physical and emotional intimacy inherent in the performing arts can create an environment that leads to difficulties in defining and upholding appropriate professional boundaries and ensuring student safety. As a result, violations of Title IX regulations or institutional policies may occur that severely damages the School's reputation.
  - **Cybersecurity** – Per a mandate from the Board of Governors and UNC System President, every school must include cybersecurity in their risk priorities to ensure on-going mitigations are taking place to protect systems, networks, etc.

Mr. DeCristo noted that some of these are direct risks (i.e. cybersecurity and Title IX) while others are strategic risks (i.e. EDIB and health & wellness). Other areas that were prominent in

the survey included transparency and communication. UNCSA administration will continue to think through ways to address these areas of concern in addition to the risk priorities.

**MOTION: Rob King moved to approve the strategic risk priorities for 2021-2022 as presented. Ralph Womble seconded and the motion was unanimously approved.**

## **TITLE IX OFFICE UPDATE**

Valerie Thelen, Chief Compliance Officer and Director of Title IX, provided the following update:

- The Title IX Office has issued the National College Health Assessment (NCHA) survey to students to gather data on many topics related to health and wellness, including data on sexual assault, dating violence, stalking, sexual health, and information on mental health and other areas relevant to student health and wellness. The survey will close on April 30<sup>th</sup> and the information collected will be used to assist with other initiatives.

## **DISCUSSION OF INTERNAL AUDIT ACTIVITY**

Rod Isom, Interim Chief Audit, Risk, and Compliance Officer, and Cory Billings, Internal Auditor provided the following updates:

- The IT Auditor search has concluded. The selected candidate is a CPA and CISA, brings a wealth of experience, and will begin in May.
- Recent Reports and Other Communications
  - A planned review of protocols related to COVID spending and overall response resulted in no reportable observations.
  - Purchases allocated to Personal Protective Equipment included hotel rooms for quarantine; funds should have been reallocated in other System Office allocations. Two recommendations were provided for improvements.
  - A survey of campus faculty and staff was conducted to assess the University's response to the pandemic and the results were presented in the management letter. Four recommendations were provided for improvements.
- Summary of Internal Audit Activity, Findings and Recommendations for Fiscal Year 2021
  - Six projects have been completed this year, resulting in seven issued reports.
  - Those seven reports produced 29 written recommendations for the following departments:
    - Office of the Provost
    - Community and Summer Programs
    - Community Engagement and ArtistCorp
    - Human Resources
    - Design & Production
    - Foundation
    - Legal Affairs
    - Finance & Administration
    - Office of the Chief of Staff

- Results of Fiscal Year 2022 Internal Audit Annual Risk Assessment and Audit Plan
  - Internal Audit's risk assessment yielded 10 top risks
  - The FY22 audit plan was approved and will be updated to include the following reviews:
    - HR Consultative
    - Title IX Compliance – Programming and Training (Students)
    - Cybersecurity

**MOTION: Ralph Womble made a motion to approve three additional audit projects for FY22: HR Consultative, Title IX Programming and Training, and Cybersecurity as presented. Rob King seconded and the motion was unanimously approved.**

**MOTION: Ralph Womble made a motion for the committee to go into closed session to prevent the disclosure of information that is privileged or confidential pursuant to Title IX of the Education Amendments of 1972, 20 U.S.C § 1681 et seq., the Family Educational Rights and Privacy Act of 1974, Public Law 93-380, as amended by Public Law 93-568, and not considered a public record within the meaning of Chapter 132 of the General Statutes Rob King seconded and the motion was unanimously approved.**

**RETURN TO OPEN SESSION**

**ADJOURNMENT**

With no further business to discuss, Chairman Berlin adjourned the meeting at 4:42 p.m.

Respectfully submitted by:

Amanda G. Balwah

Associate Vice Chancellor and Secretary of the University

## **AGENDA ITEM**

Approval of the Revised ERM Steering Committee Charter..... presented by Jim DeCristo

**Summary:** Based on changes made by the UNC Board of Governors, and at the request of the University System President, UNCSEA updated its ERM steering committee charter to include cyber security risk. It is important to note that IT security is already one of UNCSEA's top five risk priorities and continues to be actively addressed by the ERM Steering Committee, the Director of Information Security, and his staff.

**Action:** This item requires Board of Trustees approval for full adoption. A vote is required.

## **Enterprise Risk Management Steering Committee Charter**

### **I. RESPONSIBILITIES AND DUTIES**

The enterprise risk management (ERM) steering committee (the "committee") shall monitor the risk environment for the University of North Carolina School of the Arts (the "university") and provide direction for the activities to mitigate, to an acceptable level, the risks that may adversely affect the university's ability to achieve its goals. The committee facilitates continuous improvement of the university's capabilities around managing its priority risks. In addition, the committee will support the Audit, Risk, and Compliance Committee's (ARCC) efforts to monitor and evaluate, as mandated by professional standards and the University of North Carolina System Office's (UNCISO) requirements, risks that impact the institution's goals.

Specifically, the committee shall:

- **Identify and Prioritize Business Risks:** Review the university's risk register in order to understand the current risk environment for the university, including a review of emerging risks, the interrelationships between risks and the context of university's risk appetite;
- **Evaluate the Effectiveness of Risk Mitigation Activities:** Define and communicate expected results of the ERM implementation committee and risk owners. Review risk mitigating strategies for effectiveness and consistency with the university's risk tolerance;
- **Ensure that Gaps in Effectiveness are Addressed for High-Priority Risks:** Provide direction for the allocation of resources and assignment of responsibilities for activities addressing business risks; and
- **Improve ERM Infrastructure:** Provide guidance regarding the ERM infrastructure, including systems, processes and organizational structure.
- **Collaborate with the Vice Chancellor for Finance and Administration and the Chief Information Officer (CIO) to leverage UNCISA's ERM function to support ongoing IT governance and compliance efforts.** The UNCISO and constituent institutions, including UNCISA, maintain IT governance and risk management responsibilities. Policy 1400.1 requires certain principles and guidelines be followed regarding risk management within IT governance. UNCISA's CIO, in consultation with leadership at UNCISA, shall make recommendations to the Chancellor through the ERM steering committee concerning collaborations, shared services arrangements, staff structures, and additional resources needed to assure UNCISA can achieve and maintain consistent and effective information technology governance programs.

# Enterprise Risk Management Steering Committee Charter

The committee is not responsible for any day-to-day tasks involved in risk management or the mitigation of any risks; however, individuals on the committee may have specific risk management tasks as part of their primary job at the university.

The above list of activities should serve as a guide with the understanding that the committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions. The committee shall also carry out any other responsibilities and duties delegated to it by University of North Carolina System Office, the Board of Trustees and/or the Chancellor of the university from time to time, related to the purposes of the committee outlined in this section.

## II. MEMBERSHIP AND OPERATIONS

The committee will include the following “voting members”:

- Executive Vice Chancellor and Provost;
- Vice Chancellor for Finance and Administration;
- Vice Provost and Dean of Student Affairs;
- Vice Chancellor for Advancement
- Vice Chancellor for Economic Development and Chief of Staff
- Vice Chancellor for Institutional Integrity and General Counsel
- Vice Chancellor for Strategic Communications
- Associate Vice Chancellor for Institutional Integrity and Secretary of the University

The committee chairperson will be elected by members of the committee.

The Chief Audit Officer will serve as a non-voting, ex officio member of the committee.

Each voting member shall have one vote. Four or more committee members in agreement can result in actions directed by the committee. The effect of ceasing to be an employee of the university is the automatic termination as a voting member or member of the committee. It is appropriate that members of the committee have a range of different backgrounds, skills and experiences, having due regard to the operational, financial and strategic risk profile of the university.

The committee may direct internal groups and/or engage outside experts to assist in its responsibilities. The committee will report, through the Chief Audit Officer, regularly to the ARCC of the university’s board of trustees following meetings of the committee regarding current status of risk and action items.

## III. MEETINGS AND ATTENDANCE

- The committee should meet at least four times (quarterly) per year. Additional meetings may be held as the work of the committee demands or if requested by the Chancellor, a university Board of Trustees’ member, external auditor or internal auditor. The chairperson of the committee or a majority of the members (in the chairperson’s absence) may call a special meeting of the committee.

## Enterprise Risk Management Steering Committee Charter

- As necessary or desired, the chairperson may invite members of the ERM implementation committee and/or risk owners to be present at meetings. The committee may also exclude from its meetings any person it deems inappropriate for such meeting(s).
- In lieu of detailed minutes, for each meeting, the chairperson will create a summary of attendees and any action items or key decisions and circulate that to all committee members that were invited to the meeting.
- The chairperson will prepare the agendas for committee meetings. The agenda of each meeting will be circulated, whenever reasonably practicable, to each member prior to each meeting. The following may serve as the standing agenda for all meetings of the committee regardless of whether it is stated in the quarterly agenda:
  - Quarterly review of the university's risk register, paying particular attention to items that have changed since the previous meeting (e.g., risks for which the prioritization has changed, new risks, new mitigation activities, etc.);
  - Reports from others concerning activities related to ERM; and
  - Any other business.

#### IV. ANNUAL REVIEW OF THIS CHARTER

The committee shall have oversight to perform a review and assess, at least annually, the adequacy of this charter and any improvements to this charter that the committee considers necessary or valuable. The committee shall conduct such reviews in such manner as it deems appropriate.

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

Adopted: This 1<sup>st</sup> day of October 2021.

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Ralph H. Womble  
Chair, Board of Trustees  
UNC School of the Arts

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Peter J. Juran  
Chair, Audit, Risk, and Compliance Committee  
UNC School of the Arts

**AGENDA ITEM**

Financial Statement Audit Updates.....Wendy Emerson

**Summary:** The NC Office of the State Auditor is conducting the University’s financial statement audit for FY 2021. Bernard Robinson & Company, LLP firm conducted the FY 2021 audits for the UNCSCA Housing Corporation and UNCSCA Program Support Corporation.

