

University of North Carolina School of the Arts
SAAB 306

COMMITTEE MEMBERS:

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

COMMITTEE STAFF:

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

AGENDA

OPEN SESSION

1. Call to Order and Confirm Quorum.....Chairman Wigodsky
2. Approval of Minutes from the May Meeting.....Chairman Wigodsky
3. ARCC Charter Annual Review.....Rod Isom
4. Matters of Governance, Risk and ComplianceRod Isom
& UNCSA Management
 - a) Enterprise Risk Management.....Jim DeCristo
 - b) Information Governance & Security.....Tamar Pandi,
Chief Information Officer
 - c) Title IX Update.....Valerie Thelen,
Chief Compliance Officer and Director of Title IX
5. Discussion of External Audits and Reviews (if any).....Rod Isom &
UNCSA Management
 - a) Financial Statement Audits.....Wendy Emerson, Vice
Chancellor for Finance & Administration
6. Discussion of Internal Audit's Activity.....Rod Isom &
Internal Audit Staff

- a) Summary of Operations & Audit Activity for Fiscal Year 2024
- b) Recent Reports and Other Communications
- c) Audit Plan & Risk Assessment Update for FY25**
- d) Other Activities and Matters

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

** *Action Item*

CLOSED SESSION

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

OPEN SESSION

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

OPEN SESSION MINUTES

May 3, 2024

University of North Carolina School of the Arts
ZOOM Virtual Meeting

TRUSTEES PRESENT

***Denotes voting committee members**

John Wigodsky (Chair)*, Jonah Bokaer, Graydon Pleasants*, David Neill*, Peter Juran* (ex officio)

TRUSTEES ABSENT

Ches McDowell*

ADMINISTRATION AND STAFF PRESENT

Rod Isom (Chief Audit Officer); David Harrison (Vice Chancellor for Institutional Integrity and General Counsel); Jim DeCristo (Vice Chancellor for Economic Development and Chief of Staff); Tamar Pandi (Chief Information Officer); Cory Billings (Audit Manager); Amanda Balwah (AVC and Secretary of the University); Liza Vest (Staff Council Representative); Melanie Nuckols (AVC for Finance)

CONVENE OPEN SESSION AND CONFIRM QUORUM

Committee Chair John Wigodsky convened the May 3, 2024 meeting of the University of North Carolina School of the Arts Audit, Risk, and Compliance Committee at 8:47 a.m. A quorum was confirmed.

APPROVAL OF MINUTES

MOTION: Peter Juran moved to approve the March 2024 Open Session Minutes as presented. David Neill seconded and the minutes were unanimously approved.

ENTERPRISE RISK MANAGEMENT (ERM)

Jim DeCristo, Vice Chancellor and Chief of Staff provided an update on Enterprise Risk Management. Every two to three years, the UNC System Office requests that all campuses update their list of top risk priorities and submit them with Trustee approval by June. The top five ERM risks as determined by UNCOSA's ERM Steering Committee were presented for committee approval. The proposed risk priorities for 2024-2026 are:

- Scholarships

- Employee Compensation
- Performance Funding
- Student Health and Wellness
- Cyber Security

MOTION: Peter Juran moved to approve UNCOSA's proposed risk priorities for 2024-2026 as presented. Graydon Pleasants seconded and the motion was unanimously approved.

DISCUSSION OF EXTERNAL AUDITS AND REVIEWS

Melanie Nukols, Associate Vice Chancellor for Finance, provided an update on external audits. A FY23 Federal Compliance Audit was conducted by the Office of the State Auditor. The results of the audit disclosed no instances of noncompliance.

DISCUSSION OF INTERNAL AUDIT (IA) ACTIVITY

Rod Isom, Chief Audit Officer, and Cory Billings, Audit Manager, provided an update on Internal Audit activity.

Four projects from the current audit plan are in progress and on track. Two additional projects were added this year and outstanding observations will become priorities for the next fiscal year.

Mr. Isom informed the committee that May is Internal Audit Awareness Month. He also reported that the Internal Audit Risk Assessment took place over the last couple of months. The Risk Assessment is used to develop the Audit Plan. The assessment and plan for FY25 were shared with the committee.

MOTION: Peter Juran moved to approve the proposed Internal Audit Plan for FY25 as presented. David Neill seconded and the motion was unanimously approved.

MOTION TO GO INTO CLOSED SESSION

MOTION: Peter Juran moved that the committee go into closed session to prevent the disclosure of information that is privileged or confidential pursuant to Section 116-40.7 of the North Carolina General Statutes, regarding Internal Auditor's work papers. David Neill seconded and the motion was unanimously approved.

RETURN TO OPEN SESSION

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

ADJOURNMENT

With no further business to discuss, Chair Juran adjourned the meeting at 9:01 a.m.

Respectfully submitted by:
Amanda Balwah
Secretary of the University

AGENDA ITEM

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

Summary*:

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

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

Throughout the year, updates are provided by other offices as it relates to key compliance matters. The Charter is reviewed on an annual basis. As part of the annual review requirement for fiscal year 25, no changes are needed at this time.

Please note with the release of new audit standards, the Charter may require additional review and edits in December.

Action: This item is for informational purposes only.

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

I. PURPOSE

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

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

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

II. AUTHORITY

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

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

III. COMPOSITION

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

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

IV. MEETINGS

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

V. RESPONSIBILITIES

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

Financial Statements

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

Internal Control

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

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

Internal Audit

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

External Audit

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

Compliance

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

Risk Management

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

Information Governance and Security

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

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

Reporting

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

Complaints and Ethics

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

Other Responsibilities

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

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

Adopted: This the 9th day of February 2018



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



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

AGENDA ITEM

UNC System Office and All UNC Institutions Risk Summaries presented by Jim DeCristo

Summary: We will review the recently compiled top ERM risks for the UNC System Office and for all UNC institutions and compare / contrast with UNCSEA top risks.

Action: This item is for informational purposes only.

UNIVERSITY OF NORTH CAROLINA
SCHOOL OF THE ARTS

Enterprise Risk Management (ERM)
Risk Priorities for 2024-2026

Performance Funding and Enrollment

In a no growth or slow growth environment, failure to perform at a high level as defined by our performance metrics could decrease our state appropriation or at least prevent us from generating new funds to support programming and address inflation.

Scholarships

Scholarship and financial aid packages offered by UNCSEA may not be sufficiently competitive to attract top student talent making it increasingly difficult to maintain the School's national reputation.

Employee Compensation

Compensation packages offered by UNCSEA may make it increasingly difficult to attract and retain the nationally known, top-tier faculty and staff needed to maintain the School's national reputation.

Student Health and Wellness

The rigorous workload, external cultural upheaval, mental health trends, and economic uncertainty experienced by students may have a significant negative effect on their success at UNCSEA. UNCSEA may have difficulty achieving the right balance of rigor necessary to maintain a campus culture that promotes excellence, innovation, and well-being.

Cybersecurity

In the current environment of rapidly expanding and increasingly sophisticated cybersecurity threats, UNCSEA's efforts to secure our information and platforms may not be adequate to avoid potentially serious loss of data and systems availability. A serious breach would also result in a loss of trust and negatively affect UNCSEA's reputation.



**THE UNIVERSITY OF
NORTH CAROLINA SYSTEM**

2024 Risk Register

2024 UNC SYSTEM OFFICE RISK REGISTER

**Strategic Risk
affecting all goals**

TALENT MANAGEMENT

- Highly skilled, competitively compensated, flexible workforce with advancement opportunity
- Employee workload management that allows for timely response to new, high-demand, high-interest projects that align with the Board of Governor's Priorities
- Improved succession planning efforts to ensure continuity of operations, support expected turnover, and limit loss of productivity

**Operational Risk
affecting all goals**

CYBER SECURITY & IT INFRASTRUCTURE

Consistency across and within the system will allow for a more strategic and efficient approach to reducing this risk regarding the coordination of:

- Standard preparedness and pre-disaster training/vendor risk management
- Incident response and emergency operations
- Disaster recovery efforts

**Operational, Strategic and Legal, Regulatory
& Compliance Risk affecting all goals**

BUSINESS OPERATIONS

- Consistent documentation, communication, and implementation of System Office departmental policies and standard operating procedures
- Business Intelligence: Ensure efficient data analytics and coordinated data project management to inform policy and management decisions
- Maximize efficiency by reducing redundant or outdated applications across the system and System Office
- Focus on technology tools and solutions that promote efficiencies and support business operations users
- Thorough and deliberate document review and approval processes that mitigate the risks created by electronic approval systems which can lead to ineffective document review



2024 UNC SYSTEM CONSTITUENT INSTITUTION RISK REGISTER OVERVIEW

**Operational Risk
affecting all goals**

CYBER SECURITY

- Protect data and personal identifiable information
- Mitigate hacking/phishing/ransom-ware attacks/insider threats
- Maintain and enhance IT security and IT infrastructure (people, processes, technology)
- Ensure confidentiality, integrity, and availability of data and information systems

**Strategic Risk
affecting goals:**

**11. Employee
Experience**

**12. Faculty and
Staff retention**

TALENT MANAGEMENT

- Vacancies in critical positions with needs for quality personnel and competitive salary
- Faculty and staff wellness, stress, and burnout concerns as they relate to morale and effectiveness of the workforce
- Training and professional development opportunities to promote sustainability and less turnover
- State and System process for recruitment impedes ability to attract and retain a diverse pool of high performing employees quickly and competitively

