

Audit Committee
The University of North Carolina School of the Arts

Thursday, September 24, 2015
9:30 – 10:30 a.m.

301 Hanes Student Commons

OPEN SESSION AGENDA

Audit Committee

*Stephen Berlin, Chair

*Charlie Lucas

*GOV Appointee

Rob King, ex officio

Shannon Henry, Internal Auditor

Amanda Balwah, Staff

Faculty Representative

Staff Representative

*Denotes voting members

- I. Call to order and Confirm Quorum
- II. Approval of April 21, 2015 Minutes
- III. Discussion of External Audits & Reviews
- IV. 2014-2015 Internal Audit Plan Activity Update & Completion (*summary*)
- V. Approval of the 2015-2016 Risk Assessment and Internal Audit Plan
- VI. Other Business
- VII. Closed Session
- VIII. Adjourn



**Audit Committee
The University of North Carolina School of the Arts**

Tuesday, April 21, 2015
4:00-5:00 p.m.
Flow Automotive Offices

OPEN SESSION MINUTES

Audit Committee Members Present

*Don Flow, Chair
*Steve Berlin
*Charlie Lucas (phone)

Members Absent

Rob King, Ex-officio

Staff

Shannon Henry, Chief Audit Officer
Amanda Balwah, University Secretary
Dennis Booth, Faculty Council
Representative
Patsy Seiler, Staff Council Representative
Carrie Johnston, General Counsel (phone)
Javon Lee, Internal Auditor
Stacey Sneed, Internal Auditor
Lisa McClinton, Controller

*Denotes voting members

Convene Meeting and Confirm Quorum

Committee Chair Don Flow convened the Open Session of the University of North Carolina School of the Arts Audit Committee at 4:14 p.m. on April 21, 2015. A quorum was confirmed.

Approval of Minutes

Motion: Steve Berlin moved to approve the February 10, 2015 Open Session Minutes. Charlie Lucas seconded and the motion was unanimously approved.

Discussion of External Audits and Reviews

The Committee reviewed the final report from the Office of the State Auditor's 2014 Federal Compliance Audit concerning Student Financial Aid. UNCSA received a clean audit.

The Committee also reviewed the results of the UNC-FIT monitoring visit which ensures compliance with business process standards and identifies potential improvements. Four areas were reviewed: general accounting, financial aid, student accounts and capital assets. UNCSA demonstrated compliance with business process standards in General Accounting, Financial Aid and Capital Assets. The report provided observations and recommendations for Student Accounts that, according to University staff, have been resolved since the visit.

Internal Audit Operations

The Cash Count and Receipting Audit found that deficiencies identified in previous years concerning the Cashier's Office & Bookstore have been resolved. Previous issues identified regarding University-wide internal controls over cash receipting have been partially resolved. Internal Audit will conduct a post-follow-up review to ensure previous recommendations have been implemented.

The audit identified new issues in the Community Music School's and the School of Design and Production's receipting processes. University management has responded positively and is in the process of resolving the noted concerns.

The IT Operational review is underway. The purpose is to evaluate the effectiveness of IT's management across key applications and systems.

A review and follow-up of previously reported issues concerning Housekeeping has commenced. The purpose of this review is to determine if management has implemented or sustained corrective actions regarding the previous recommendations.

Currently, UNCSA's percentage of resolved Internal Audit findings is 88%. Chairman Flow stated that he would like to see UNCSA achieve 100%, but noted UNCSA's tremendous efforts that exceed Internal Audit's target rate of 70%.

Motion to Move to Closed Session

Motion: Steve Berlin moved that the Committee go into Closed Session to prevent the disclosure of privileged information under N.C.G.S. 143-318.11(a)(1), the Internal Auditor's work papers. Charlie Lucas seconded and the motion was unanimously approved.

Report from Closed Session

Chair Flow reported that the committee approved the closed session minutes from the February 2015 meeting.

Adjournment

With no further business to discuss, Chair Flow adjourned the meeting at 5:03 p.m.

Submitted by:
Amanda Balwah
Assistant Secretary to the Board of Trustees

Sent via e-mail

June 4, 2015

Chancellor Lindsay Bierman
University of North Carolina School of the Arts
1533 South Main Street
Winston-Salem, NC 27127-2738

Dear Chancellor Bierman:

This letter is to inform you of an upcoming review of your management of financial aid programs administered by the North Carolina State Education Assistance Authority (NCSEAA). The programs scheduled for review are identified in Appendix A. The purpose of this review is to ensure that your institution is in compliance with the relevant statutes, rules, and policies related to the administration of these programs.