- The UNCSCA Housing Corporation Financial Statement Audit for 2021 was completed earlier this month. The results of the audit were an unqualified opinion (clean audit), with no findings or issues to report.
- The UNCSCA Program Support Corporation Financial Statement Audit for 2021 was completed earlier this month. The results of the audit were an unqualified opinion (clean audit), with no findings or issues to report.
- The UNCSCA Financial Statement Audit for Fiscal Year 2021 is underway with an anticipated completion date before the end of December.

**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, 2021



**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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the University of North Carolina School of the Arts Housing Corporation (the "Corporation") (a nonprofit corporation), a component unit of the University of North Carolina School of the Arts which comprise the statement of net position as of June 30, 2021, 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.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina School of the Arts Housing Corporation as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***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 7, 2021

# UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

## Management's Discussion and Analysis

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### 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, 2021. 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**

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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**

	<b>Year Ended June 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>Change</b>
<b>Assets</b>			
Current Assets	\$ 1,775,074	\$ 1,469,728	\$ 305,346
Capital Assets, Net	3,920,760	4,031,351	(110,591)
Total Assets	<u>5,695,834</u>	<u>5,501,079</u>	<u>194,755</u>
<b>Liabilities</b>			
Current Liabilities	370,125	374,390	(4,265)
Noncurrent Liabilities	3,172,000	3,527,066	(355,066)
Total Liabilities	<u>3,542,125</u>	<u>3,901,456</u>	<u>(359,331)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	402,761	177,352	225,409
Unrestricted	1,750,948	1,422,271	328,677
Total Net Position	<u>\$ 2,153,709</u>	<u>\$ 1,599,623</u>	<u>\$ 554,086</u>

The total assets of the Corporation increased by \$194,755 for the year, with a decrease in capital assets of \$110,591, offset by an increase in current assets of \$305,346. 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 \$303,193 that was mainly a result of increased housing revenues due to the students being back on campus after spending the last half of Spring 2020 with full on-line learning due to COVID-19.

The total liabilities of the Corporation decreased by \$359,331 for the year, with a decrease in long-term liabilities of \$355,066. 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 decrease in current liabilities is primarily due to a decrease in accounts payable for repairs and maintenance as well as the increase in the current portion of 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**

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The Corporation’s net position was \$2,153,709 at June 30, 2021, an increase of \$554,086 from the prior year. The significant change within net position is in the category of Unrestricted, which increased \$328,677. The was mainly due to an increase in cash due to increased housing revenue which was down in fiscal year 2020 due to COVID-19. Net investment in capital assets increased due to payments made on the Series 2021 Certificates of Participation.

**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,		
	2021	2020	Change
<b>Operating Revenues</b>	\$ 1,088,004	\$ 845,386	\$ 242,618
<b>Operating Expenses</b>			
Salaries and Benefits	95,568	90,834	4,734
Supplies and Services	229,494	243,753	(14,259)
Utilities	90,321	47,414	42,907
Depreciation Expense	110,591	110,591	-
Total Operating Expenses	525,974	492,592	33,382
Operating Income	562,030	352,794	209,236
<b>Nonoperating Revenues (Expenses)</b>			
Investment Income	7,520	32,293	(24,773)
Interest and Fees on Debt	(109,531)	(124,197)	14,666
Other Nonoperating Revenues	94,067	3,840	90,227
Total Nonoperating Expenses	(7,944)	(88,064)	80,120
Increase in Net Position	554,086	264,730	289,356
Beginning Net Position	1,599,623	1,334,893	264,730
Ending Net Position	\$ 2,153,709	\$ 1,599,623	\$ 554,086

## **UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION**

### **Management's Discussion and Analysis**

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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 \$1,189,591 compared to \$881,519 from the previous year, an increase of \$308,072. 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 \$242,618. This increase was primarily attributable to closing campus due to COVID-19 in Spring 2020. The students were on campus for all of fiscal year 2021.

Total expenses were \$635,505 for the fiscal year ended June 30, 2021, and \$616,789 for 2020. Operating expenses totaled \$525,974 for the year compared to \$492,592 from the previous year, an increase of \$33,382. The significant change includes:

- Utilities increased \$42,907 primarily due to an increase in utilities needed due to having the students back for the entire fiscal year when COVID-19 ended the spring 2020 semester early.

### **Capital Asset and Debt Administration**

The Corporation, a blended entity of University of North Carolina School of the Arts (UNCSA), 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 School 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.

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 2015, 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.

As of June 30, 2021, the Corporation has outstanding balance of \$3,518,000 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 2020-2021 fiscal year.

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

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**Economic Outlook**

The University of North Carolina School of the Arts Housing Corporation continued to manage and use its resources wisely in fiscal year 2021. Based on currently known facts about the Corporation's financial performance in fiscal year 2021, 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, 2021****Exhibit A-1****ASSETS**

## Current Assets:

Cash and Cash Equivalents	\$ 1,751,585
Prepaid Items	23,489
Total Current Assets	<u>1,775,074</u>

## Noncurrent Assets:

Capital Assets - Nondepreciable (Note 4)	451,326
Capital Assets - Depreciable, Net (Note 4)	<u>3,469,434</u>
Total Noncurrent Assets	<u>3,920,760</u>
Total Assets	<u>5,695,834</u>

**DEFERRED OUTFLOWS OF RESOURCES**-**LIABILITIES**

## Current Liabilities:

Accounts Payable and Accrued Liabilities	17,382
Interest Payable	6,743
Long-Term Liabilities - Current Portion (Note 5)	<u>346,000</u>
Total Current Liabilities	<u>370,125</u>

## Noncurrent Liabilities:

Long-Term Liabilities, Net (Note 5)	<u>3,172,000</u>
Total Liabilities	<u>3,542,125</u>

**DEFERRED INFLOWS OF RESOURCES**-**NET POSITION**

Net Investment in Capital Assets	402,761
Unrestricted	<u>1,750,948</u>
Total Net Position	<u>\$ 2,153,709</u>

**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, 2021**

**Exhibit A-2**

**OPERATING REVENUES**

Sales and Services	\$ 1,088,004
	<u>1,088,004</u>
Total Operating Revenues	<u>1,088,004</u>

**OPERATING EXPENSES**

Salaries and Benefits	95,568
Supplies and Services	229,494
Utilities	90,321
Depreciation	110,591
	<u>525,974</u>
Total Operating Expenses	<u>525,974</u>
Operating Income	<u>562,030</u>

**NONOPERATING REVENUES (EXPENSES)**

Investment Income	7,520
Interest and Fees on Debt	(109,531)
Federal Aid - COVID-19	86,987
Other Nonoperating Revenues	7,080
	<u>(7,944)</u>
Net Nonoperating Expenses	<u>(7,944)</u>
Increase in Net Position	554,086

**NET POSITION**

Net Position - July 1, 2020	<u>1,599,623</u>
Net Position - June 30, 2021	<u>\$ 2,153,709</u>

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION****Statement of Cash Flows****For the Fiscal Year Ended June 30, 2021****Exhibit A-3****CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 1,088,004
Payments to Employees and Fringe Benefits	(100,822)
Payments to Vendors and Suppliers	(337,185)
	<hr/>
Net Cash Provided by Operating Activities	649,997

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Federal Aid - COVID-19	86,987
	<hr/>

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Proceeds from Insurance on Capital Assets	7,080
Principal Paid on Capital Debt and Leases	(336,000)
Interest and Fees Paid on Capital Debt and Leases	(112,391)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(441,311)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	7,520
	<hr/>
Net Increase in Cash and Cash Equivalents	303,193
Cash and Cash Equivalents - July 1, 2020	1,448,392
	<hr/>
Cash and Cash Equivalents - June 30, 2021	\$ 1,751,585
	<hr/> <hr/>

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

Operating Income	\$ 562,030
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation Expense	110,591
Changes in Assets and Liabilities:	
Prepaid Insurance	(2,153)
Accounts Payable and Accrued Liabilities	(15,217)
Compensated Absences	(5,254)
	<hr/>
Net Cash Provided by Operating Activities	\$ 649,997
	<hr/> <hr/>

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

**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 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.
- 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.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. Interest costs incurred are capitalized during the period of construction.

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

**F. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. 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.

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.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 rental and interest income. It also includes the net position of accrued employee benefits such as compensated absences.

**I. 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 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.

**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 990-T) for any year gross unrelated business income exceeds \$1,000.

**NOTE 2 - DEPOSITS**

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, 2021, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,751,585, 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 1.3 years as of June 30, 2021. 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, 2021, 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, 2021. 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.

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:

**NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)**

- 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.

**Short-Term Investment Fund** - At year-end, the University’s investments held in the STIF were valued at \$1,751,585. 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 using the Level 2 inputs. The STIF is valued at \$1 per share. Additionally, no unrealized gains or losses of the STIF are distributed to participants of the fund. Pool investments are measured at fair value in accordance with GASB 72. The University’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, 2021, is presented as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 451,326	\$ -	\$ -	\$ 451,326
<b>Total Capital Assets, Nondepreciable</b>	<b>451,326</b>	<b>-</b>	<b>-</b>	<b>451,326</b>
Capital Assets, Depreciable:				
Buildings	5,495,783	-	-	5,495,783
Machinery and Equipment	10,130	-	-	10,130
Total Capital Assets, Depreciable	5,505,913	-	-	5,505,913
Less Accumulated Depreciation for:				
Buildings	1,923,525	109,916	-	2,033,441
Machinery and Equipment	2,363	675	-	3,038
Total Accumulated Depreciation	1,925,888	110,591	-	2,036,479
<b>Total Capital Assets, Depreciable, Net</b>	<b>3,580,025</b>	<b>(110,591)</b>	<b>-</b>	<b>3,469,434</b>
<b>Capital Assets, Net</b>	<b>\$ 4,031,351</b>	<b>\$ (110,591)</b>	<b>\$ -</b>	<b>\$ 3,920,760</b>

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

During the year ended June 30, 2021, the Corporation incurred \$109,531 in interest costs related to the acquisition and construction of capital assets. All of these costs were charged in interest expense.