**Strategic Risk
affecting all goals**

STUDENT RETENTION

- Low enrollment adversely impacting financial stability and reputation
- Improve graduation rates and decrease a loss of tuition revenue
- Innovate and evolve academic programs and degree completion with consideration of institution climate.
- Competition with online programs paired with decreased birth rates, lower high school graduation rates, and changing demographics



2024 UNC SYSTEM CONSTITUENT INSTITUTION RISK REGISTER OVERVIEW

Financial Risk affecting all goals

FINANCIAL

- Adapting to funding models and external factors such as policy changes, economic conditions, and tax revenue
- Lack of diversity in funding sources
- High levels of inflation further aggravate institutions' ability to attract a competitive and talent workforce
- Providing professional programs that satisfy market demands and align with University Strategic Plans

Operational Risk affecting all goals

PUBLIC SAFETY

Threats and hazards include but are not limited to:

- violent crimes and theft
- incidents with hazardous materials, fire safety and pedestrian safety
- impacts and recovery from severe weather events
- emerging student health concerns (particularly increasing concern around mental health issues)

Operational Risk & Health Risk affecting all goals

MENTAL HEALTH

- Resources and advocacy to address the volume and severity of increasingly prevalent wellbeing and mental health concerns adversely impacting student and employee success outcomes
- Ensure awareness and delivery of resources meets the needs of students and employees

2024 UNC SYSTEM CONSTITUENT INSTITUTION RISK REGISTER OVERVIEW

**Legal, Regulatory & Compliance Risk
affecting goal 7: University Productivity**

FACILITIES MANAGEMENT

- Need for renovations and improvements to meet accessibility needs of universities and constituents
- Impact of aging facilities on recruitment and retention
- Space and facilities needed to support academic and research growth

**Operational, Legal, Regulatory, & Compliance
Risk affecting goal 7: University Productivity**

REGULATORY COMPLIANCE

- Policies, procedures, and protocols for a variety of programs, departments, and operations across campus need development and updating
- Lack of compliance procedures could present a major threat to public health, safety, funding, and grant management

**Operational Risk affecting goal 7:
University Productivity**

BUSINESS CONTINUITY

- Current structure, core systems, and processes impacts the ability to effectively operate, manage, and support multiple locations and make informed decisions in a timely manner
- Maximize efficiencies through better institutional coordination for key university services
- Need for comprehensive data governance



QUESTIONS?

THANK YOU

AGENDA ITEM

Title IX Office Update.....presented by Valerie Thelen

Summary: We will discuss the new Title IX Policies, provide an overview of required annual training for students, faculty, and staff, and prevention programming and events planned for Fall 2024 semester.

The new Title IX Policies can be found [here](https://www.uncsa.edu/integrity/title-ix/): <https://www.uncsa.edu/integrity/title-ix/>

- [UNCSA Title IX Regulation \(Incidents after Aug. 1, 2024\) \(opens in new tab\)](#)
- [UNCSA Title IX Grievance Procedures \(Incidents after Aug. 1, 2024\)](#)

Action: This item is for informational purposes only.

AGENDA ITEM

Financial Statement Audits and Other Reviewspresented by Wendy Emerson

Summary: The NC Office of the State Auditor is conducting the University's financial statement audit for FY 2024. Bernard Robinson & Company, LLP is conducting the FY 2024 audits for the UNCSA Housing Corporation, UNCSA Program Support Corporation, and the Thomas S. Kenan Institute for the Arts Supporting Organization. The North Carolina State Education Assistance Authority (NCSEAA) completed a program review of the University's state funded student financial assistance programs for Academic Years 2021, 2022, and 2023. And Forvis, LLP conducted the Foundation's financial statement audit for FY 2024.

- The Internal Control work for the UNCSA Financial Statement Audit for Fiscal Year 2024 is complete. Auditors are expected to be onsite in mid-October for the field work. In past years, final audits have been received in December.
- The on-site field work related to the UNCSA Housing Corporation Financial Statement Audit for FY 2024 was recently completed. The results of the audit are expected in September.
- The on-site field work related to the UNCSA Program Support Corporation Financial Statement Audit for FY 2024 was recently completed. The results of the audit are expected in September.
- The on-site field work related to the Thomas S. Kenan Institute for the Arts Supporting Organization Financial Statement Audit for FY 2024 was recently completed. The results of the audit are expected in September.
- The North Carolina State Education Assistance Authority (NCSEAA) completed a program review of state funded student financial assistance programs for Academic Years 2021, 2022, and 2023. The results of the review did not disclose any findings or issues to report.
- The UNCSA Foundation Financial Statement Audit for 2024 was recently completed. The results of the audit were an unqualified opinion (clean audit), with no finding or issues to report.

Action: This item is for informational purposes only.

Sent via e-mail

July 25, 2024

Brian Cole
Chancellor
University of North Carolina School of the Arts
1533 South Main St.
Winston-Salem, NC. 27127-2738

Dear Chancellor Cole:

The North Carolina State Education Assistance Authority (NCSEAA) has completed a program review of the programs at **University of North Carolina School of the Arts**. The objective of the review was to ensure that State funds were spent in accordance with the purposes for which they were appropriated and the rules that govern their administration.

The program review scope was for the 2020-2021, 2021-2022, and 2022-2023 academic years. Please note that the scope of the program review is not all inclusive. Therefore, the absence of statements in this letter regarding specific policies and procedures followed by your institution should not be construed as acceptance, approval or endorsement of that policy or procedure and does not lessen your obligation to comply with all relevant statutory and regulatory requirements for each of the programs that you help to administer.

The results of the program review did not disclose instances of noncompliance with the statutes, rules or policies that are relevant for each program. Since no significant matters of concern were detected, we do not require a response from your institution.

We wish to express our appreciation to the staff of **University of North Carolina School of the Arts** for the courtesy, cooperation and assistance provided to us during the program review. If you have questions or need further assistance, please contact me via telephone at (919) 695-8749 or email at blee@ncseaa.edu.

Sincerely,



Brooke Lee
Program Review Manager

Program Review Final Determination Report – University of North Carolina School of the Arts

University of North Carolina School of the Arts

July 25, 2024

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Enclosures:

cc: Jane Kamiab, Director of Financial Aid, University of North Carolina School of the Arts
Michael Ptasienski, Chief Audit Officer, UNC System Office
Andrea Poole, Executive Director, NCSEAA
Elizabeth Rozakis, Chief Financial Officer and Chief Operating Officer, NCSEAA
Lori Newberry, Assistant Director of Program Review, NCSEAA
Wayne Johnson, Director, Division of Higher Education Department, NCSEAA
Kevin Lineberry, Deputy Director of Higher Education Programs, NCSEAA

Program Review Report

Final Determination

Prepared for: University of North Carolina School of the Arts

Review Period: Academic Year 2020-2021
Academic Year 2021-2022
Academic Year 2022-2023

Prepared by: Brooke Lee, Program Review Manager
North Carolina State Education Assistance Authority

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BACKGROUND

The North Carolina State Education Assistance Authority (NCSEAA) is the state agency charged with administering inter-institutional programs of student financial assistance, created by state and federal law, as well as private resources, designed to help North Carolinians meet the cost of higher education. One key responsibility of the Authority is to ensure that State funds are spent in accordance with the purposes for which they were appropriated and the rules that govern their administration.

SCOPE AND METHODOLOGY

The North Carolina State Education Assistance Authority conducted a program review that included, but was not limited to, the following areas:

- Eligibility
- Disbursements and refunds
- Records and reports
- Fiscal responsibility

The information used in this report was collected through the review of student records, reports and institutional policies and procedures to evaluate relevant institutional business processes; as well as, interviews with institutional staff members. The program reviewer randomly selected student record files for review. The personal identifying information of the sample students reviewed have been excluded from this report and replaced by identifying numbers.

This report documents the findings, if any, for each program reviewed. The details related to the findings and observations were shared with the appointed designee prior to the release of this report. Although the review was thorough, it is not necessarily all inclusive. Consequently, there may be matters of noncompliance that are not identified by this report. In areas of non-compliance, the NCSEAA will work with the institution to establish a corrective action plan that will strengthen the institution's capacity for compliance with program statutes and rules. The program review identifies and quantifies any institutional liabilities in which the institution must return the funds as appropriate.

NO FINDINGS OR OBSERVATIONS

Summary of Liabilities for Program Selections Reviewed

Name of Program	Liability
N/A	\$0.00
Total Liabilities:	\$0.00



Forvis Mazars Report to the Board of Directors

UNC School of the Arts Foundation, Inc.