A desk program review is scheduled for June 22, 2015. The NCSEAA will examine individual student records selected from a random sample. The review period is for the 2013-2014 academic year. Your designee will receive a list of student records that have been selected for review using the NCSEAA school portal process described in Appendix B. Please ensure that the persons responsible for each of the programs are aware of the review and available to answer questions via email or phone.

To expedite the review process, we request that you provide us with information in advance of the desk program review date. Appendix B lists the materials we need prior to the review by June 19, 2015.

An entrance interview is scheduled for June 22, 2015 via conference call with you or your designees to explain the scope and purpose of the program review. At the conclusion of the program review, we will discuss findings, observations, and recommendations. You will receive a draft written report from NCSEAA within 30 days of the exit conference. You will be invited to provide a written response to the draft report within 30 days of its issuance. After reviewing your response we will issue the final report.



www.NCSEAA.edu 919-549-8614 • Fax 919-549-8481

10 TW Alexander Drive • Research Triangle Park, NC 27709 • Mailing Address P.O. Box 14103 • Research Triangle Park, NC 27709-4103
The University of North Carolina provides the secretariat for the Authority

We appreciate your assistance in the program review process. If you have questions regarding the desk review process, please contact me via telephone at 919-248-4637 or email at csauls@ncseaa.edu. Thank you in advance for your cooperation.

Sincerely,



Cheryl Sauls
Program Review Manager

Enclosures

cc: Jane Kamiab, Director of Student Financial Aid, UNC School of the Arts
Shannon Henry, Chief Audit Officer & Executive Director of Institutional Compliance, WSSU
Tom Ross, President, UNC-GA
Lynne Sanders, Vice President for Compliance and Audit Services, UNC-GA
Autumn Carpenter, Director of Financial Aid Operations and Technology, UNC-GA
Elizabeth McDuffie, Executive Director, NCSEAA
William Cox, Senior Associate Director, Grants, Training and Outreach, NCSEAA
Iona Duckworth, Director, Administrative Services and Quality Control, NCSEAA
Larna Griffin, Deputy Director, Administrative Services and Quality Control, NCSEAA
Chanteé Favors, Program Review Manager, NCSEAA
Miriam Perry, Program Review Manager, NCSEAA

APPENDIX A
LIST OF PROGRAMS BY CATEGORY SCHEDULED FOR REVIEW
Academic Year
2013-2014

State Scholarship and Grant Programs:

- Education Lottery Scholarship Program (ELS)
- UNC Campus Scholarships
- UNC Need-Based Grant

APPENDIX B Preparation for Desk Program Review

We request your assistance in expediting the review process by sending the following materials as they are available to our office no later than June 19, 2015.

Please upload these documents onto the SEAA School Portal. To log-in to the SEAA School Portal, you will use the CFI Grant System Menu. Here is the link to bookmark: (<https://www.cfnc.org/extranet/Gateway?command=AdminGateway&title=faa>).

1. Contact information for the staff person responsible for administering each of the programs identified in Appendix A.
2. Cost of Attendance information for the program review scope period(s).
3. Copies of any audits and/or program reviews for any of the programs listed on Appendix A that were completed within the last two State fiscal years.
4. An Organizational Chart of the Financial Aid Division.
5. A copy of your Satisfactory Academic Policy.
6. A copy of your approved UNC Campus Scholarship guidelines.
7. A copy of your Forgivable Education Loan for Service Program Participation Agreement, if applicable.
8. A list of all students who received a UNC Campus Scholarship for the above-referenced academic year. Include the student's first and last name, Banner ID, the amount of the scholarship for each semester, and the total amount awarded.
9. The complete file for each student record selected for review with all information pertinent to the grant, scholarship and/or loan including but not limited to the academic transcript, application, award letter, student's account record, enrollment, financial need, ISIR, documentation of residency, and notices of change of address.

Special Notation regarding Information Security and Privacy: Records containing personal identifying information must be submitted through the file repository on the SEAA School Portal. Please let us know if you need assistance with this process.