**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, 2021, is presented as follows:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Long-Term Debt					
Certificates of Participation	\$ 3,854,000	\$ -	\$ 336,000	\$ 3,518,000	\$ 346,000
Other Long-Term Liabilities					
Compensated Absences	9,536	-	9,536	-	-
<b>Total Long-Term Liabilities, Net</b>	<b>\$ 3,863,536</b>	<b>\$ -</b>	<b>\$ 345,536</b>	<b>\$ 3,518,000</b>	<b>\$ 346,000</b>

**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, 2021	See Table Below
Certificates of Participation						
Student Housing Project	(A)	2.00%	06/01/2030	\$ 5,400,000	\$ 3,518,000	(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, 2021			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing Revenues	\$ 3,888,917	\$ 684,221	\$ 336,000	\$ 106,531	63%

**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

**C. Annual Requirements** - The annual requirements to pay principal and interest on the certificates of participation at June 30, 2020, are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements</u>	
	<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 346,000	\$ 75,637
2023	357,000	63,440
2024	368,000	56,300
2025	378,000	48,940
2026	390,000	41,380
2027-2030	<u>1,679,000</u>	<u>85,220</u>
<b>Total Requirements</b>	<b><u>\$ 3,518,000</u></b>	<b><u>\$ 370,917</u></b>

**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 \$3,518,000, 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.

**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

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 University 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 University or the secured property.

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, 2021, the Corporation reimbursed UNCSA \$95,568 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.



Bernard Robinson & Company, L.L.P.

September 7, 2021

To the Board of Directors  
University of North Carolina School of the Arts Housing Corporation  
Winston Salem, NC 27127

We have audited the financial statements of the University of North Carolina School of the Arts Housing Corporation (the “Corporation”) for the year ended June 30, 2021, and we will issue our report thereon dated September 7, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 22, 2021. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note A to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2021. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management’s estimate for depreciation of capital assets.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were noted during the audit.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 7, 2021.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the Corporation, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Bernard Robinson & Company, L.L.P.*

BERNARD ROBINSON & COMPANY, L.L.P.

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, 2021



**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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the University of North Carolina School of the Arts Program Support Corporation (the "Corporation") (a nonprofit corporation), a component unit of the University of North Carolina School of the Arts which comprise the statement of net position as of June 30, 2021, 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.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina School of the Arts Program Support Corporation as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***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 6 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 2, 2021

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

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## **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, 2021. 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, 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).

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

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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.

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**

	<b>Year Ended June 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>Change</b>
<b>Assets</b>			
Current Assets	\$ 79,253	\$ 95,338	\$ (16,085)
Capital Assets, Net	1,082,625	1,082,625	-
Total Assets	<u>1,161,878</u>	<u>1,177,963</u>	<u>(16,085)</u>
<b>Liabilities</b>			
Current Liabilities	<u>17</u>	<u>-</u>	<u>17</u>
Total Liabilities	<u>17</u>	<u>-</u>	<u>17</u>
<b>Net Position</b>			
Net Investment in Capital Assets	1,082,625	1,082,625	0
Unrestricted	<u>79,236</u>	<u>95,338</u>	<u>(16,102)</u>
Total Net Position	<u>\$ 1,161,861</u>	<u>\$ 1,177,963</u>	<u>\$ (16,102)</u>

The total assets of the Corporation decreased by \$16,085 for the year due to a decrease in current assets. Current assets decreased primarily due to a decrease in operating revenues.

The Corporation's net position was \$1,161,861 at June 30, 2021, a decrease of \$16,102 from the prior year. The significant change was within the category of unrestricted which decreased due to a decrease in operating revenues.

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

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**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 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,		
	2021	2020	Change
<b>Operating Revenues</b>	<u>\$ 3,125</u>	<u>\$ 14,494</u>	<u>\$ (11,369)</u>
<b>Operating Expenses</b>			
Salaries and Benefits	6,565	19,745	(13,180)
Supplies and Services	<u>12,662</u>	<u>12,527</u>	<u>135</u>
Total Operating Expenses	<u>19,227</u>	<u>32,272</u>	<u>(13,045)</u>
Operating Income	<u>(16,102)</u>	<u>(17,778)</u>	<u>1,676</u>
Decrease in Net Position	(16,102)	(17,778)	1,676
Beginning Net Position	<u>1,177,963</u>	<u>1,195,741</u>	<u>(17,778)</u>
Ending Net Position	<u>\$ 1,161,861</u>	<u>\$ 1,177,963</u>	<u>\$ (16,102)</u>

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 \$3,125 compared to \$14,494 from the previous year, a decrease of \$11,369. Operating revenues decreased due to a decline in demand for film print rentals especially during the COVID-19 pandemic.

Total operating expenses were \$19,227 for the fiscal year ended June 30, 2021 and \$32,272 for 2020. The significant change in salaries and benefits is due to the COVID-19 pandemic.

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

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**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 2021. Based on currently known facts about the Corporation's financial performance in fiscal year 2021, 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, 2021**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 78,223
Receivables	1,030
	<hr/>
Total Current Assets	79,253
	<hr/>

Noncurrent Assets:

Capital Assets - Nondepreciable	1,082,625
	<hr/>
Total Noncurrent Assets	1,082,625
	<hr/>
Total Assets	1,161,878
	<hr/>

**DEFERRED OUTFLOWS OF RESOURCES**

-

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**LIABILITIES**

17

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**DEFERRED INFLOWS OF RESOURCES**

-

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**NET POSITION**

Investment in Capital Assets	1,082,625
Unrestricted	79,236
	<hr/>
Total Net Position	\$ 1,161,861
	<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, 2021**

**Exhibit A-2**

**OPERATING REVENUES**

Film Rentals \$ 3,125

**OPERATING EXPENSES**

Salaries and Benefits 6,565

Supplies and Services 12,662

Total Operating Expenses 19,227

Operating Loss (16,102)

Decrease in Net Position (16,102)

**NET POSITION**

Net Position - July 1, 2020 1,177,963

Net Position - June 30, 2021 \$ 1,161,861

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS**  
**PROGRAM SUPPORT CORPORATION**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2021**

**Exhibit A-3**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$	4,470
Payments to Employees and Fringe Benefits		(6,548)
Payments to Vendors and Suppliers		<u>(12,662)</u>
Net Cash Used by Operating Activities		<u>(14,740)</u>
Net Decrease in Cash and Cash Equivalents		(14,740)
Cash and Cash Equivalents - July 1, 2020		<u>92,963</u>
Cash and Cash Equivalents - June 30, 2021	\$	<u><u>78,223</u></u>

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

Operating Loss	\$	(16,102)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Changes in Assets and Liabilities:		
Receivables		1,345
Accounts Payable and Accrued Liabilities		<u>17</u>
Net Cash Used by Operating Activities	\$	<u><u>(14,740)</u></u>

**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.

**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.

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

**Investment in Capital Assets** - This represents the Corporation's total investment in 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*.

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.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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**

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, 2021, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$78,223, 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 1.3 years as of June 30, 2021. 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.

**NOTE 2 - DEPOSITS (CONTINUED)**

As of June 30, 2021, 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, 2021. 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.                                    |

**NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)**

**Short-Term Investment Fund** - At year-end, the University's investments held in the STIF were valued at \$78,223. 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 using the Level 2 inputs. The STIF is valued at \$1 per share. Additionally, no unrealized gains or losses of the STIF are distributed to participants of the fund. Pool investments are measured at fair value in accordance with GASB 72. The University'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 - 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.



Bernard Robinson & Company, L.L.P.

September 2, 2021

To the Board of Directors  
University of North Carolina School of the Arts Program Support Corporation  
Winston Salem, NC 27127

We have audited the financial statements of University of North Carolina School of the Arts Program Support Corporation (the “Corporation”) for the year ended June 30, 2021, and we will issue our report thereon dated September 2, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 22, 2021. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note A to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2021. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management’s estimate for depreciation of capital assets.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were noted during the audit.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 2, 2021.

*Management Consultations with Other Independent Accountants*

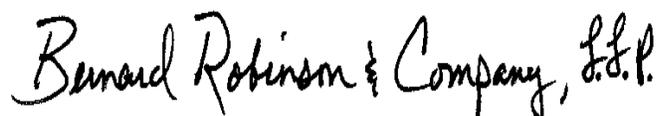
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the Corporation, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



BERNARD ROBINSON & COMPANY, L.L.P.

**AGENDA ITEM**

Associated Entities Financial Statement Audits.....Cindy Liberty,  
Executive Director of Foundations

**Summary:**

Smith Leonard Accountants & Consultants performed the financial statement audit for FY 2021 for the following associated entities:

- UNCSA Foundation - The audit has been completed. The result of the audit was an unqualified opinion (clean audit), with no findings or issues to report.