Results of the 2024 Consolidated Financial Statement Audit, Including Required Communications

June 30, 2024

Required Communications Regarding Our Audit Strategy & Approach (AU-C 260)

The following matters are required communications we must make to you, including these responsibilities:

Overview & Responsibilities

Scope of Our Audit & Inherent Limitation to *Reasonable Assurance*

Your & Our Responsibilities

Extent of Our Communication & Distribution Restriction

Independence Matters

Matter	Discussion
Scope of Our Audit	<p>This report covers audit results related to your consolidated financial statements</p> <ul style="list-style-type: none"> • As of and for the year ended June 30, 2024 • Conducted in accordance with our contract dated May 3, 2024
Our Responsibilities	<p>Forvis Mazars is responsible for forming and expressing an opinion about whether the consolidated financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).</p>
Audit Scope & Inherent Limitations to Reasonable Assurance	<p>An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the consolidated financial statements. The scope of our audit tests was established in relation to the consolidated financial statements taken as a whole and did not include a detailed audit of all transactions.</p>
Extent of Our Communication	<p>In addition to areas of interest and noting prior communications made during other phases of the engagement, this report includes communications required in accordance with GAAS that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, including audit approach, results, and internal control. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.</p>
Independence	<p>The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.</p>

Matter	Discussion
Your Responsibilities	Our audit does not relieve management or those charged with governance of your responsibilities. Your responsibilities and ours are further referenced in our contract.
Distribution Restriction	<p>This communication is intended solely for the information and use of the following and is not intended to be, and should not be, used by anyone other than these specified parties:</p> <ul style="list-style-type: none"> • Board of Directors • Management

Qualitative Aspects of Significant Accounting Policies and Practices

The following matters are detailed in the following pages and included in our assessment:

**Significant Accounting
Policies**

**Unusual Policies or
Methods**

**Alternative Accounting
Treatments**

**Management Judgments
& Accounting Estimates**

**Financial Statement
Disclosures**

**Our Judgment About the
Quality of the Entity's
Accounting Principles**

Significant Accounting Policies

Significant accounting policies are described in Note 2 of the audited financial statements.

With respect to new accounting standards adopted during the year, we call to your attention the following topics detailed in the following pages:

- ASU 2016-13 *Current Expected Credit Losses*

Unusual Policies or Methods

With respect to significant unusual accounting policies or accounting methods used for significant unusual transactions (significant transactions outside the normal course of business or that otherwise appear to be unusual due to their timing, size, or nature):

- No matters are reportable

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within GAAP for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows.

- No matters are reportable

Management Judgments and Accounting Estimates

- No matters are reportable



Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Endowment funds in Note 2 describes the spending policy and investment strategy
- Endowment net asset in Note 9 which details the changes in net assets during the year

Our Judgment About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the Entity's application of accounting principles:

- No matters are reportable

Adjustments Identified by Audit

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the consolidated financial statements from being materially misstated.

A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

Proposed & Recorded Adjustments

Auditor-proposed and management-recorded entries include the following:

- No matters are reportable

Uncorrected Misstatements

Some adjustments proposed were **not recorded** because their effect is not currently considered material. We request that all identified misstatements be corrected.

Uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole are listed below OR included as an attachment to this communication.

While these uncorrected misstatements were deemed to be immaterial to the current-period financial statements, it is possible that the impact of these uncorrected misstatements, or matters underlying these uncorrected misstatements, could potentially cause future-period financial statements to be materially misstated.



Current Period Uncorrected Misstatements

- No current-period uncorrected misstatements to report

Prior-Period Uncorrected Misstatements

- No prior-period uncorrected misstatements to report

Other Required Communications

Disagreements with Management

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements:

- No matters are reportable

Consultation with Individuals Outside of the Engagement Team

During our audit, we encountered the following matters, for which we consulted the views of individuals outside of the engagement team:

- No matters are reportable

Consultation with Other Accountants

During our audit, we became aware that management had consulted with other accountants about the following auditing or accounting matters:

- No matters are reportable

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

- No matters are reportable



Identified Fraud

During the audit process, we identified the following fraud or obtained information that indicates that the following fraud may exist:

- No matters are reportable

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (see Attachments)

Required Communications Regarding Internal Control (AU-C 265)

Consideration of Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements of UNC School of the Arts Foundation, Inc., as of and for the year ended June 30, 2024, in accordance with GAAS, we considered the Entity's internal control over financial reporting (internal control).

This consideration served as a basis for designing audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statements.

However, this consideration was not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

This communication is intended solely for the information and use of the following and is not intended to be, and should not be, used by anyone other than these specified parties:

- The Board of Directors, Audit Committee, and Management

Categorizing Deficiencies by Severity

Deficiency

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.



Significant Deficiency

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatements of the Entity's financial statements will not be prevented or detected and corrected on a timely basis.





Identified Deficiencies

We did not identify any deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.



Attachments

Management Representation Letter (Attachment A)

As a material communication with management, included herein is a copy of the representation letter provided by management at the conclusion of our engagement.



Attachment A

Management Representation Letter

Representation of:
UNC School of the Arts Foundation, Inc.
1533 South Main Street
Winston-Salem, North Carolina 27127

Provided to:
Forvis Mazars, LLP
Certified Public Accountants
100 N. Main Street, Suite 2300
Winston-Salem, NC 27101

The undersigned (“We”) are providing this letter in connection with Forvis Mazars’ audits of our consolidated financial statements as of and for the years ended June 30, 2024 and 2023.

Our representations are current and effective as of the date of Forvis Mazars’ report: August 30, 2024.

Our engagement with Forvis Mazars is based on our contract for services dated: May 3, 2024.

Our Responsibility & Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the consolidated financial statements subject to Forvis Mazars’ report in conformity with accounting principles generally accepted in the United States of America.

We are also responsible for adopting sound accounting policies; establishing and maintaining effective internal control over financial reporting, operations, and compliance; and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

Confirmation of Matters Specific to the Subject Matter of Forvis Mazars’ Report

We confirm, to the best of our knowledge and belief, the following:

Broad Matters

1. We have fulfilled our responsibilities, as set out in the terms of our contract, for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation, and maintenance of:
 - a. Internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.
 - b. Internal control to prevent and detect fraud.
3. We have provided you with:

- a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the consolidated financial statements, such as financial records and related data, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of board members' meetings held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the board, if applicable, and maintained as part of our records.
 - e. All significant contracts.
4. We have responded fully and truthfully to all your inquiries.

Misappropriation, Misstatements, & Fraud

5. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
- a. Misappropriation of assets.
 - b. Misrepresented or misstated assets, liabilities, or net assets.
6. We have no knowledge of fraud or suspected fraud affecting the entity involving:
- a. Management or employees who have significant roles in internal control over financial reporting, or
 - b. Others when the fraud could have a material effect on the consolidated financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, customers, analysts, citizens, suppliers, or others.
8. We have assessed the risk that the consolidated financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.

Ongoing Operations

9. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.

Related Parties

10. We have disclosed to you the identity of all of the entity's related parties and all the related-party relationships of which we are aware.

In addition, we have disclosed to you all related-party transactions and amounts receivable from or payable to related parties of which we are aware, including any modifications during the year

that were made to related-party transaction agreements which existed prior to the beginning of the year under audit, as well as new related-party transaction agreements that were executed during the year under audit.

Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

11. We understand that the term related party refers to:

- Affiliates
- Entities for which investments are accounted for by the equity method
- Trusts for the benefits of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
- Principal owners and members of their immediate families
- Management and members of their immediate families
- Any other party with which the entity may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Another party is also a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the entity.

12. Related-party transactions asserted to or disclosed in the consolidated financial statements as arm's length were conducted on terms equivalent to those prevailing for comparable transactions with unrelated parties or, in the absence of comparable transactions, terms that would be offered in good faith to unrelated parties, and support regarding the assertion has been provided.

Litigation, Laws, Rulings & Regulations

13. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the consolidated financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

14. There are no regulatory examinations currently in progress for which we have not received examination reports.

Nonattest Services

15. You have provided nonattest services, including the following, during the period of this engagement:

- Preparing a draft of the consolidated financial statements and related notes
- All federal information return preparation

16. With respect to these services:

a. We have designated a qualified management-level individual to be responsible and

accountable for overseeing the nonattest services.

- b. We have established and monitored the performance of the nonattest services to ensure they meet our objectives.
- c. We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
- d. We have evaluated the adequacy of the services performed and any findings that resulted.
- e. We have established and maintained internal controls, including monitoring ongoing activities.
- f. When we receive final deliverables from you, we will store those deliverables in information systems controlled by us. We have taken responsibility for maintaining internal control over these deliverables.

Financial Statements & Reports

- 17. We have reviewed and approved a draft of the consolidated financial statements and related notes referred to above, which you prepared in connection with your audit of our consolidated financial statements. We acknowledge that we are responsible for the fair presentation of the consolidated financial statements and related notes.

Transactions, Records, & Adjustments

- 18. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.
- 19. The entity has appropriately reconciled its general ledger accounts to their related supporting information. All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the consolidated financial statements. All intracompany (and intercompany) accounts have been eliminated or appropriately measured and considered for disclosure in the consolidated financial statements.
- 20. We have everything we need to keep our books and records.
- 21. We have disclosed any significant unusual transactions the entity has entered into during the period, including the nature, terms, and business purpose of those transactions.
- 22. There are no uncorrected misstatements or omitted disclosures.

Nonprofit Accounting & Disclosure Matters

- 23. Adequate provisions and allowances have been accrued for any material losses from uncollectible pledges.
- 24. We have identified to you any activities conducted having both fund-raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.
- 25. We are an entity exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

- a. We further acknowledge the entity's exemption under Section 501(c) is subject to additional operating requirements under Section 501(r). As such, we made publicly available a community health needs assessment performed in accordance with IRS requirements, and the entity's Board of Trustees subsequently approved an implementation strategy to address needs identified in the assessment. The entity is also in compliance with certain requirements dealing with financial assistance, billing and collection practices, and limitations on charges for uninsured patients who meet our financial assistance requirements.