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

Financial Statements
Years Ended June 30, 2015 and 2014



SMITH LEONARD
Accountants & Consultants



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

Financial Statements
Years Ended June 30, 2015 and 2014

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

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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 financial statements of University of North Carolina School of the Arts Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of North Carolina School of the Arts Foundation, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Smith Leonard PLLC

High Point, North Carolina
August 31, 2015

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

Statements of Financial Position June 30, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 7,136,509	\$ 4,436,613
Investments	33,532,301	28,532,833
Annuity investments	457,102	539,682
Prepaid expenses and other current assets	38,809	37,492
Pledges receivable, net	1,175,071	3,169,332
Beneficial interest in perpetual trusts	819,513	806,012
Property and equipment	72,525	67,489
Other long-term assets	97,896	144,245
Total assets	\$ 43,329,726	\$ 37,733,698
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 218,790	\$ 189,920
Agency funds payable	778,659	425,276
Annuity obligations	129,196	167,919
Total liabilities	1,126,645	783,115
Commitments and contingencies		
Net assets		
Unrestricted:		
Unappropriated	464,808	413,849
Board appropriated	101,676	96,675
Temporarily restricted	11,781,428	8,138,594
Permanently restricted	29,855,169	28,301,465
Total net assets	42,203,081	36,950,583
Total liabilities and net assets	\$ 43,329,726	\$ 37,733,698

See accompanying notes to financial statements.

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

Statement of Activities Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Gifts and grants	\$ 543,253	\$ 3,251,362	\$ 1,543,522	\$ 5,338,137
Interest and dividend income	553	3,001	-	3,554
Change in fair value of:				
Annuity investments	-	-	(32,068)	(32,068)
Perpetual trusts	-	-	13,501	13,501
Annuity obligations	-	-	(7,060)	(7,060)
Other long-term assets	-	-	(46,349)	(46,349)
Net gain (loss) on other investments reported at fair value	(11,431)	2,871,188	82,158	2,941,915
Other income	30,758	239,459	-	270,217
Net assets released from restrictions	2,722,176	(2,722,176)	-	-
Total revenue and support	3,285,309	3,642,834	1,553,704	8,481,847
Expenditures				
Program services:				
School programs	1,317,767	-	-	1,317,767
Scholarships and awards	1,001,649	-	-	1,001,649
Total program services	2,319,416	-	-	2,319,416
Supporting services:				
Development costs	418,185	-	-	418,185
Administrative costs	328,600	-	-	328,600
Investment management fees	163,148	-	-	163,148
Total supporting services	909,933	-	-	909,933
Total expenditures	3,229,349	-	-	3,229,349
Change in net assets	55,960	3,642,834	1,553,704	5,252,498
Net assets, beginning of year	510,524	8,138,594	28,301,465	36,950,583
Net assets, end of year	\$ 566,484	\$ 11,781,428	\$ 29,855,169	\$ 42,203,081

See accompanying notes to financial statements.

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

Statement of Activities Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Gifts and grants	\$ 491,674	\$ 2,034,492	\$ 2,753,734	\$ 5,279,900
Interest and dividend income	517	2,243	-	2,760
Change in fair value of:				
Annuity investments	-	-	55,701	55,701
Perpetual trusts	-	-	51,624	51,624
Annuity obligations	-	-	(11,232)	(11,232)
Net gain on other investments reported at fair value	44,330	3,283,015	325,506	3,652,851
Other income	73,178	201,611	-	274,789
Net assets released from restrictions	2,253,300	(2,253,300)	-	-
Total revenue and support	2,862,999	3,268,061	3,175,333	9,306,393
Expenditures				
Program services:				
School programs	1,119,819	-	-	1,119,819
Scholarships and awards	826,227	-	-	826,227
Total program services	1,946,046	-	-	1,946,046
Supporting services:				
Development costs	391,022	-	-	391,022
Administrative costs	302,300	-	-	302,300
Investment management fees	126,426	-	-	126,426
Total supporting services	819,748	-	-	819,748
Total expenditures	2,765,794	-	-	2,765,794
Change in net assets before reclassification and transfers	97,205	3,268,061	3,175,333	6,540,599
Reclassification to agency funds	-	(533,479)	-	(533,479)
Other reclassifications	98,024	-	(98,024)	-
Transfer of property to UNC School of the Arts	(20,000)	(28,313)	-	(48,313)
Change in net assets	175,229	2,706,269	3,077,309	5,958,807
Net assets, beginning of year	335,295	5,432,325	25,224,156	30,991,776
Net assets, end of year	\$ 510,524	\$ 8,138,594	\$ 28,301,465	\$ 36,950,583

See accompanying notes to financial statements.