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

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

Consolidated Financial Statements  
Years Ended June 30, 2021 and 2020



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

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Consolidated Financial Statements  
Years Ended June 30, 2021 and 2020

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

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Statement of functional expenses – year ended June 30, 2020	8
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## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of University of North Carolina School of the Arts Foundation, Inc. (a nonprofit organization) and its subsidiary, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of University of North Carolina School of the Arts Foundation, Inc. and its subsidiary as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Smith Leonard PLLC*

High Point, North Carolina  
August 30, 2021

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

## Consolidated Statements of Financial Position

June 30, 2021 and 2020

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 15,113,861	\$ 15,223,492
Investments	81,723,885	55,574,876
Prepaid expenses and other current assets	47,978	51,747
Pledges receivable, net	2,359,113	4,496,091
Beneficial interest in perpetual trusts	822,542	654,895
Property	47,442	47,442
<b>Total assets</b>	<b>\$ 100,114,821</b>	<b>\$ 76,048,543</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 130,604	\$ 31,391
Due to UNCSA	47,466	62,932
<b>Total liabilities</b>	<b>178,070</b>	<b>94,323</b>
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Without donor restrictions:		
Unappropriated	2,081,276	1,820,918
Board appropriated	466,786	141,236
With donor restrictions	97,388,689	73,992,066
<b>Total net assets</b>	<b>99,936,751</b>	<b>75,954,220</b>
<b>Total liabilities and net assets</b>	<b>\$ 100,114,821</b>	<b>\$ 76,048,543</b>

*See accompanying notes to consolidated financial statements.*

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

## Consolidated Statement of Activities

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, gains, and other income</b>			
Gifts and grants	\$ 1,073,720	\$ 3,106,194	\$ 4,179,914
Interest and dividend income	26,420	-	26,420
Change in fair value of perpetual trusts	-	167,647	167,647
Realized and unrealized gains on other investments, net of losses and fees	(186,098)	24,635,492	24,449,394
Other income	30,220	104,955	135,175
Net assets released from restrictions	4,575,266	(4,575,266)	-
<b>Total revenue, gains, and other income</b>	<b>5,519,528</b>	<b>23,439,022</b>	<b>28,958,550</b>
<b>Expenses</b>			
Program services:			
Scholarships and awards	2,146,559	-	2,146,559
School programs	1,774,667	-	1,774,667
Advancement	452,550	-	452,550
<b>Total program services</b>	<b>4,373,776</b>	<b>-</b>	<b>4,373,776</b>
Support services:			
Administrative	559,844	-	559,844
<b>Total expenses</b>	<b>4,933,620</b>	<b>-</b>	<b>4,933,620</b>
<b>Change in net assets before transfers</b>	<b>585,908</b>	<b>23,439,022</b>	<b>24,024,930</b>
<b>Transfers to UNCOSA</b>	<b>-</b>	<b>(42,399)</b>	<b>(42,399)</b>
<b>Change in net assets</b>	<b>585,908</b>	<b>23,396,623</b>	<b>23,982,531</b>
<b>Net assets, beginning of year</b>	<b>1,962,154</b>	<b>73,992,066</b>	<b>75,954,220</b>
<b>Net assets, end of year</b>	<b>\$ 2,548,062</b>	<b>\$ 97,388,689</b>	<b>\$ 99,936,751</b>

*See accompanying notes to consolidated financial statements.*

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

## Consolidated Statement of Activities

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, gains, and other income</b>			
Gifts and grants	\$ 747,045	\$ 4,608,088	\$ 5,355,133
Interest and dividend income	174,403	4,935	179,338
Change in fair value of:			
Annuity investments	-	130	130
Perpetual trusts	-	(96,167)	(96,167)
Annuity obligations	-	6,934	6,934
Other assets	-	(14,558)	(14,558)
Realized and unrealized gains on other investments, net of losses and fees	(381,544)	1,430,561	1,049,017
Other income	29,468	158,075	187,543
Net assets released from restrictions	4,758,704	(4,758,704)	-
<b>Total revenue, gains, and other income</b>	<b>5,328,076</b>	<b>1,339,294</b>	<b>6,667,370</b>
<b>Expenses</b>			
Program services:			
Scholarships and awards	2,106,962	-	2,106,962
School programs	2,032,583	-	2,032,583
Advancement	599,486	-	599,486
Total program services	4,739,031	-	4,739,031
Support services:			
Administrative	815,225	-	815,225
<b>Total expenses</b>	<b>5,554,256</b>	<b>-</b>	<b>5,554,256</b>
Loss on sale of property	(10,101)	-	(10,101)
<b>Change in net assets before transfers</b>	<b>(236,281)</b>	<b>1,339,294</b>	<b>1,103,013</b>
<b>Transfers to UNCSA</b>	<b>-</b>	<b>(1,805,890)</b>	<b>(1,805,890)</b>
<b>Change in net assets</b>	<b>(236,281)</b>	<b>(466,596)</b>	<b>(702,877)</b>
<b>Net assets, beginning of year</b>	<b>2,198,435</b>	<b>74,458,662</b>	<b>76,657,097</b>
<b>Net assets, end of year</b>	<b>\$ 1,962,154</b>	<b>\$ 73,992,066</b>	<b>\$ 75,954,220</b>

*See accompanying notes to consolidated financial statements.*

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

## Consolidated Statement of Functional Expenses Year Ended June 30, 2021

	Program Services			Support Services	Total
	Scholarships and Awards	School Programs	Advancement *	Administrative	
Scholarships and awards	\$ 2,146,559	\$ -	\$ -	\$ -	<b>\$ 2,146,559</b>
Salaries and benefits	-	685,713	118,062	456,089	<b>1,259,864</b>
Support of school performances	-	581,198	-	-	<b>581,198</b>
Office supplies, services, and administrative expenses	-	234,953	315,073	75,975	<b>626,001</b>
Conferences, meetings, travel, and entertainment	-	41,769	2,052	2,594	<b>46,415</b>
Educational supplies	-	180,357	-	-	<b>180,357</b>
Occupancy costs	-	-	-	25,042	<b>25,042</b>
Other	-	50,677	17,363	144	<b>68,184</b>
<b>Total functional expenses</b>	<b>\$ 2,146,559</b>	<b>\$ 1,774,667</b>	<b>\$ 452,550</b>	<b>\$ 559,844</b>	<b>\$ 4,933,620</b>

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

*See accompanying notes to consolidated financial statements.*

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

## Consolidated Statement of Functional Expenses Year Ended June 30, 2020

	Program Services			Support Services	Total
	Scholarships and Awards	School Programs	Advancement *	Administrative	
Scholarships and awards	\$ 2,106,962	\$ -	\$ -	\$ -	\$ 2,106,962
Salaries and benefits	-	748,867	98,462	410,981	1,258,310
Support of school performances	-	582,333	-	-	582,333
Office supplies, services, and administrative expenses	-	212,154	459,627	79,236	751,017
Conferences, meetings, travel, and entertainment	-	233,595	33,069	2,182	268,846
Educational supplies	-	211,925	-	-	211,925
Occupancy costs	-	-	-	297,523	297,523
Other	-	43,709	8,328	25,303	77,340
<b>Total functional expenses</b>	<b>\$ 2,106,962</b>	<b>\$ 2,032,583</b>	<b>\$ 599,486</b>	<b>\$ 815,225</b>	<b>\$ 5,554,256</b>

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

*See accompanying notes to consolidated financial statements.*

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

## Consolidated Statements of Cash Flows Years Ended June 30, 2021 and 2020

	2021	2020
<b>Operating activities</b>		
Change in net assets	\$ 23,982,531	\$ (702,877)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash transfer from UNCOSA	-	(47,442)
Loss on sale of property	-	10,101
Write-off of pledges receivable	32,103	95,191
Net gain on investments reported at fair value	(24,751,039)	(1,303,136)
Changes in fair value of:		
Perpetual trusts	(167,647)	96,167
Annuity obligations	-	(6,934)
Other assets	-	14,558
Change in operating assets and liabilities:		
Prepaid expenses and other current assets	3,769	121,803
Pledges receivable, net	2,104,875	4,396,239
Accounts payable and accrued expenses	99,213	(58,722)
Due to UNCOSA	(15,466)	(133,335)
<b>Net cash provided by operating activities</b>	<b>1,288,339</b>	<b>2,481,613</b>
<b>Investing activities</b>		
Proceeds from sale of property	-	49,900
Purchase of investments, net of distributions	(1,397,970)	(2,235,460)
<b>Net cash used in investing activities</b>	<b>(1,397,970)</b>	<b>(2,185,560)</b>
<b>Change in cash and cash equivalents</b>	<b>(109,631)</b>	<b>296,053</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>15,223,492</b>	<b>14,927,439</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 15,113,861</b>	<b>\$ 15,223,492</b>

*See accompanying notes to consolidated financial statements.*

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

## Notes to Consolidated Financial Statements

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### 1. Organization and Principles of Consolidation

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

### 2. Summary of Significant Accounting Policies

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

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

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

#### ***Use of Estimates***

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

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

## Notes to Consolidated Financial Statements

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### 2. Summary of Significant Accounting Policies (Continued)

#### ***Gifts and Grants***

The Foundation recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions of assets other than cash are recorded at estimated fair value. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at a risk-adjusted market rate. As of June 30, 2021 and 2020, the rate used was 4.5%. Amortization of the discount is recorded as additional contribution revenue. Allowance is made for uncollectible contributions receivable based upon an analysis of past collection experience and other relevant factors.

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

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

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

#### ***Investments***

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

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

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

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

## Notes to Consolidated Financial Statements

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### 2. Summary of Significant Accounting Policies (Continued)

#### ***Endowments***

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

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

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

#### ***Endowment Distribution Policy***

Endowment funds are accounted for using a unitized investment pool, with each endowment being assigned units in the pool. The per unit distribution is adjusted by the change in the All Urban Consumer Price Index. Annual distributions are limited (subject to donor stipulations) to a maximum of 6% with a minimum of 3.5% of ending unit value at the calculation date. Where unit values fall below the original gift amount (referred to as “underwater endowments”), distributions continue; however, these instances are monitored by the Board. There were no underwater endowments at June 30, 2021 or 2020. Distributions amounted to approximately 4% of unit values in 2021 and 2020.

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

#### ***Cash and Cash Equivalents***

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

#### ***Perpetual Trusts***

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

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

## Notes to Consolidated Financial Statements

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### 2. Summary of Significant Accounting Policies (Concluded)

#### ***Property***

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

#### ***Income Taxes***

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

It is the Foundation's policy to evaluate all tax positions and to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the consolidated financial statements. Any changes in the amount of a tax position will be recognized in the period the change occurs. Currently, the statute of limitations remains open subsequent to and including fiscal year 2018; however, no examinations are in process.

#### ***Functional Expenses***

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

#### ***Reclassifications***

Certain prior year balances have been reclassified to conform to the current year presentation. The reclassifications have no effect on the results of operations previously reported.

#### ***Subsequent Events***

Management has evaluated events occurring subsequent to the date of the consolidated statement of financial position through August 30, 2021, the date that the consolidated financial statements were available to be issued, determining no events require adjustment to or additional disclosure in the consolidated financial statements.

### 3. Fair Value of Financial Instruments

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

Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories.