Accounting & Disclosure

26. All transactions entered into by the entity are final. We are not aware of any unrecorded transactions, side agreements or other arrangements (either written or oral) that are in place.
27. Except as reflected in the consolidated financial statements, there are no:
 - a. Plans or intentions that may materially affect carrying values or classifications of assets, liabilities, or net assets.
 - b. Material transactions omitted or improperly recorded in the financial records.
 - c. Material unasserted claims or assessments that are probable of assertion or other gain/loss contingencies requiring accrual or disclosure in accordance with Accounting Standards Codification (ASC) Topic 450, *Contingencies*, including those arising from environmental remediation obligations.
 - d. Events occurring subsequent to the balance sheet date through the date of this letter, which is the date the consolidated financial statements were available to be issued, requiring adjustment or disclosure in the consolidated financial statements.
 - e. Agreements to purchase assets previously sold.
 - f. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements.
 - g. Guarantees, whether written or oral, under which the entity is contingently liable.
 - h. Known or anticipated asset retirement obligations.
 - i. Supplier finance arrangements.
28. Except as disclosed in the consolidated financial statements, the entity has:
 - a. Satisfactory title to all recorded assets, and those assets are not subject to any liens, pledges, or other encumbrances.

Estimates

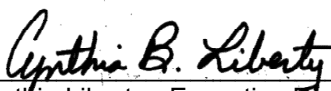
29. We have identified all accounting estimates that could be material to the consolidated financial statements and we confirm the appropriateness of the methods and the consistency in their application, the accuracy and completeness of data, and the reasonableness of significant assumptions used by us in making the accounting estimates, including those measured at fair value reported in the consolidated financial statements.

Fair Value

30. With respect to the fair value measurements of financial and nonfinancial assets and liabilities, if any, recognized in the consolidated financial statements or disclosed in the notes thereto:
- a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated course of action.
 - b. The measurement methods and significant assumptions used in determining fair value are appropriate in the circumstances for financial statement measurement and disclosure purposes and have been consistently applied.
 - c. The significant assumptions appropriately reflect market participant assumptions.
 - d. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - e. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the consolidated financial statements.

Topic 326, Financial Instruments—Credit Losses

31. In connection with the adoption of Topic 362, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, we represent that we have adopted the standard using a modified retrospective approach for all financial assets measured at amortized cost and assert that there was no material impact to the consolidated financial statements upon adoption of this standard.



Cynthia Liberty - Executive Director




Angela Tuttle - Assistant Controller



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

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2024 and 2023



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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

Opinion

We have audited the consolidated financial statements of University of North Carolina School of the Arts Foundation, Inc. (a nonprofit organization) and its subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2024 and 2023, 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 ("GAAP").

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

Forvis Mazars, LLP

**Winston-Salem, North Carolina
August 30, 2024**

University of North Carolina School of the Arts Foundation, Inc.
Consolidated Statements of Financial Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 17,124,622	\$ 15,879,570
Investments	88,908,481	80,155,390
Prepaid expenses and other current assets	103,631	51,210
Pledges receivable, net	5,331,265	2,939,225
Beneficial interest in perpetual trusts	338,231	313,075
Property	378,337	52,442
	<u>112,184,567</u>	<u>99,390,912</u>
Total assets	<u>\$ 112,184,567</u>	<u>\$ 99,390,912</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 147,368	\$ 55,564
Due to UNCOSA	35,510	33,469
	<u>182,878</u>	<u>89,033</u>
Total liabilities	<u>182,878</u>	<u>89,033</u>
Net Assets		
Without donor restrictions:		
Unappropriated	1,176,095	1,515,266
Board appropriated	149,945	287,487
With donor restrictions	<u>110,675,649</u>	<u>97,499,126</u>
Total net assets	<u>112,001,689</u>	<u>99,301,879</u>
Total liabilities and net assets	<u>\$ 112,184,567</u>	<u>\$ 99,390,912</u>

University of North Carolina School of the Arts Foundation, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2024 and 2023

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Income			
Gifts and grants	\$ 532,917	\$ 7,344,433	\$ 7,877,350
State grant	-	1,000,000	1,000,000
Interest and dividend income	643,358	-	643,358
Realized and unrealized gains and (losses) on other investments, net of losses and fees	(248,223)	10,351,606	10,103,383
Other income	79,296	142,899	222,195
Change in fair value of perpetual trusts	-	25,156	25,156
Net assets released from restrictions	5,610,692	(5,610,692)	-
Total Revenue, Gains, and Other Income	6,618,040	13,253,402	19,871,442
Expenses			
Program services			
Scholarships and awards	3,548,162	-	3,548,162
School programs	2,042,166	-	2,042,166
Advancement	767,288	-	767,288
Total program services	6,357,616	-	6,357,616
Support services			
Administrative	737,137	-	737,137
Total Expenses	7,094,753	-	7,094,753
Change in Net Assets Before Transfers	(476,713)	13,253,402	12,776,689
Transfers to UNCSA	-	(76,879)	(76,879)
Change in Net Assets	(476,713)	13,176,523	12,699,810
Net Assets, Beginning of Year	1,802,753	97,499,126	99,301,879
Net Assets, End of Year	\$ 1,326,040	\$ 110,675,649	\$ 112,001,689

University of North Carolina School of the Arts Foundation, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2024 and 2023

(Continued)

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

University of North Carolina School of the Arts Foundation, Inc.
Consolidated Statements of Functional Expenses
Year Ended June 30, 2024

	<u>Program Services</u>			<u>Supporting Services</u>	<u>Total</u>
	<u>Scholarships and Awards</u>	<u>School Programs</u>	<u>Advancement*</u>	<u>Administration</u>	
Scholarships and awards	\$ 3,548,162	\$ -	\$ -	\$ -	\$ 3,548,162
Salaries and benefits	-	725,754	100,539	565,249	1,391,542
Support of school performances	-	684,388	73,900	21,062	779,350
Office supplies, services, and administrative expenses	-	36,450	146,679	54,731	237,860
Conferences, meetings, travel, and entertainment	-	308,787	116,276	19,955	445,018
Educational supplies	-	197,392	256,179	75,868	529,439
Stewardship	-	39,452	73,715	272	113,439
Other	-	49,943	-	-	49,943
Total Functional Expenses	\$ 3,548,162	\$ 2,042,166	\$ 767,288	\$ 737,137	\$ 7,094,753

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

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

(Continued)

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

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

University of North Carolina School of the Arts Foundation, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 12,699,810	\$ 180,985
Adjustments to reconcile change in net assets to net cash used by operating activities		
Net (gain) loss on investments reported at fair value	(10,351,606)	130,633
Loss on perpetual trust	-	147,651
Changes in fair value of beneficial interest in perpetual trusts	(25,156)	32,437
Change in operating assets and liabilities		
Prepaid expenses and other current assets	(52,421)	50,008
Pledges receivable, net	(2,392,040)	(1,570,471)
Accounts payable and accrued expenses	91,804	(808)
Due to UNCSA	2,041	(19,104)
Net cash used by operating activities	<u>(27,568)</u>	<u>(1,048,669)</u>
Cash Flows From Investing Activities		
Net sales of investments, net of distributions	3,310,078	3,190,165
Purchase of investments	(1,711,563)	(486,422)
Purchase of property	<u>(325,895)</u>	<u>(5,000)</u>
Net cash provided by investing activities	<u>1,272,620</u>	<u>2,698,743</u>
Net Increase in Cash and Cash Equivalents	1,245,052	1,650,074
Beginning Cash and Cash Equivalents	<u>15,879,570</u>	<u>14,229,496</u>
Ending Cash and Cash Equivalents	<u>\$ 17,124,622</u>	<u>\$ 15,879,570</u>

Note 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. UNCSEA Foundation Management, LLC is a wholly owned subsidiary and is a vehicle for acquiring real estate and other investments for the Foundation. All inter-entity transactions have been eliminated.

Note 2. Summary of Significant Accounting Policies

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

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

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

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

Use of Estimates

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

University of North Carolina School of the Arts Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2024 and 2023

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, 2024, and 2023, the rate used was 4.5%. Amortization of the discount is recorded as additional contribution revenue. Allowance is made for uncollectible pledges receivable based upon an analysis of past collection experience and other relevant factors.

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

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

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

Cash and Cash Equivalents

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

Investments

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

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

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

University of North Carolina School of the Arts Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2024 and 2023

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 ten years have elapsed since the fund was established, and the institution uses the property in a manner consistent with the charitable purposes expressed in the gift instrument. This process is subject to the oversight of the Attorney General of North Carolina.

Endowment Distribution Policy

Endowment funds are accounted for using a unitized investment pool, with each endowment being assigned units in the pool. The per-unit distribution is adjusted by the change in the All Urban Consumer Price Index. Annual distributions are limited (subject to donor stipulations) to a maximum of 6% with a minimum of 3.5% of ending unit value at the calculation date. When unit values fall below the original gift amount (referred to as “underwater endowments”), distributions continue; however, these instances are monitored by the Board. There were no underwater endowments at June 30, 2024 or 2023. Distributions amounted to approximately 4% of unit values in 2024 and 2023.

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

Perpetual Trusts

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

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

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.

