

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 September Meeting.....Chairman Wigodsky
3. 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) Clery Update.....Clarisse Davis, Emergency Management Coordinator
4. Discussion of External Audits and Reviews (if any).....Rod Isom & UNCSA Management
 - a) Financial Statement Audits.....Wendy Emerson, Vice Chancellor for Finance & Administration
5. Discussion of Internal Audit's Activity.....Rod Isom & Internal Audit Staff
 - a) Recent Reports and Other Communications
 - b) Audit Plan Project Status and Updates

- c) Charter Updates and Approval**
- 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

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

OPEN SESSION

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

OPEN SESSION MINUTES

September 26, 2024

University of North Carolina School of the Arts
SAAB 306

TRUSTEES PRESENT

***Denotes voting committee members**

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

ADMINISTRATION AND STAFF PRESENT

Rod Isom (Chief Audit Officer); Brian Cole (Chancellor); Patrick Sims (Provost); 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); Jeff George (Faculty Council Chair); Wendy Emerson (Vice Chancellor for Finance); Liza Vest (Staff Council Representative); Melanie Nukols (AVC for Finance); Dave LaVack (Staff Council Representative); Valerie Thelen (Chief Compliance Officer and Director of Title IX); Patrice Goldman (Associate General Counsel); Angela Mahoney (AVC and Chief Human Resources Officer); Jarrett Bailey (Controller); Lissy Garrison (Vice Chancellor for Advancement); Travis Andrews (IT Support)

CONVENE OPEN SESSION AND CONFIRM QUORUM

Committee Chair John Wigodsky convened the September 26, 2024 meeting of the University of North Carolina School of the Arts Audit, Risk, and Compliance Committee at 3:55 p.m. A quorum was confirmed.

APPROVAL OF MINUTES

MOTION: Peter Juran moved to approve the May 2024 Open Session Minutes as presented. Graydon Pleasants seconded and the minutes were unanimously approved.

AUDIT, RISK, AND COMPLIANCE COMMITTEE (ARCC) CHARTER

Rod Isom, Chief Audit Officer, reviewed the ARCC Charter for the first meeting of the academic year. The charter outlines the structure and governance responsibilities of the committee. No changes to the charter are needed at this time.

ENTERPRISE RISK MANAGEMENT (ERM)

Jim DeCristo, Vice Chancellor and Chief of Staff, reviewed the top ERM risks for the UNC System Office and UNC Constituent Institutions, compared to UNCOSA's top risks. UNCOSA's top five risks for 2024-2026 are:

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

UNCOSA's priorities fit into the categories set by the UNC System. Facilities management and deferred maintenance are System risks, not are not included as priorities for UNCOSA.

INFORMATION TECHNOLOGY (IT) SECURITY UPDATE

Tamar Pandi, Chief Information Officer, provided updates on the ISO (International Standard for Information Security Management) Framework. This is the IT control framework adopted by the System Office. UNCOSA has made progress and has implemented a strategic approach to improve their ISO maturity levels. The themes are organization, people, physical, and technical. UNCOSA has done better than anticipated in terms of target maturity score vs. actual maturity score.

TITLE IX UPDATE

Valerie Thelen, Chief Compliance Officer and Title IX Coordinator, reported that with the release of new federal regulations, university Title IX policies have been updated. The required annual training for students, faculty, and staff, as well as prevention programming, have been planned for the Fall 2024 semester.

There are no substantial changes to policy for our campus and we are already in-line with best practices related to due process as we offer protections for complainants and the accused. Regulation updates in April went into effect in August.

DISCUSSION OF EXTERNAL AUDITS AND REVIEWS

Wendy Emerson, Vice Chancellor for Finance & Administration, reported that the financial statement audits for UNCOSA, UNCOSA Housing Corporation, UNCOSA Program Support Corporation, and the Thomas S. Kenan Institute for the Arts are all underway. Drafts are complete with anticipated completion dates slated for the end of September. These reports will be presented in December.

The NC State Education Assistance Authority completed a review of state funded financial aid programs for academic years 2021-2023. The results of the audit disclosed

no findings or issues to report. Ms. Emerson thanked Jane Kamiab and her team for their work on this audit as it is not one we typically have.

The UNCSA Foundation financial statement audit for 2024 was recently completed. This was a clean audit with no findings or issues to report. Ms. Emerson applauded Cindy Liberty and her team for 16 years of no findings.

DISCUSSION OF INTERNAL AUDIT (IA) ACTIVITY

Rod Isom, Chief Audit Officer, and Cory Billings, Audit Manager, provided an update on Internal Audit activity. IA's Annual Report on the unit's activity and performance metrics was discussed. Since the May 2024 meeting, two reviews have been completed. Audit Plan completion percentage for fiscal year 2024 was slightly below goal.