Level 1: Quoted market prices in active markets for identical assets or liabilities;

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data;

Level 3: Unobservable inputs that are not corroborated by market data.

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

## Notes to Consolidated Financial Statements

### 3. Fair Value of Financial Instruments (Concluded)

The following are the assets measured at fair value as of June 30, 2020 with no additional assets measured at fair value at June 30, 2021.

	Level 1	Level 2	Level 3	Total
Assets:				
Listed equities	\$ 389,450	\$ -	\$ -	\$ 389,450

The following table summarizes changes in fair value of the Foundation's Level 3 liabilities for the year.

June 30,	2021	2020
Balance, beginning of year	\$ -	\$ 18,164
Payments to annuitants	-	(1,218)
Amortization and change in assumptions	-	(16,946)
Balance, end of year	\$ -	\$ -

Accounting Standards Codification Topic 820, *Fair Value Measurement*, Subtopic 820-10, provides a practical expedient allowing investments that are measured at fair value using the net asset value per share (or its equivalent) not to be classified in the fair value hierarchy. The Foundation's investments with UNCIF (Note 4) and beneficial interests in perpetual trusts are measured at net asset value and are therefore excluded from the above analysis.

### 4. Investments

Investments are comprised of the following:

June 30,	2021	2020
Endowment investments – UNCIF	\$ 81,723,885	\$ 55,185,426
Listed equities	-	389,450
Total investments	\$ 81,723,885	\$ 55,574,876

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

### 5. Pledges Receivable, Net

Pledges receivable, net consist of the following:

June 30,	2021	2020
Due within one year	\$ 1,199,217	\$ 3,191,006
Due in one to five years	1,093,367	1,271,275
Due in more than five years	320,000	438,000
Total unconditional pledges	2,612,584	4,900,281
Less:		
Discount to present value at 4.5%	(148,340)	(208,179)
Allowance for uncollectible pledges	(105,131)	(196,011)
Total pledges receivable, net	\$ 2,359,113	\$ 4,496,091

Two donors accounted for 30% of gross pledges receivable at June 30, 2021. Two donors accounted for 46% of gross pledges receivable at June 30, 2020. One donor accounted for 12% of gifts and grants in 2021 and two donors accounted for 27% of gifts and grants in 2020.

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

## Notes to Consolidated Financial Statements

### 6. Property

Property consists of land carried at cost of \$47,442 in 2021 and 2020.

### 7. Liquidity and Availability

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

	2021	2020
Total assets	\$ 100,114,821	\$ 76,048,543
Less assets not available for general expenditures within one year:		
Endowment funds with donor restrictions	85,040,324	61,863,590
School programs	11,525,822	11,473,581
Prepaid expenses	47,978	51,747
Pledges receivable due greater than one year	1,413,367	1,709,275
Beneficial interests in perpetual trusts	822,542	654,895
Property	47,442	47,442
Board appropriated	466,786	141,236
Total assets available for general expenditures	\$ 750,560	\$ 106,777

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

### 8. Restrictions on Net Assets

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

June 30,	2021	2020
<b>Time or purpose restrictions</b>		
School programs	\$ 11,525,822	\$ 11,473,581
Endowment returns subject to future appropriation	34,083,524	11,973,667
<b>Perpetual restrictions</b>		
Permanent endowment funds	50,956,801	49,889,923
Interest in perpetual trusts held by others	822,542	654,895
Total net assets with donor restrictions	\$ 97,388,689	\$ 73,992,066

In 2021 and 2020, Board appropriated net assets without donor restrictions represent amounts set aside for property improvements and support of the School.

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

## Notes to Consolidated Financial Statements

### 9. Endowment Net Assets

Changes in endowment net assets during the year ended June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 61,863,590	\$61,863,590
Gifts and grants	-	895,041	895,041
Realized and unrealized gains, net of losses	-	24,635,492	24,635,492
Investment management fees	(301,645)	-	(301,645)
Amounts appropriated for expenditure, reclassifications, and transfers	301,645	(2,353,799)	(2,052,154)
Endowment net assets, end of year	\$ -	\$ 85,040,324	\$85,040,324

Changes in endowment net assets during the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 62,156,217	\$62,156,217
Gifts and grants	-	1,431,800	1,431,800
Realized and unrealized gains, net of losses	-	1,430,561	1,430,561
Investment management fees	(254,119)	-	(254,119)
Amounts appropriated for expenditure, reclassifications, and transfers	254,119	(3,154,988)	(2,900,869)
Endowment net assets, end of year	\$ -	\$ 61,863,590	\$61,863,590

### 10. Related Party Transactions

Reimbursements to the School for school employees assigned to the Foundation amounted to \$270,424 and \$227,318 in 2021 and 2020. Reimbursements to the School for school employee supplements amounted to \$788,336 and \$797,821 in 2021 and 2020. The School also provides the Foundation with various services, including office space, technology, and legal services. In fiscal 2021 and 2020, the Foundation recorded expenses of \$11,932 and \$10,830 for services provided by employees of the School and also other income for the same amount.

At June 30, 2021, \$47,466 is due to the School for salary and miscellaneous reimbursements. At June 30, 2020, \$62,932 was due to the School, which included salary and miscellaneous reimbursements.

### 11. Investment Income

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

Year ended June 30,	2021	2020
Gain on investments reported at fair value	\$ 24,751,039	\$ 1,303,136
Investment management fees	(301,645)	(254,119)
Realized and unrealized gains and losses, net of fees	\$ 24,449,394	\$ 1,049,017

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

## Notes to Consolidated Financial Statements

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### 12. Commitments

#### **Retirement Plan**

The Foundation contributes to a retirement account a percentage based on its employee's salary. Contributions amounted to \$8,125 and \$7,875 in 2021 and 2020.

### 13. COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Management is actively monitoring the impact on the Foundation's operations. However, Management is unable to estimate the effects of the COVID-19 outbreak on the Foundation and its future results of operations, financial condition, or liquidity.

### 14. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which replaces all previous guidance on leases and will require entities to recognize assets and liabilities arising from operating leases. For entities similar to the Foundation, the ASU (as amended) is effective for fiscal years beginning after December 15, 2021, with early application permitted. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provided an alternative transition method when initially applying ASU 2016-02. Entities similar to the Foundation may elect to apply ASU 2016-02 at the beginning of the earliest period presented or recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. Management is currently assessing the impact this guidance may have on the Foundation's future consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which eliminates previous thresholds for recording credit losses on financial instruments (including receivables) and requires entities to utilize an expected credit loss model. For the Foundation, the amendments are effective for fiscal years beginning after December 15, 2022. Management is currently assessing the impact this guidance may have on the Foundation's future consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies disclosure requirements related to fair value measurements. The ASU is effective for fiscal years beginning after December 15, 2019, with early application permitted. Management adopted this standard in 2021 with no material impact on the Foundation's consolidated financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities as well as increased disclosures about such assets. This ASU is effective for fiscal years beginning after June 15, 2021, with early application permitted. Management is currently assessing the impact that this guidance may have on the Foundation's future consolidated financial statements.

**University of North Carolina School  
of the Arts Foundation, Inc. and  
The Semans Art Fund, Inc.**

Audit Completion  
June 30, 2021



# Discussion Outline

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# Required Auditor Communications

Area	Comments
<b>Our responsibilities under generally accepted auditing standards</b>	<ul style="list-style-type: none"><li>• Express an opinion about whether the financial statements are fairly presented in accordance with generally accepted accounting principles</li><li>• Obtain reasonable, not absolute, assurance about whether the financial statements are free from material misstatements</li></ul>
<b>Internal control over financial reporting</b>	<ul style="list-style-type: none"><li>• We considered internal control over financial reporting as a basis for designing our audit procedures, not to express an opinion on the effectiveness of internal control</li><li>• Our work was not designed to identify all deficiencies that might be significant deficiencies or material weaknesses</li><li>• Material weaknesses, significant deficiencies, and deficiencies in internal control</li></ul>
<b>Primary areas of focus and findings</b>	<ul style="list-style-type: none"><li>• Revenue recognition</li><li>• Valuation of investments</li><li>• Pledges receivable and related reserves</li><li>• Net assets and donor restrictions</li><li>• Transfers to the University</li><li>• Fraud considerations</li></ul>
<b>Accounting policies, estimates, and disclosures</b>	<ul style="list-style-type: none"><li>• Discussion to be had regarding policies, estimates, and disclosures</li></ul>
<b>Critical accounting policies</b>	<ul style="list-style-type: none"><li>• Please refer to footnote 2 to the financial statements</li></ul>

# Required Auditor Communications

Area	Comments
<b>Material corrected misstatements</b>	<ul style="list-style-type: none"><li>• See schedule of journal entries. There were no unrecorded adjustments.</li></ul>
<b>Disagreements with management</b>	<ul style="list-style-type: none"><li>• No disagreements on material accounting, reporting, or auditing matters</li><li>• There were no significant difficulties during our audit</li><li>• Management provided full cooperation; all records requested were freely available</li></ul>
<b>Consultations with other accountants</b>	<ul style="list-style-type: none"><li>• We are not aware of any consultations about accounting and auditing matters</li><li>• We are not aware of any opinions obtained regarding the application of GAAP</li></ul>
<b>Major issues discussed prior to retention</b>	<ul style="list-style-type: none"><li>• No major issues of concern were discussed prior to our retention</li></ul>
<b>Alternate accounting treatments</b>	<ul style="list-style-type: none"><li>• No significant alternate accounting treatments were discussed</li></ul>
<b>Management representations</b>	<ul style="list-style-type: none"><li>• We will obtain a standard management representation letter upon approval of the financial statements</li></ul>
<b>Pending matters</b>	<ul style="list-style-type: none"><li>• The Semans Art Fund financial statements are in the drafting process</li></ul>
<b>Other significant issues</b>	<ul style="list-style-type: none"><li>• There were no other significant issues arising from the audit</li></ul>