University of North Carolina School of the Arts Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2024 and 2023

Income Taxes

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

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

Functional Expenses

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

Accounting Standards Adopted in Current Period - Allowance for Credit Losses

Effective July 1, 2023, the Foundation adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instrument - Credit Losses (Topic 326), Measurement of Credit Loss on Financial Instruments*. This guidance, commonly referred to as Current Expected Credit Loss ("CECL"), changes impairment recognition to a model that is based on expected losses rather than incurred losses. The measurement of expected losses under the CECL methodology is applicable to financial assets measured at amortized cost, including accounts receivable. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in new and enhanced disclosures only.

Subsequent Events

Management evaluated the effect subsequent events would have on the consolidated financial statements through August 30, 2024, which is the date the consolidated financial statements were available to be issued.

Note 3. Fair Value of Financial Instruments

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

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

There were no other assets or liabilities measured at fair value at June 30, 2024 and 2023.

University of North Carolina School of the Arts Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2024 and 2023

Note 4. Investments

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

Note 5. Pledges Receivable, Net

Pledges receivable, net consist of the following June 30:

	<u>2024</u>	<u>2023</u>
Due within one year	\$ 1,188,087	\$ 968,276
Due in one to five years	4,710,416	2,155,423
Due in more than five years	<u>70,000</u>	<u>110,000</u>
Total unconditional pledges	<u>5,968,503</u>	<u>3,233,699</u>
Less:		
Discount to present value at 4.5%	(398,498)	(165,126)
Allowance for uncollectible pledges	<u>(238,740)</u>	<u>(129,348)</u>
Total pledges receivable, net	<u>\$ 5,331,265</u>	<u>\$ 2,939,225</u>

Three donors accounted for 73% and two donors accounted for 81% of gross pledges receivable at June 30, 2024 and 2023, respectively. Three donors accounted for 38% and two donors accounted for 52% of gifts and grants in 2024 and 2023, respectively.

Note 6. Property

Property owned by the Organization at June 30, 2024 and 2023 consists of the following:

	<u>2024</u>	<u>2023</u>
Land	\$ 6,542	\$ 52,442
Construction in process	<u>371,795</u>	<u>-</u>
	<u>\$ 378,337</u>	<u>\$ 52,442</u>

University of North Carolina School of the Arts Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2024 and 2023

Note 7. Liquidity and Availability

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

	<u>2024</u>	<u>2023</u>
Total assets	\$ 112,184,567	\$ 99,390,912
Less assets not available for general expenditures within one year:		
Endowment funds with donor restrictions	93,881,880	83,929,732
Prepaid expenses	103,631	51,210
Pledges receivable due greater than one year	4,780,416	2,265,423
Beneficial interests in perpetual trusts	338,231	313,075
Property	378,337	52,442
Board appropriated	<u>149,945</u>	<u>287,487</u>
Total assets available for general expenditures	<u>\$ 12,552,127</u>	<u>\$ 12,491,543</u>

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

Note 8. Restrictions on Net Assets

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

	<u>2024</u>	<u>2023</u>
Time or purpose restrictions (temporarily restricted):		
School programs	\$ 16,455,538	\$ 13,253,777
Endowment returns subject to future appropriation	42,475,205	31,963,630
Perpetual restrictions (permanently restricted):		
Permanent endowment funds	51,406,675	51,968,644
Interest in perpetual trusts held by others	<u>338,231</u>	<u>313,075</u>
Total net assets with donor restrictions	<u>\$ 110,675,649</u>	<u>\$ 97,499,126</u>

In 2024 and 2023, 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
June 30, 2024 and 2023

Note 9. Endowment Net Assets

Changes in endowment net assets during the year ended June 30, 2024 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 83,929,732	\$ 83,929,732
Gifts and grants	-	2,485,709	2,485,709
Realized and unrealized gains, net of losses	-	10,351,606	10,351,606
Investment management fees	(248,223)	-	(248,223)
Amounts appropriated for expenditure, reclassifications, and transfers	<u>248,223</u>	<u>(2,885,167)</u>	<u>(2,636,944)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 93,881,880</u>	<u>\$ 93,881,880</u>

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

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

Note 10. Related-Party Transactions

Reimbursements to the School for school employees assigned to the Foundation amounted to \$248,604 and \$283,767 in 2024 and 2023, respectively. Reimbursements to the School for school employee supplements amounted to \$802,583 and \$698,857 in 2024 and 2023, respectively. The School also provides the Foundation with various services, including office space, technology, and legal services. In fiscal year 2024 and 2023, the Foundation recorded expenses of \$6,510 and \$7,719, respectively, for services provided by employees of the School and other income for the same amount.

At June 30, 2024 and 2023, \$35,510 and \$33,469 is due to the School for salary and miscellaneous reimbursements, respectively.

University of North Carolina School of the Arts Foundation, Inc.
Notes to Consolidated Financial Statements
June 30, 2024 and 2023

Note 11. State Grant Income

During the year ended June 30, 2024, the Foundation received a grant from the North Carolina Office of State Budget and Management in the amount of \$1,000,000. This grant will be used to provide staffing to assist with meeting student health needs and maintaining a safe and supportive environment for students at UNCSEA. This grant is recorded as restricted state grant income in the statements of activities for the year ended June 30, 2024. There were approximately \$60,000 of expenditures related to this grant for the year ended June 30, 2024.

Note 12. Investment Income

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

	<u>2024</u>	<u>2023</u>
Gain (loss) on investments reported at fair value	\$ 10,351,606	\$ (130,633)
Investment management fees	<u>(248,223)</u>	<u>(236,312)</u>
Realized and unrealized gain (loss), net of fees	<u>\$ 10,103,383</u>	<u>\$ (366,945)</u>

Note 13. Retirement Plan

The Foundation contributes to a retirement account a percentage based on its employees' salary. Contributions amounted to \$14,440 and \$8,725 in 2024 and 2023, respectively.

AGENDA ITEM

Internal Audit Activity UpdateRod Isom & IA Staff

Summary*:

a) Summary of Operations & Audit Activity for Fiscal Year 2024*

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

b) Recent Reports and Other Communication

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

- *Planned Review – Title IX – Programming & Training (Staff)*
- *Follow-up – Monitoring Outstanding Observations (Historical & Current)*

c) Audit Plan & Risk Assessment Update for FY25**

Discuss update to risk assessment and the audit plan. The audit plan update will require approval from the ARCC (Board).

- *This version will be submitted to the State as the official audit plan for the fiscal year.*

d) Other Activities and Matters

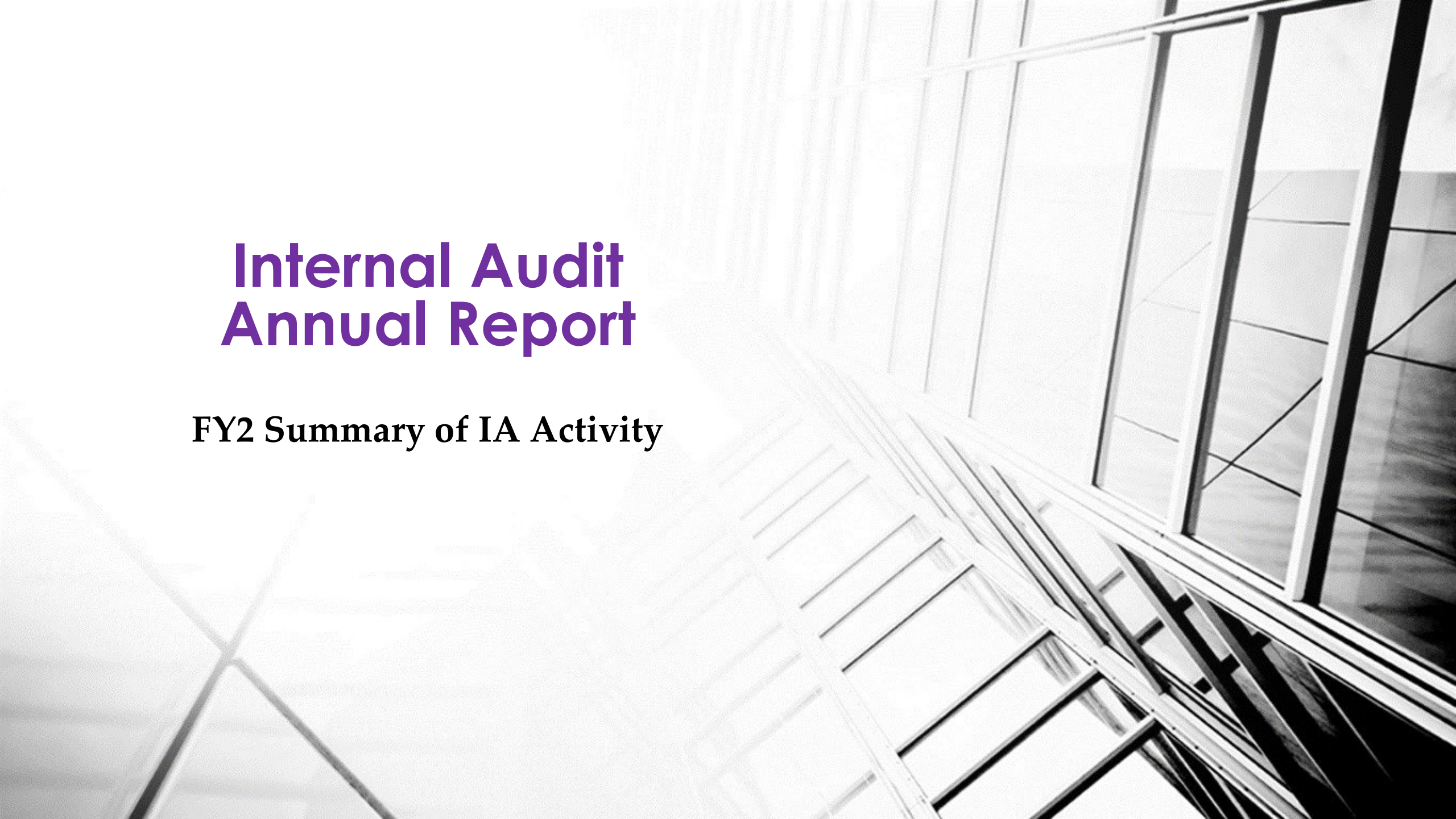
Other relevant matters or significant activities related to Internal Audit, the profession, or risk in general will be discussed.