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

Statements of Cash Flows Years Ended June 30, 2015 and 2014

	2015	2014
Operating activities		
Change in net assets	\$ 5,252,498	\$ 5,958,807
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,464	1,012
Reclassification to agency funds	-	533,479
Transfer to UNCSA	-	20,000
Contribution of musical instrument	(7,500)	(8,500)
Write-off of pledges	55,941	4,175
Net gain on investments reported at fair value	(2,909,847)	(3,708,552)
Changes in fair value of:		
Perpetual trusts	(13,501)	(51,624)
Annuity obligations	7,060	11,232
Other long-term assets	46,349	-
Other assets	4,730	10,550
Change in operating assets and liabilities:		
(Increase) decrease in:		
Prepaid expenses and other current assets	(1,317)	6,839
Pledges receivable, net	1,938,320	1,294,388
Increase (decrease) in:		
Agency funds payable	353,383	(108,203)
Accounts payable and accrued expenses	28,870	52,120
Net cash provided by operating activities	4,757,450	4,015,723
Investing activities		
Purchases of investments, net	(2,057,554)	(2,860,732)
Change in cash and cash equivalents	2,699,896	1,154,991
Cash and cash equivalents, beginning of year	4,436,613	3,281,622
Cash and cash equivalents, end of year	\$ 7,136,509	\$ 4,436,613

See accompanying notes to financial statements.

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

Notes to Financial Statements

1. Organization

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 University of North Carolina School of the Arts (the "School"). The Foundation is a component unit of the School and is discretely presented in the financial statements of the School.

2. Summary of Significant Accounting Policies

Basis of Presentation – 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:

- Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time.
- Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all of or part of the income (which includes realized and unrealized gains on investments) earned on related investments for general or specified purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions (i.e., the donor-imposed stipulation has been fulfilled and/or the stipulation time period has elapsed) are reported as net assets released from restrictions on the statement of activities.

Gains and losses on perpetual trusts held by others are reported as increases or decreases in permanently restricted net assets.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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 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 Financial Statements

2. Summary of
Significant
Accounting Policies
(Continued)

Contributions – The Foundation recognizes contributions, including unconditional promises to give, as revenue in the period received. 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 rate which could have been obtained at the date of the gift, adjusted based on an analysis of market data for comparable assets. 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. Three donors accounted for 87% and 85% of gross pledges receivable at June 30, 2015 and 2014. Two donors accounted for 31% of gifts and grants in 2015 which are included in permanently and temporarily restricted. One donor accounted for 22% of gifts and grants in 2014 which are included in permanently restricted.

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 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.

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 five and 10-year periods. Investments held in alternative structures are recorded at fair value based on estimates provided by UNCIF. Interest and dividend income is recorded when earned.

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

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Endowments – The Executive Committee of 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 permanently restricted net assets (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 donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. However, when losses result in the market value of a donor-restricted endowment fund declining below the fair value of the original gift, the difference between market and the gift's original fair value is reflected within unrestricted net assets or deficit. 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 that 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.

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

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Spending Policy – For fiscal 2015 and 2014, the spending rate approved by the Board of Directors was 5% (including 0.8% for the Foundation's administrative charge) of each endowment fund's average fair value for the prior three years. In the event that the average fair value for the prior three years was less than the original gift amount, the Foundation limited the appropriation to a lesser amount as defined in the policy document.

The Board of Directors revised the spending policy for fiscal 2016 and subsequent years. The spending rate approved by the Board for fiscal 2016 is 4.5% of the estimated average investment value for the previous three years. Subsequent distributions will be adjusted by the change in the all urban consumer price index.

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.

Statement of Cash Flows – The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Concentrations of Credit Risk – The Foundation maintains cash balances with various banks, the amounts of which may at times exceed federally insured limits. Risks associated with cash balances are mitigated by banking with credit worthy institutions.

The Foundation has significant investments which are also subject to concentrations of credit risk. Investments are made by investment managers engaged by the Foundation and are monitored by the Finance Committee. 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.