# UNCSAF Schedule of Journal Entries

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

**Journal Entries**  
Year ended : 6/30/2021

Description	Dr.	Cr.	Assets Increase (Decrease)	Liabilities Increase (Decrease)	Net Assets Increase (Decrease)	Change in Net Assets Increase (Decrease)
<b><u>Recorded Differences</u></b>						
Salaries Expense	18,981				(18,981)	(18,981)
Other Accrued Liabilities		18,981		18,981		
<i><b>To record biweekly payroll and supplies as of year end.</b></i>						
Purchase Order Liability	109,942			(109,942)		
Services and Supplies Expenses		109,942			109,942	109,942
<i><b>To remove purchase order liability expense for goods and services not received by year end.</b></i>						
Other Contracted Services Expense	14,872				(14,872)	(14,872)
Accounts Payable Due to UNCSA		14,872		14,872		
<i><b>To accrue additional amounts owed to UNCSA at year end.</b></i>						
Unrealized Loss on Investments	11,878				(11,878)	(11,878)
Investment Interest		11,878			11,878	11,878
<i><b>To true up loss on investment and record interest income.</b></i>						
	<u>155,673</u>	<u>155,673</u>	<u>-</u>	<u>(76,089)</u>	<u>76,089</u>	<u>76,089</u>

**Unrecorded Differences**

None

# SAF Schedule of Journal Entries

*The Semans Art Fund, Inc.*

**Journal Entries**

*Year ended : 6/30/2021*

Description	Dr.	Cr.	Assets Increase (Decrease)	Liabilities Increase (Decrease)	Net Assets Increase (Decrease)	Change in Net Assets Increase (Decrease)
<b><u>Recorded Differences</u></b>						
Academic Programs	50,000				(50,000)	(50,000)
Other Accrued Liabilities - Pledges Payable		50,000		50,000		
<b><i>To record pledge payable to UNC School of the Arts Foundation.</i></b>						
Investments - General Pool	690,900		690,900			
Investments - Endowment		690,900	(690,900)			
Unrealized Gain/Loss - Endowment	152,000				(152,000)	
Unrealized Gain/Loss - General Pool		152,000			152,000	
Interest Income - Endowment	5,000				(5,000)	
Interest Income - General Pool		5,000			5,000	
Brokerage Fees - General Pool	1,500				1,500	
Brokerage Fees - Endowment		1,500			(1,500)	
Transfers - General Pool	535,000		535,000			
Transfers - Endowment		535,000	(535,000)			
<b><i>To true up investment allocation between endowment and the general investment pool at year end.</i></b>						
	<u>1,434,400</u>	<u>1,434,400</u>	<u>-</u>	<u>50,000</u>	<u>(50,000)</u>	<u>(50,000)</u>

**Unrecorded Differences**

None

## Contacts

**John Nicolson, CPA**

Audit Partner

(336) 821-1312

[jnicolson@smith-leonard.com](mailto:jnicolson@smith-leonard.com)

**Jeremy D. Hiatt, CPA**

Audit Director

(336) 821-1436

[jhiatt@smith-leonard.com](mailto:jhiatt@smith-leonard.com)

**AGENDA ITEM**

Internal Audit Activity Update ..... Rod Isom

**Summary:**

- a) **IA Operations Update**
- b) **Summary of Internal Audit Activity for Fiscal Year 2021**
- c) **Recent Reports and Other Communications\*\***
- d) **Internal Audit Plan Project Status and Updates**
- e) **Other Activities and Matters**
- f) **Review Committee Charter**

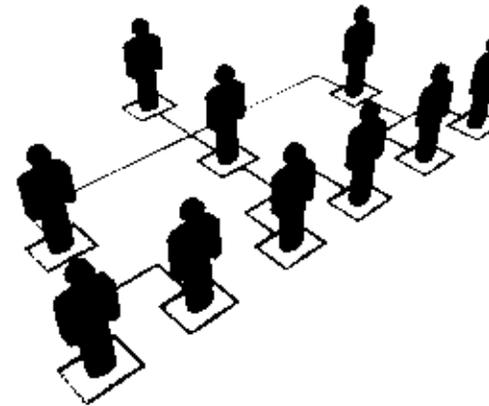
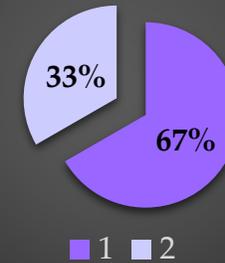
*\*\*Additional information related to this item or any internal audits or reviews released prior to the meeting will be provided at the meeting.*

**Action:** These items are for informational purposes only.

# Internal Audit Operations

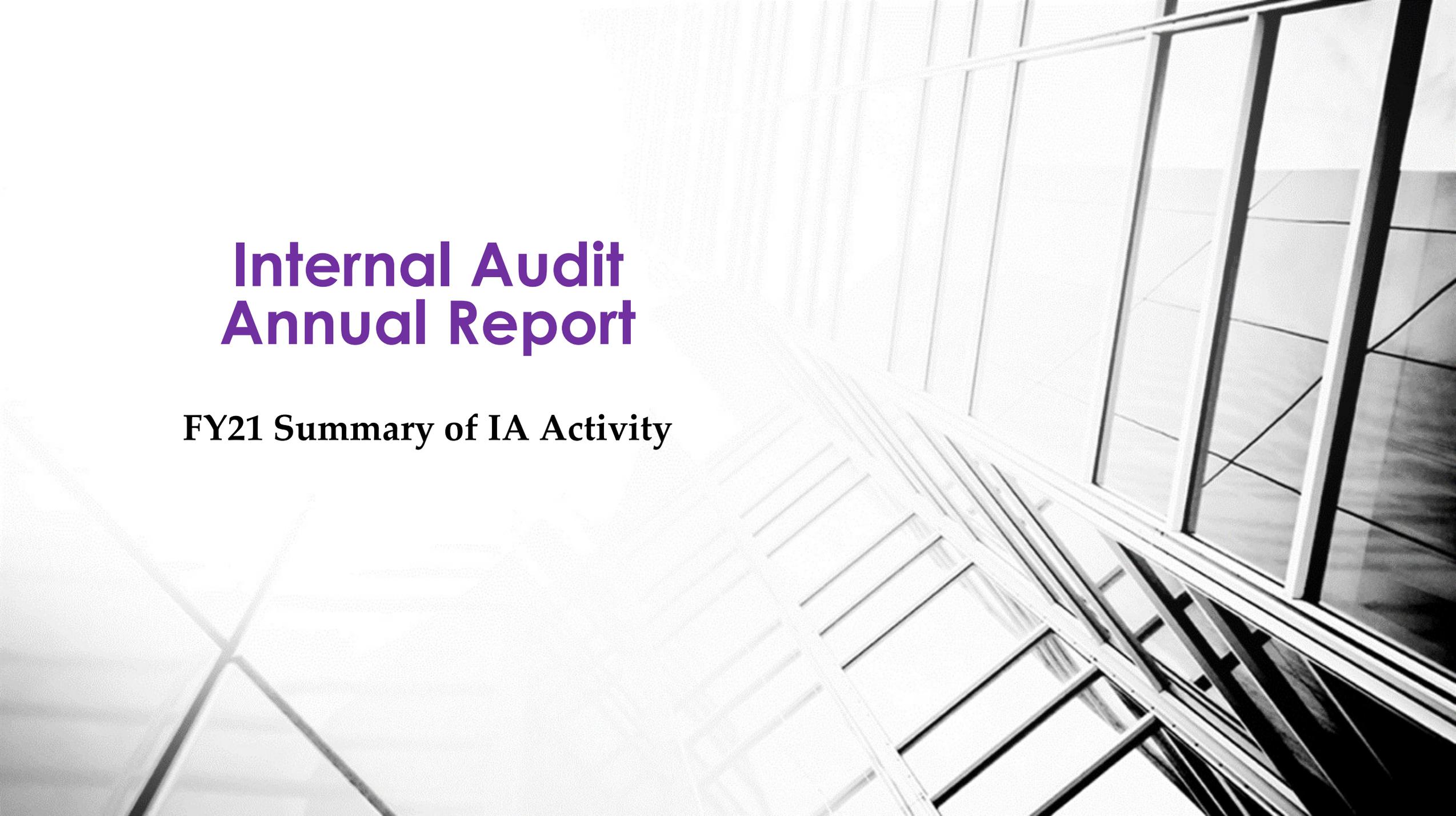
- Rod Isom was appointed Chief Audit, Risk, and Compliance Officer July 1, 2021.
- Priority #1 - Filling the Audit Manager.
- 8/12 Months of FY21 , Audit had 2 auditors working
- Team was 67% (4/6) filled at year end, however only 50% (3/6) of the team was working.
- All team members have professional certifications
  - Certified Public Accountant (CPA) - 2
  - Certified Information Systems Auditor (CISA) - 1
  - Certified Internal Controls Auditor (CICA) - 2

## IA Operations



## Working vs Not Working





# **Internal Audit Annual Report**

**FY21 Summary of IA Activity**

# Performance Metrics

**Audit Plan Completion  
Percentage: 60% (6/10)**

## **Audit Plan (Projects):**

Planned – 9

Added – 1

Canceled/Deferred – 0

***Total – 10***

Completed – 6

In Progress – 0

Not Started/Carried Forward - 4

## **Completed Projects & Reports:**

- FY2021 Risk Assessment Process/Audit Plan
  - Planned - Minors on Campus - 9/9/20
- Investigation - UNC System Office - School of Filmmaking Salary Increase – 11/18/20
- Investigation - Medical Wig Program – 2/10/21
- *Risk Monitoring Memo – Medical Wig Class Structure & Student Employment – 2/10/21*
- Planned – COVID Spending & Response Plan – 4/26/21
  - *Planned – COVID Spending & Response Plan – Management Letter – PPE Allocation – 4/26/21*
  - *Planned – COVID Spending & Response Plan – Management Letter – Survey – 4/26/21*
- FY2022 Risk Assessment Process/Audit Plan

Completed audits and advisory services resulting in reports with **11** observations that produced **29** written recommendations for various departments