- Quality Assurance and Improvement Program (QAIP) Results
- External Quality Assessment Review (QAR) Update
- Global Standards Update
 - IA Charter Update
 - IA Strategic Plan Update

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

**** Action Item**

Action: These items are for informational purposes only.



Internal Audit Annual Report

FY2 Summary of IA Activity

Annual Report – Key Performance Metrics

**Audit Plan Completion
Percentage: 71% (10/14)**

**Recommendations:
76% of Recommendations
were resolved.**

**Investigations:
100% of Allegations Reviewed**

Audit Plan (Projects):

Planned – 11

Added – 3

Canceled/Deferred – 0

Total – 14

Completed – 10

In Progress – 2

Not Started/Carried Forward - 2

**Reporting:
Average of 89 Days from
Planning Meeting to Draft
Report:**

~ Target: 120 Days Average

* The follow-up project was a year long initiative and was not factored in this reporting metric.

Annual Report – Reporting & Advisory

FY24 Completed Projects & Reports:

- FY2023 Self Assessment Maturity Model (SAMM)
 - Investigation: Wig Inventory – 9/15/23
- Planned: Student Mental Health Services – 11/20/23
- *Planned: Student Mental Health Services – Management Letter – Counseling Workload – 11/20/23*
 - Investigation: UNC SO - Campus Police – 2/29/24
 - Planned: Title IX – Programming & Training (Staff) – 6/30/24
- Follow-up: Monitoring Outstanding Observations (Historical & Current) – 7/3/24
 - Special Project: QAR – Peer Review - NC A&T
 - Special Project: New IIA Standards & Implementation Project – Phase I
 - FY2025 Risk Assessment Process/Audit Plan

Completed audits and advisory services resulting in reports with **3** observations that produced **7** written recommendations for various departments. Additionally, conducted numerous consults with university personnel that resulted in email or verbal communications in lieu of formal reports.

Trusted Advisor:

Leadership Team

- Chancellor's Leadership Council

Governance Committees

- ERM Steering Committee
- IT Steering Committee

FY24 Key Risks Reviews Conducted:

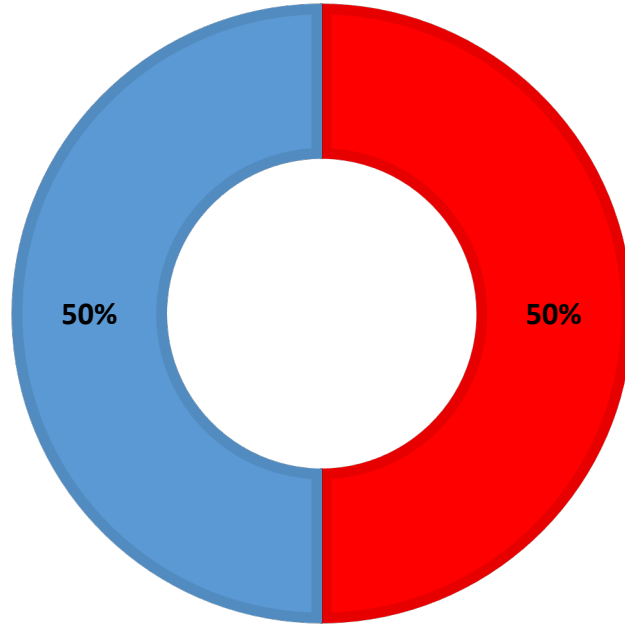
- Student Mental Health Services
 - Title IX (Staff)

FY23 Key Risks Reviews Conducted:

- *Title IX*
- *Cybersecurity*
- *Strategic Management Training*

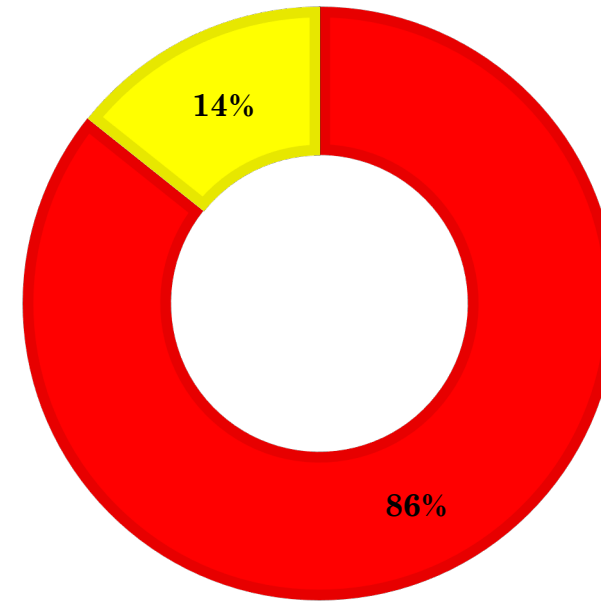
Annual Report – Communication & Reporting