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

Notes to Financial Statements

2. Summary of
Significant
Accounting Policies
(Concluded)

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 permanently restricted.

Property and Equipment – The Foundation capitalizes property and equipment over \$5,000. Lesser amounts are expensed. Property and instruments are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. Depreciation is computed using the straight-line method over the following useful life:

	<u>Years</u>
Musical instruments	7

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 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 financial statements. Any changes in the amount of a tax position will be recognized in the period the change occurs. No material uncertain tax positions were identified for 2015 and 2014. Currently, the statute of limitations remains open subsequent to and including fiscal year 2012; however, no examinations are in process.

Subsequent Events – Management has evaluated events occurring subsequent to the balance sheet date through August 31, 2015, the date that the financial statements were available to be issued, determining no events require adjustment to or additional disclosure in the financial statements.

3. Fair Value of
Financial Instruments

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

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

Notes to Financial Statements

3. Fair Value of Financial Instruments (Continued)

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.

The following are the assets and liabilities measured at fair value as of June 30, 2015.

	Level 1	Level 2	Level 3	Total
Assets:				
UNC Investment Fund II, LLC	\$ -	\$ -	\$ 33,532,301	\$ 33,532,301
Mutual funds	457,102	-	-	457,102
Total assets at fair value	\$ 457,102	\$ -	\$ 33,532,301	\$ 33,989,403
Liabilities:				
Annuity obligations	\$ -	\$ -	\$ 129,196	\$ 129,196

The following are the assets and liabilities measured at fair value as of June 30, 2014.

	Level 1	Level 2	Level 3	Total
Assets:				
UNC Investment Fund II, LLC	\$ -	\$ -	\$ 28,532,833	\$ 28,532,833
Mutual funds	539,682	-	-	539,682
Total assets at fair value	\$ 539,682	\$ -	\$ 28,532,833	\$ 29,072,515
Liabilities:				
Annuity obligations	\$ -	\$ -	\$ 167,919	\$ 167,919

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

<i>June 30,</i>	2015	2014
Balance, beginning of year	\$ 28,532,833	\$ 22,019,250
Realized/unrealized gain, net	2,941,915	3,652,851
Investment management fees	(163,148)	(126,426)
Transfer in	3,862,028	3,574,197
Transfer out	(1,641,327)	(587,039)
Balance, end of year	\$ 33,532,301	\$ 28,532,833

Realized and unrealized gains and losses are included in net gains or loss on investments reported at fair value on the statements of activities.

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

Notes to Financial Statements

3. **Fair Value of Financial Instruments (Concluded)** The following table summarizes changes in fair value of the Foundation's Level 3 liabilities for the year.

<i>June 30.</i>	2015	2014
Balance, beginning of year	\$ 167,919	\$ 205,630
Payments to annuitants	(45,784)	(48,943)
Amortization	7,061	11,232
Balance, end of year	\$ 129,196	\$ 167,919

4. **Pledges Receivable, Net** Pledges receivable, net, consist of the following:

<i>June 30.</i>	2015	2014
Due within one year	\$ 332,411	\$ 2,523,600
Due in one to five years	195,069	200,939
Due in more than five years	970,000	941,100
Total unconditional pledges	1,497,480	3,665,639
Less:		
Allowance for uncollectible pledges	(59,899)	(146,626)
Discount to present value – 4.5%	(262,510)	(349,681)
	\$ 1,175,071	\$ 3,169,332

5. **Property and Equipment** Property and equipment consist of the following:

<i>June 30.</i>	2015	2014
Land	\$ 60,000	\$ 60,000
Buildings	1	1
Musical instruments	16,000	8,500
	76,001	68,501
Less: accumulated depreciation	(3,476)	(1,012)
Land and musical instruments	\$ 72,525	\$ 67,489

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

Notes to Financial Statements

6. Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

<i>June 30.</i>	2015	2014
School programs	\$ 4,744,914	\$ 3,088,888
Unallocated gains on donor-restricted endowments	7,036,514	5,049,706
	\$ 11,781,428	\$ 8,138,594

Permanently restricted net assets consist of the following:

<i>June 30.</i>	2015	2014
Permanent endowment funds	\$ 28,609,854	\$ 26,979,445
Annuity and other split-interest agreements	425,802	516,008
Interests in perpetual trusts held by others	819,513	806,012
	\$ 29,855,169	\$ 28,301,465

7. Endowment Net Assets

Changes in endowment net assets during the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning of year	\$ (17,207)	\$ 5,049,706	\$ 26,979,445	\$ 32,011,944
Contributions and other income	-	-	1,543,522	1,543,522
Realized and unrealized gains (losses), net	(11,431)	2,871,188	82,158	2,941,915
Investment management fees	(163,148)	-	-	(163,148)
Amounts appropriated for expenditure, reclassifications and transfers	184,137	(884,380)	4,729	(695,514)
Endowment net assets (deficit), end of year	\$ (7,649)	\$ 7,036,514	\$ 28,609,854	\$ 35,638,719

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

Notes to Financial Statements

7. **Endowment Net Assets (Concluded)** Changes in endowment net assets during the year ended June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning of year	\$ (111,662)	\$ 2,437,614	\$ 23,987,679	\$ 26,313,631
Contributions and other income	-	-	2,753,734	2,753,734
Realized and unrealized gains, net	44,330	3,283,015	325,506	3,652,851
Investment management fees	(126,426)	-	-	(126,426)
Reclassification to agency funds	-	(533,479)	-	(533,479)
Amounts appropriated for expenditure, reclassifications and transfers	176,551	(137,444)	(87,474)	(48,367)
Endowment net assets (deficit), end of year	\$ (17,207)	\$ 5,049,706	\$ 26,979,445	\$ 32,011,944

8. **Agency Funds** Beginning in fiscal year 2013, grants from the Kenan Fund for the Arts (the "Fund") for the benefit of the Thomas S. Kenan Institute for the Arts at the University of North Carolina School of the Arts (a component of the School) (the "Institute") were generally restricted for the purposes of the Institute, but were subject to the Foundation's spending policies and oversight by the Foundation's Board of Directors. Accordingly, they were recognized within gifts and grants.

During fiscal year 2014, the School, the Fund and the Foundation agreed to an arrangement whereby the Fund approves how those grants are spent under the oversight of the Board of Trustees of the School. Management concluded that the 2014 arrangement makes the Foundation a "pass-through" for those grants. Accordingly, in 2014, the related net assets were transferred from Net Assets to Agency Funds Payable. The related assets are included in cash and cash equivalents.

9. **Related Party Transactions** Reimbursements to the School for school employees assigned to the Foundation amounted to approximately \$99,000 and \$93,000 in 2015 and 2014. The School also provides the Foundation various services, including office space and technology services at no charge.

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

Notes to Financial Statements

10. **Commitments and Contingencies** **Retirement Plan** – The Foundation contributes a percentage of its employee’s salary for a retirement account. Contributions amounted to \$5,319 and \$5,114 in 2015 and 2014.

Environmental Exposure – During 1995, a property valued at \$241,000 was donated to the Foundation. The gift document provides that the Foundation indemnify the donor for any claims related to contamination of the property. The property contained areas of contaminated soil and heavy metal contamination in the building. During 2005, soil remediation was done and management believes that the remaining exposure in this area is minimal. However, the heavy metal contamination has not been remediated. Management’s estimates for remediating the building are between \$200,000 and \$950,000, depending on factors such as whether the building will be demolished or cleaned for re-use.

The Foundation does not intend to use its resources to remediate and there is no lawsuit or administrative action against the Foundation related to this matter. Accordingly, the Foundation has not recorded a liability for remediation costs and carries the property on its statements of financial position at \$1.

11. **Recent Accounting Pronouncements** During fiscal 2015, the Foundation adopted Accounting Standards Update (“ASU”) No. 2013-06, Not-for-Profit Entities (Topic 958), *Services Received from Personnel of an Affiliate*. Accordingly, in fiscal 2015, the Foundation recorded expense for \$5,491 for services provided by employees of the University and also other income for the same amount. Previously reported 2014 amounts were adjusted for an additional \$4,062 in expense, with additional other income for the same amount. The adoption of this update did not impact current year or previously reported net assets or changes in net assets.

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides guidance on the recognition of revenue. The ASU is effective for periods beginning after December 15, 2018, with no early application permitted. Management is currently assessing the impact this guidance may have on the Foundation’s future financial statements.