UNCSA FY21 Summary of Observations and Recommendations

	<i>Project Name</i>	<i>Finding(s)/Observation(s)</i>	<i>Recommendation(s)</i>	<i>Report Type</i>	<i>Subject to Disclosure</i>	<i>Office or Department</i>	<i>Report Date</i>	<i>Follow-up Required (Y/N)</i>
1	Minors on Campus	<b>No Overarching Minors Policy for Governance</b>	<p>1) The university should develop an overarching policy for minors to align with UNC System Policy 1300.10 which adequately addresses risks posed by minors on campus and includes at a minimum:</p> <ul style="list-style-type: none"> <li>• Registration and approval requirements for activities and programs primarily serving or including minors;</li> <li>• Background checks for employees, contractors, and volunteers who interact with minors;</li> <li>• Mandatory reporting of suspected abuse and neglect; and</li> <li>• Additional training expectations.</li> </ul> <p>2) The policy should be effectively communicated to all individuals who work closely with, supervise, instruct, or otherwise come into direct, non-incident contact with minors.</p>	Audit Report	Yes	* Provost * Community & Summer Programs	9/9/2020	Y
2	Minors on Campus	<b>No Comprehensive List of Youth Programs</b>	<p>Management should strengthen oversight by formally defining and assigning compliance responsibilities to a single department or individual. Once this role is defined, the assigned personnel should maintain an inventory of programs including, at a minimum:</p> <ul style="list-style-type: none"> <li>• A description of the proposed Covered Program;</li> <li>• A responsible party or sponsor for the proposed Covered Program(Sponsor);</li> <li>• The designated university administrator or officer supporting the program;</li> <li>• The period of time for which the Covered Program will operate;</li> <li>• The expected number of employees and/or volunteers involved and minors served;</li> <li>• An acknowledgment of relevant institutional policies, including requirements for background checks, training, insurance, parking access, and facilities use;</li> <li>• An acknowledgment of state mandatory reporting requirements related to suspected abuse or neglect of a minor;</li> <li>• For third party vendors, a statement acknowledging that the constituent institution may monitor compliance with requirements for operating a Covered Program; and</li> <li>• The name or position and department of the university administrator or officer with responsibility for approving the proposed program.</li> </ul>	Audit Report	Yes	* Provost * Community & Summer Programs	9/9/2020	Y
3	Minors on Campus	<b>No Formalized Training Program</b>	<p>1) Management should develop a formalized training program for all Covered Individuals. Training curriculum should include all the necessary requirements and industry best practices to minimize risks to minors and liability to the university.</p> <p>2) Monitoring procedures should be put in place to track satisfactory completion of the training curriculum by all applicable individuals.</p>	Audit Report	Yes	* Provost * Community & Summer Programs	9/9/2020	Y
4	Minors on Campus	<b>Insufficient Risk Management</b>	<p>Management should conduct a formalized risk assessment of the programs designed for minors at least annually to include the identification, prioritization, and measurement of risks that could potentially affect units offering programs and activities involving minors. Once risks are identified, appropriate controls should be implemented and monitored to ensure that the risks are being mitigated.</p>	Audit Report	Yes	* Provost * Community & Summer Programs	9/9/2020	Y
5	Minors on Campus	<b>Incomplete Screening Process</b>	<p>1) Management should implement controls and procedures to ensure all programs and activities are obtaining background checks for all individuals working with minors at regular intervals. Management should also ensure controls and procedures comply with UNC System Policy 1300.10.</p> <p>2) The university should establish and communicate standards for working with minors as these may differ from general hiring requirements.</p> <p>3) All background checks for employees and independent contractors should be conducted by HR.</p> <p>4) ArtistCorps program management should develop procedures to track completion of volunteer background checks.</p>	Audit Report	Yes	* Provost * Community & Summer Programs * Community Engagement & ArtistCorp * Human Resources	9/9/2020	Y

6	Medical Wig Investigation	<b>Inadequate Conflict Management</b>	<p>1) D&amp;P should create a detailed conflict management plan and implement appropriate monitoring procedures to ensure accountability and to mitigate conflict management and noncompliance. Additionally, the arrangement of using the faculty's member personal company to sell hair products to the university should be discussed and approved by the newly appointed Provost.</p> <p>2) D&amp;P should implement procedures to ensure annual forms are completed and approved in a timely manner to ensure compliance with Regulation 603 and 610.</p> <p>3) The university should update the annual reporting form to allow for the appropriate conflict category to be identified so the appropriate procedures according to Regulation 603 can be implemented to mitigate risk.</p> <p>4) D&amp;P should ensure employees are trained on the appropriate use of university's resources.</p>	Audit Report	Yes	* Design and Production * Provost	2/10/2021	Y
7	Medical Wig Investigation	<b>Not Following Hiring Protocols</b>	<p>1) D&amp;P should provide training on an annual basis to faculty that hire student employees.</p> <p>2) D&amp;P should establish protocols to ensure paperwork is completed prior to graduate assistants beginning to work.</p> <p>3) D&amp;P should work with Legal Affairs and the Foundation to determine the appropriate documentation needed to verify faculty member's payment to the student and reimburse the faculty member with the funds designated for the graduate assistant so that there is evidence that the student was paid by the university.</p>	Audit Report	Yes	* Design and Production * Foundation * Legal Affairs	2/10/2021	Y
8	Medical Wig Investigation	<b>Purchasing Card Violations</b>	<p>1) D&amp;P should implement preventative controls and require personnel to obtain proper approval before purchases are made.</p> <p>2) Foundation and D&amp;P should work together and create an annual training platform for personnel with Foundation P-Cards to ensure guidelines are understood.</p> <p>3) The Foundation should update it policies and guidelines as it relates to prohibited expenditures regarding services. The policies and guidelines should clearly articulate what types of services are not allowed to assist with increasing understanding and mitigating unallowable expenditures.</p> <p>4) D&amp;P should ensure the faculty member receives additional training on university P-Cards to ensure guidelines are understood.</p>	Audit Report	Yes	* Design and Production * Foundation	2/10/2021	Y
9	Medical Wig Investigation	<b>Medical Wig Class Structure and Student Employment</b>	<p>1) The Provost should work with the Deans, the General Counsel, and Human Resources to create a policy that governs student employment as it relates to working for faculty members' personal businesses should such practices continue. Considerations should be given to the protection of academic integrity for students who choose to work for faculty members' personal businesses.</p> <p>2) D&amp;P management should work with faculty to ensure there is structure and documented expectations for Medical Wig's graduate assistants, as well as ensuring that good business practices are in place and enforced.</p>	Risk Notification Memo	Yes	* Design and Production * Provost * Legal Affairs * Human Resources	2/10/2021	N
10	COVID Spending & Response Plan	<b>Reallocation of UNC System Office Funding</b>	<p>1) The University should contact NCPRO and the System Office to determine how reporting should be completed.</p> <p>2) Additionally, management should review other transactions that are not PPE related that were purchased using the PPE allocation to ensure costs are allowable. If management determined the purchase does not meet the established guidelines, management should include these purchases in their reallocation as well.</p>	Management Letter	Yes	Finance & Administration	4/26/2021	N
11	COVID Spending & Response Plan	<b>University's Handling of the COVID-19 Pandemic</b>	<p>1) The campus leaders should remain vigilant during the pandemic and continue to focus on safety and mitigation efforts due to the continuous evolution of the virus.</p> <p>2) Campus leaders should assess the survey results and additional information received and make any needed enhancements to their pandemic and emergency response efforts. Practices that seem to work well and favored should be maintained and added to the university's emergency response practices, if not already included.</p> <p>3) Management should consider surveying the campus community when possible to gain insights into employee perceptions and into issues affecting the university.</p> <p>4) Capture the lessons learned from this pandemic and ensure that the university's pandemic and emergency response plans are documented and updated.</p>	Management Letter	Yes	* Finance & Administration * Chief of Staff	4/26/2021	N

# Performance Metrics

## **Post Audit Satisfaction Surveys:**

- 100% of surveys issued for applicable reviews
- Customers rated services on average a 4.6 (agree/strongly agree) on a 5-scale rating

## **Reporting:**

Average of 120 Days from  
Planning Meeting to Draft Report:  
126 Days Average

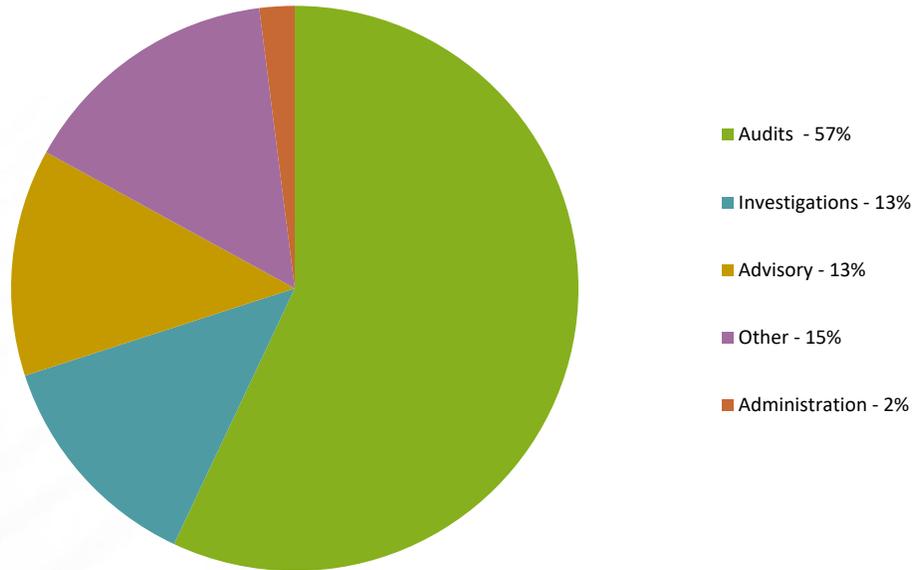
## **Opportunities for Improvement:**

- Timely completion of reviews

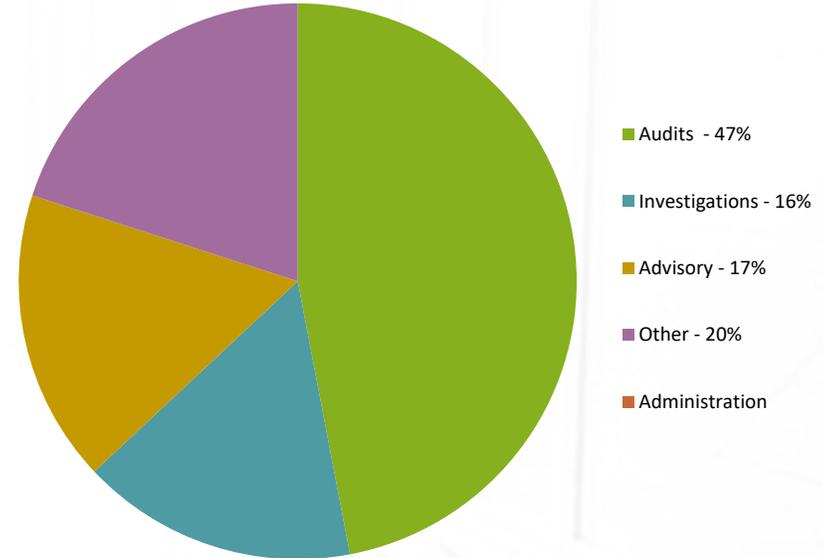
# Planned vs Actual Hours – FY21

(100% of time was considered direct hours)