TYPE OF REVIEW



■ Planned
■ Investigation

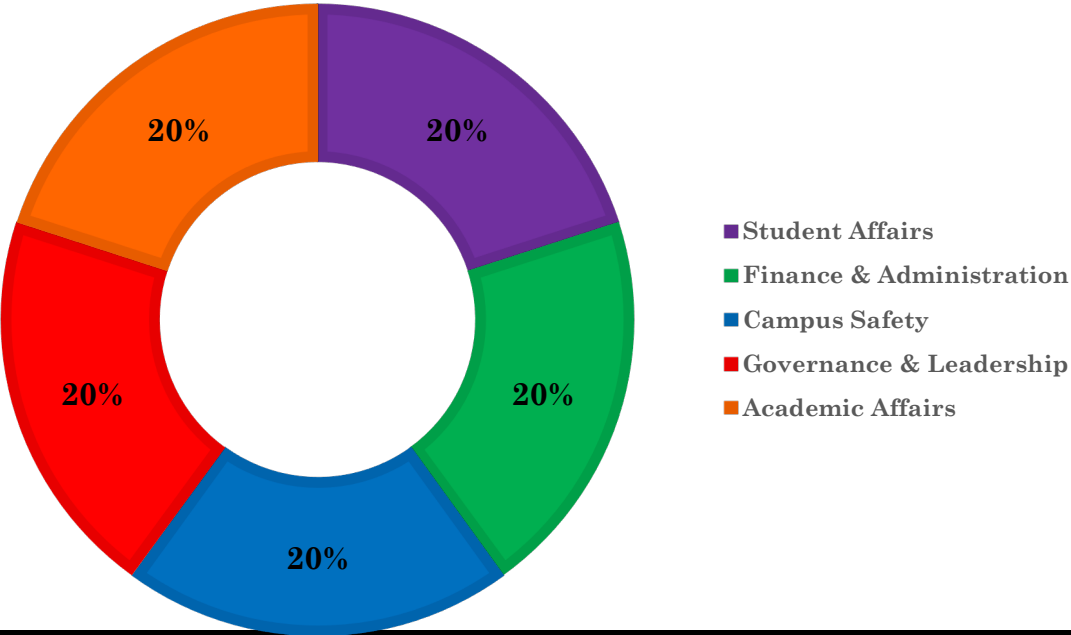
CLASSIFICATION OR RECOMMENDATION



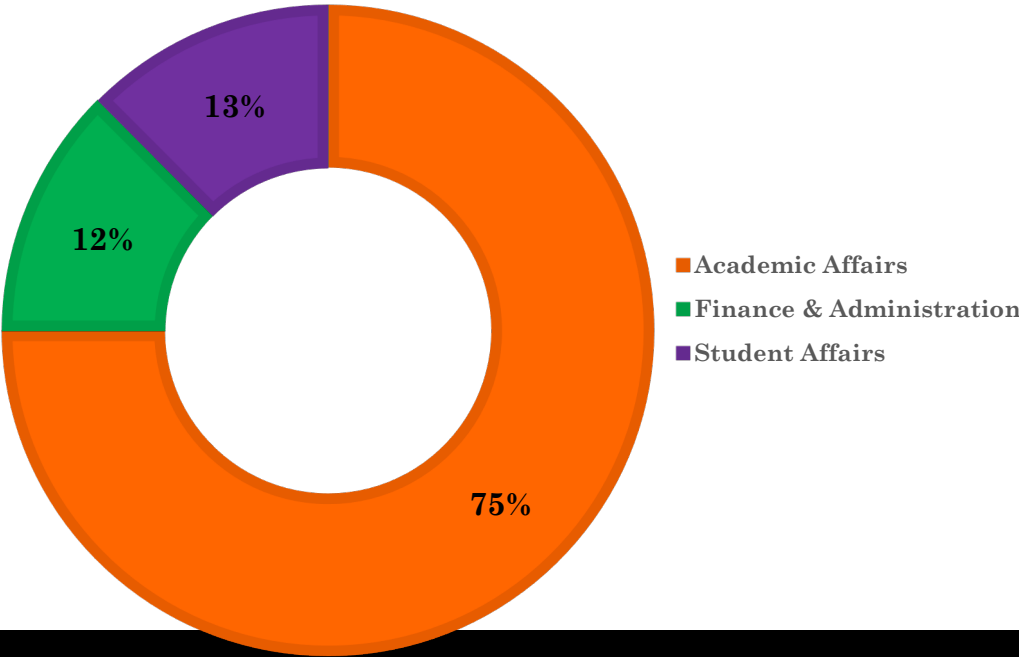
■ Audit Report
■ Management Letter

Annual Report – Review Type & Coverage

KEY AUDIT AREAS ADDRESSED BY TOTAL PROJECTS

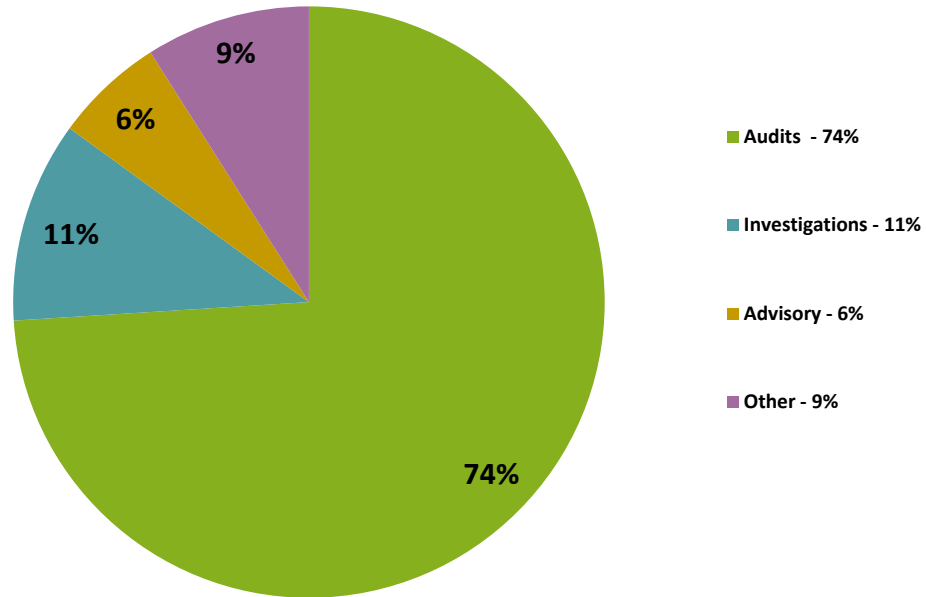


RECOMMENDATIONS BY AUDIT AREA

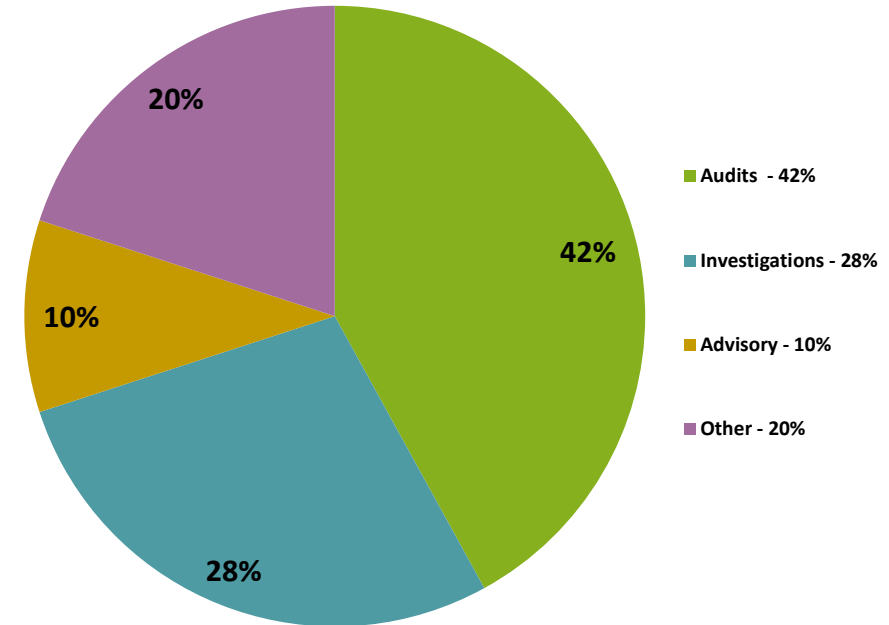


Annual Report – Planned vs Actual Hours

Planned Hours = 1,800



Actual Hours = 1,986



OFFICE OF INTERNAL **A**UDIT

REPORT

TITLE IX PROGRAMMING & TRAINING - FACULTY & STAFF



AUDIT TEAM

Cory Billings, Audit Manager
Rick Brown, Auditor

June 30, 2024

WINSTON-SALEM STATE UNIVERSITY

Committed to Excellence

Rod Isom, Chief Audit Officer



WINSTON-SALEM
STATE UNIVERSITY



Office of Internal Audit

Rod Isom, Chief Audit Officer

1600 Lowery Street, Winston-Salem, North Carolina 27110

(336) 750-2065 | www.wssu.edu

June 30, 2024

Valerie Thelen

Chief Compliance Officer & Director of Title IX

University of North Carolina School of the Arts

1533 South Main Street

Winston-Salem, NC 27127

Dear Ms. Thelen:

The Winston-Salem State University (WSSU) Office of Internal Audit (IA) has completed its planned review of UNC School of the Arts (UNCSA) protocols related to Title IX programming and training for Faculty and Staff. The scope of the review was Title IX training activity during fiscal year 2023-2024. The report that follows includes the results of the review. Other observations, considered minor or outside of the scope of our review, will be communicated to management by way of a management letter, risk monitoring memo, or verbally.

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

Respectfully submitted,

Rod Isom

Chief Audit Officer

cc: Brian Cole, Chancellor
Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel
Audit, Risk, and Compliance Committee, UNCSA Board of Trustees

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BACKGROUND, OBJECTIVE, AND SCOPE	3
RESULTS	5

EXECUTIVE SUMMARY

Based on the results of IA's annual risk assessment and other discussions with leadership, an audit of Title IX programming and training for faculty and staff was included in the annual audit plan. Title IX training is a program designed to inform educational institutions on their obligations and rights under Title IX, a federal civil rights law that prohibits sex-based discrimination in educational settings. Title IX training is important for universities to ensure compliance with the law, create a safe and inclusive campus environment, and empower administrators to effectively address issues related to sexual harassment and gender-based discrimination.

The objective of the review was to assess the effectiveness of the Title IX programming and training for Faculty and Staff.

The review did not identify any reportable observations that require a response and concluded that there is adequate Title IX programming and training in place for faculty and staff. Additionally, the review identified a strong control environment in place related to the tone at the top where the Chancellor issued communication requiring employees to complete annual Title IX training.

Effective Title IX programming and training for faculty and staff should assist the university with strategic success as it relates to the Health and Wellness core strategy.

BACKGROUND, OBJECTIVE, AND SCOPE

BACKGROUND:

Based on the results of IA's annual risk assessment and other discussions with leadership, an audit of Title IX programming and training for faculty and staff was included in the annual audit plan. Title IX training is a program designed to inform educational institutions on their obligations and rights under Title IX, a federal civil rights law that prohibits sex-based discrimination in educational settings. Title IX training is important for universities to ensure compliance with the law, create a safe and inclusive campus environment, and empower administrators to effectively address issues related to sexual harassment and gender-based discrimination.

The UNCSA 2022-2027 Strategic Plan has identified Health and Wellness as a core strategy as "the health and well-being of UNCSA students, faculty and staff are integral to academic, professional and personal success and represent a vital asset within the portfolio of student life offerings." Within the Health and Wellness core strategy, Student Well-Being and Safety has been identified as an initiative where the university will "Strengthen student support staff and resources in safety and wellness, with a focus on advocacy and assessment services, and expand educational and training resources."

Title IX of the Education Amendments of 1972 was the first comprehensive federal law to prohibit sex discrimination against students and employees of educational institutions. It is one of several federal and state anti-discrimination laws that define and ensure equality in education. The regulations implementing Title IX, published in 1975, prohibit discrimination, exclusion, denial, limitation, or separation based on gender.

UNCSA's Chief Compliance Officer and Director of Title IX (Director) oversees the school's centralized review, investigation, and resolution of reports of sexual harassment, sexual violence and relationship violence. The Director also oversees the school's overall compliance with Title IX.

OBJECTIVE:

The objective of the review was to assess the effectiveness of the Title IX programming and training for Faculty and Staff.

To conduct the review, IA performed the following procedures:

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

BACKGROUND, OBJECTIVE, AND SCOPE

SCOPE:

The scope of the review was fiscal year 2023-2024.

This report presents the results of IA's review.