**Planned Hours = 1,800**



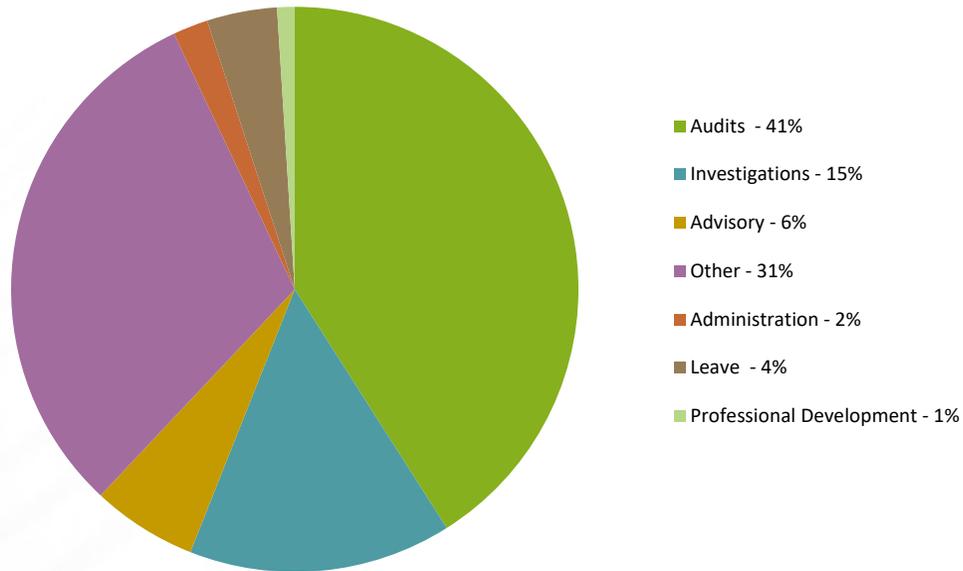
**Actual Hours = 1,005**



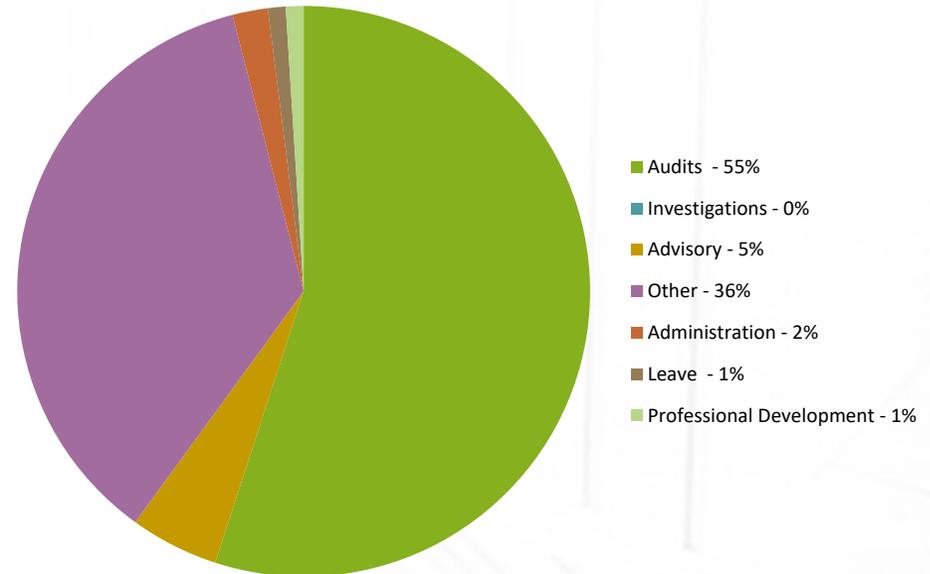
# Planned vs Actual Hours – FY20

*(96% of time was considered direct hours)*

**Planned Hours = 1,800**



**Actual Hours = 2,232**





**WINSTON-SALEM**  
STATE UNIVERSITY



**Office of Audit, Risk, and Compliance/Division of Institutional Integrity**

*Rod Isom, Chief Audit, Risk, and Compliance Officer*  
1600 Lowery Street, Winston-Salem, North Carolina 27110  
(336) 750-2065 | [www.wssu.edu](http://www.wssu.edu)

August 31, 2021

Mr. Jim DeCristo  
Vice Chancellor for Economic Development and Chief of Staff  
University of North Carolina School of the Arts  
1533 South Main Street  
Winston-Salem, NC 27127

Dear Mr. DeCristo:

The Internal Audit Unit (IA) of Winston-Salem State University's (WSSU) Office of Audit, Risk, and Compliance's follow-up review to evaluate University of North Carolina School of the Arts' (UNCSA) progress toward resolving previously reported observations related to the internal control structure at the Center for Design Innovation (CDI) is complete.

The following report includes a restatement of the original observations and IA's opinions about the resolution status of the original observations.

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

Respectfully submitted,

Rod Isom  
Chief Audit, Risk, and Compliance Officer

cc: Brian Cole, Chancellor (UNCSA)  
Elwood L. Robinson, Ph.D., Chancellor (WSSU)  
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel  
Anthony Graham, Ph.D., Provost and Vice Chancellor for Academic Affairs (WSSU)  
Audit, Risk, and Compliance Committee, UNCSA Board of Trustees  
Audit, Risk, and Compliance Committee, WSSU Board of Trustees

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<b>BACKGROUND, OBJECTIVE, AND SCOPE</b>
---

**BACKGROUND:**

This report addresses the status of previously reported observations identified in IA's planned review report, released on September 17, 2018, related to the university's internal control structure that allowed for the removal of equipment from CDI.

CDI is a multi-university research center that exists within the University of North Carolina system between UNCSA, WSSU, and Forsyth Technical Community College. CDI functions as a center of innovation where students, faculty, and community members can collaborate across different disciplines and is meant to create inter-disciplinary experiences for those utilizing its services.

At the conclusion of IA's review, observations and recommendations were reported to management and, subsequently, management action plans were developed to explain how the agreed upon recommendations would be implemented. The purpose of this follow-up review was to ascertain whether the university sufficiently addressed the observations and implemented actions that were lasting or if senior management sufficiently evaluated and considered the risk of not taking action to address the reported observations.

**OBJECTIVE:**

The objective of the review was as follows:

- To evaluate the university's progress toward resolving observations included in the prior audit report.

To conduct the review, IA performed the following procedures:

- Interviewed university employees;
- Obtained written statements from management about the status of the observations; and
- Examined evidence supporting corrective actions where necessary.

**SCOPE:**

The scope of the review was fiscal year 2021.

This report presents the results of IA's review.

<b>SUMMARY OF RESULTS</b>
---------------------------

IA found evidence of efforts to implement the previous audit's recommendations and tighten controls resulting in the observations being resolved. The results are as follows:

- Inadequate Control Measures
  - CDI does not have adequate control measures in place to protect its unique inventory. As a result, CDI is exposed to the risk of misappropriation.
    - **IA's Conclusion: Resolved**
- Deficient Exit Process
  - The UNCSCA exit procedures for separating employees are inadequate. As a result, a lack of structure and uniformity exists in the exit process which increases the risks of not recovering university property in the custody of a departing employee.
    - **IA's Conclusion: Resolved**
- Inadequate Contract Management
  - The UNCSCA and CDI management confirmed they did not report missing equipment as required by the Research Agreement between CDI and Microsoft, specifically the Microsoft HoloLens. Additionally, management was not aware of the provision in the agreement requiring the reporting of lost or stolen Microsoft HoloLenses. Failure to follow contract guidelines could increase the risk of legal liability for CDI and the UNCSCA.
    - **IA's Conclusion: Resolved**
- Failure to Comply with Employment Disclosure Policies
  - There was no evidence to substantiate the Director's disclosure of ownership interest in a company where she conducted activities related to her areas of research at the university. This represents noncompliance with governing policies.
    - **IA's Conclusion: Resolved**

All identified observations from the review have been resolved and no further follow-up procedures are required. We encourage management and senior leadership to remain vigilant and bring to our attention any other matters you believe may pose risks so that we may help you identify and implement solutions.

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

### **I. PURPOSE**

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

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

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

### **II. AUTHORITY**

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

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

### **III. COMPOSITION**

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

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

#### **IV. MEETINGS**

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

#### **V. RESPONSIBILITIES**

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

##### **Financial Statements**

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

##### **Internal Control**

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

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

#### **Internal Audit**

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

#### **External Audit**

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

#### **Compliance**

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

#### **Risk Management**

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

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

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

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

#### **Reporting**

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

#### **Complaints and Ethics**

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

#### **Other Responsibilities**

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

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

Adopted: This the 9th day of February 2018



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



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