RESULTS

The objective of the review is to assess the effectiveness of the Title IX programming and training for Faculty and Staff. IA's review supports that UNCSEA has a well-managed Title IX programming and training in place for faculty and staff as the review did not result in any reportable observations. Specifically, IA's review revealed the following:

- Faculty and Staff are required to complete training during the onboarding process and on an annual basis thereafter. Inspection of annual training records as of June 27, 2024, noted that only 2 employees had not completed required training and were past their due date¹. Per management, both employees have been contacted to complete the required training.
- Completion of annual training is tracked, and IA tested the automated process to ensure that all UNCSEA employees were included in the training system requiring employees to complete the training. No exceptions were noted during testing.

¹ An additional seven new employees had not completed training, however, they were not overdue in completing training as they have three months to complete the training after their start date.



WINSTON-SALEM
STATE UNIVERSITY



Office of Internal Audit

Rod Isom, Chief Audit Officer

1600 Lowery Street, Winston-Salem, North Carolina 27110

(336) 750-2065 | www.wssu.edu

Monitoring Report

To: Chancellor’s Cabinet
From: Rod Isom, Chief Audit Officer *RF*
Date: July 3, 2024¹
Re: Monitoring Outstanding Observations (Historical & Current) – FY24 Report - External

This communication is to provide a status on the Office of Internal Audit (IA) outstanding observations as of fiscal year end, June 30, 2024. The Institute of Internal Audit Standards requires that a monitoring process be established to monitor the disposition of results communicated to management.

At the conclusion of IA’s engagements, observations and proposed recommendations are discussed with management and, subsequently, a management action plan is developed to explain how the agreed-upon recommendations would be implemented.

The Strategic Plan identifies Institutional Sustainability as one of its Core Strategies. Institutional Sustainability states, “Personnel, enrollment and financial resources represent the foundation of an institution’s long-term sustainability. Strengthening these aspects will be crucial for UNCSA to efficiently and effectively fulfill its mission.”

While no written response is required for the *Monitoring Report*, the remaining outstanding observations warrant management’s continued attention provided that the following could lead to an increase in risk and other reportable observations in the future if not effectively addressed. See the ‘Results’ section for details from the review.

Background:

¹ This report will count towards FY24 activity.

As part of IA internal assessments and continuous improvement efforts, the follow-up and monitoring process was identified as an opportunity for improvement and communicated to senior management and the board in September 2023. Additionally, the follow-up initiative was listed on the IA Audit Plan.

Additional Information:

The UNC System Office changed reporting requirements during the summer of 2023, which required audit units to report the number of outstanding recommendations instead of reporting the results of follow-up activity from the fiscal year. This resulted in 30 observations with 72 recommendations that dated back to 2012 and predated current administration in some regards. Given the importance and magnitude of the project and to assist with awareness, all risk owners received a memo for their outstanding observations.

As part of IA monitoring procedures, risk owners received a memo providing details related to the review and a response template to assist management with providing an update on the status of the observation(s) and corrective actions taken.

OBJECTIVE:

The objective of the follow-up review was to determine the status of the recommended actions to ensure management has implemented corrective measures, and sufficiently addressed the observations.

To conduct the review, IA performed the following procedures:

- Interviewed university employees; and
- Examined relevant documents and records where possible.

SCOPE:

The scope of the review was July 1, 2023 through June 30, 2024.

RESULTS:

As for the status of the outstanding observations reviewed as of FY23, 16 (80%) observations have been resolved and four (20%) observations are partially resolved. Ten observations are classified as not resolved due to no response from management. As a result, a total of 38 recommendations have been resolved and 34 recommendations remain outstanding.

Resolved

There are 16 observations considered resolved based upon information provided by management and have been removed from IA's outstanding observations list.

Partially Resolved

There are four observations considered partially resolved, meaning management has implemented some corrective measures but require more time to resolve the matter. IA will continue monitoring the partially resolved observations.

Not Resolved/No Responses

There are ten observations management have not provided a response and as a result, the status is unknown. IA will continue monitoring the observations.

FY24 Audit Activity

From FY24 audit activity, there were a total of two observations and six recommendations. At the close of FY24, in total, there are 16 observations and 40 recommendations outstanding, that will be monitored as part of FY25 follow-up activity.

IA commends management for the efforts displayed and encourages management to continue implementing corrective measures to mitigate risks to assist with strategic success.

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

cc: Audit, Risk, and Compliance Committee, UNCSA Board of Trustees

The audit plan is based upon Internal Audit's (IA) unit risk assessment process and outlines the IA unit plans for the year based upon available resources and the impact of risks identified. The audit plan is a fluid document and is subject to change based upon current events that may pose a risk to the university, continuous risk monitoring efforts, and available resources. This document is for informational purposes only.

UNCSA FY25 Updated Audit Plan Proposal - UPDATE

HRS

Summary of Hours Available for Plan	
Hours per FT Auditor:	2,080
UNCSA Contract Hours:	1,800

NEW PROJECTS ADDED

A	Continuation from Previous Year: <i>Projects that were in progress and carried over from the previous plan year.</i>	
	Planned - Enrollment Management	360
	Investigation - Faculty Search Committee	

B	Planned Reviews: <i>Projects added to the plan as a result of the annual risk assessment process. Plan reviews are subject to change based upon risks.</i>	
	Talent Management	900
	Third Party Systems Review	
	Culture Review	

C	Follow-ups: <i>Previous reviews performed that identified observations. IA is required to follow -up to ensure management has taken corrective actions to resolve issue.</i>	
	Follow-up Project - Outstanding Observations	75

D	Complaints & Hot Line Calls: <i>New complaints received this fiscal year that will result in a review.</i>	
	None Currently	50

E	Special Assignments: <i>Advisory engagements conducted on behalf of management & significant audit projects</i>	
	Self-Assessment Maturity Model	240
	New IIA Standards & Implementation Project - Phase II	
	External Quality Assessment Review (QAR)	
	Annual Risk Assessment	

ITEMS BELOW ARE ROUTINE MATTERS THAT MAY TAKE PLACE DURING THE AUDIT YEAR

F	Advisory & Special Assignments: <i>Special activities and assignments that are assigned to internal audit to assist and advise management. These activities below does not generally result in an audit report.</i>	
	Audit Committee	100
	University-wide Meetings/Consults	
	Assisting External Auditors & Oversight Agencies	
	Search Committees	
	University's Strategic Plan	
	Cabinet Meetings	
	Enterprise Risk Management	
Technical Assistance		

G	Other: <i>Activities that assist the audit unit with planning, assessments, and continuous improvement efforts. The activities below does not generally result in an audit report.</i>	
	Audit Planning & Assessment	75
	IA Strategy, outreach, on-the-job training, assessment	
	Quality Assurance and Improvement - assessment, activities	
	Internal Policies and Procedures, CAATs, Best Practices, Website, SharePoint	
Staff Meetings		

H	Administration/Leave/Professional Development: <i>Administrative relative matters, time off, and professional development.</i>	
	Office Administration	

I	Potential Reviews not Planned: <i>Potential reviews identified from the annual risk assessment that are unable to be performed due to lack of resources at this time, but could be added during the year based upon assessment of risk and additional resources.</i>	
	International Student Compliance	
	Crisis Management	
	Business Continuity/Disaster Recovery	

TOTAL PLAN HOURS: 1,800

UNCSA FY 24-25 INTERNAL AUDIT ANNUAL RISK ASSESSMENT - TOP RISKS

Risk	Unit	Risk Description Summary
1 Talent Management (Recruitment & Retention and Succession Planning)	University Wide	The university's talent management strategy may not be adequate to recruit and retain highly qualified personnel and meet university strategic goals.
2 Political Landscape	Chancellor's Office/EDIB	The political landscape may create challenges for the university to sustain strategic success as it relates to their equity, diversity, inclusion, and belonging initiatives.
3 Title IX	Title IX	Title IX infrastructure and framework may not be adequate to ensure compliance, safety, and mitigate liability to an acceptable level without negatively impacting the university's reputation.
4 University Culture	University Wide	There may be misalignment between the university's values and leadership actions, employee behaviors, or organizational systems which impacts strategic success and limits the university progression.
5 Enrollment (Recruitment & Retention)	Admissions	Enrollment infrastructure and framework may not be adequate to ensure enrollment goals are met which could impact financial stability and employment levels.
6 Cybersecurity	Information Technology	IT's strategic approach and current infrastructure may not be adequate to mitigate a cybersecurity incident.
7 Crisis Management	Strategic Communications	The university's crisis management plan may not be sufficient and up-to-date to respond to a crisis effectively and efficiently.
8 Data Governance	Information Technology	The university's data governance framework may not be adequate to ensure university data is secure, properly classified, and managed to prevent exposure and limit liability should a breach occur.
9 Student Mental Health	Student Counseling	University resources and infrastructure may not be sufficient to support students with increase mental health needs.
10 Business Continuity/Disaster Recovery	Campus Police/EHS/IT	The university's BCDR planning may not be sufficient to ensure the university is able to sustain operations during a significant event and recover in a timely manner.
11 Minors on Campus	Governance & Leadership	University practices and policies may not be adequate to ensure the safety of minors on campus.
12 International Student Compliance	EDIB	The university's framework for international students may not be appropriate to support growth and ensure compliance.
13 Financial Stability	University Wide	The university's ability to generate revenue and adhere to the system's office funding model may not be sufficient to sustain operations.