A planned review of Title IX Programming & Training for Faculty and Staff resulted in no reportable observations. It was noted that two employees did not complete the training initially, but after follow-up it was completed. The system did a good job of tracking all employees and the great collaboration between Jim DeCristo and Valerie Thelen was noted. There was also effective communication regarding the training and its importance from Chancellor Cole.

Results of the outstanding observation report were also provided. At the close of FY24, there are sixteen outstanding observations that will be monitored as part of the FY25 follow-up process.

MOTION: Peter Juran moved to approve the proposed updates to the Audit Plan for FY25. Graydon Pleasants seconded and the motion was unanimously approved.

IA is in the process of receiving an External Quality Assessment Review, which is required every five years to ensure conformance with audit standards. The Internal Audit Survey will go out tomorrow. The Internal Audit Charter and results of the Quality Assurance Improvement Program (QAIP), inclusive of the self-assessment maturity model (SAMM) were reviewed.

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; and to consider and give instructions concerning the handling or settlement of:

- **Wilder v. UNCSA, State of North Carolina Office of Administrative Hearings Case Number 24 OSP 01849; and**

- **Smith v. UNCSEA, et. al., United States District Court, Middle District of North Carolina, Case Number 1:24-cv-637**

Graydon Pleasants 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 and to discuss the cases referenced in the closed session motion with David Harrison, General Counsel.

ADJOURNMENT

With no further business to discuss, Chair Wigodsky adjourned the meeting at 4:52 p.m.

Respectfully submitted by:
Amanda Balwah
Secretary of the University

AGENDA ITEM

Update on Efforts - Student Health and Wellness (UNCSA top 5 risk) presented by Laurel Donley, Vice Provost of Student Affairs

Summary: Vice Provost of Student Affairs, Laurel Donley, will provide an overview of our initiatives related to improving student mental health and wellness.

Action: This item is for informational purposes only.

UNCSA Health and Wellness Update

Grant Funding Secured for New Initiatives

- UNC System Office and other funding sources - \$400,000 over two years
 - Case Management Expansion – additional staffing
 - QPR Instructor Training
 - QPR Gatekeeper Training
 - Mental Health First Aid Instructor Training
 - NC Neuropsychiatry
 - Penn Resiliency
 - Partial Funding UWill – match to UNC CSA Funding
 - IT Matters
 - GUIDE Training – Faculty & Staff
 - Outdoor Wellness Spaces

UWill Usage

The screenshot displays the Ucollaborate Business Dashboard. At the top, it shows the user's profile and the dashboard title. Below this, there is a filter for the institution: 'All of University of North Carolina School of the Arts'. A green notification bar indicates that the university currently has 3,000 available credits. The dashboard includes a section for 'Usage and Engagement (All time)' with four key metrics: Uwill Student Rating (9.45 / 10), Uwill Registrations (354), Active Uwill Students (130), and Upcoming Uwill Sessions (5). A 'My Reports' button is also visible.

Ucollaborate: Business Dashboard

Viewing: All of University of North Carolina School of the Arts

University of North Carolina School of the Arts currently has 3,000 available credits

Choose results timeframe: All time OR From To

Usage and Engagement (All time)

	Uwill Student Rating 9.45 / 10		Uwill Registrations 354
	Active Uwill Students 130		Upcoming Uwill Sessions 5






[My Reports](#)

Campaign to
Change
Culture
around Health
and Wellness

**TAKE
5/IVE!**
to thrive.



**Take 5 and
check in with
yourself.**

-  Feel
-  Move
-  Connect
-  Get Curious
-  Center

AGENDA ITEM

Tabletop cybersecurity incident exercisepresented by Tamar Pandi

Summary: Tabletop exercise “Cybersecurity Incident – Data Breach and Exfiltration Using Artificial Intelligence” was conducted on November 20th, 2024, facilitated by Chief Information Security Officer Ed Martinez with participation of twenty cross-departmental UNCASA staff. This discussion-based session focused on enhancing our cybersecurity preparedness and addressing key issues, threats, and gaps affecting critical infrastructure stakeholders, including owners and operators. In addition to supporting ISO requirements, this constructive meeting brought attention to potential responses and communication to internal and external audiences, as well as escalation protocols and the coordination of Emergency Management with business continuity. A more formal report is being prepared.

Action: This item is for informational purposes only.

AGENDA ITEM

Clery Compliance Report.....presented by
Clarisse Davis, Emergency Manager and Clery Compliance Officer

Summary: Clery Act Compliance Reporting Update

The Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Clery Act), requires colleges and universities that receive federal funding to report campus crime data, support victims of violence, and publicly disclose the policies and procedures they have implemented to improve campus safety.

The Clery Act requires institutions to publish an annual security report containing statistics for the past three years related to specific crimes, including criminal homicides, sex offenses, robberies, and aggravated assaults.

[UNCSA 2024 Annual Safety and Fire Report](#) was published on September 27, 2024, and includes the [annual crime statistics](#). Please refer to the attached document for detailed information.

Action: This item is for informational purposes only. **or** This item needs committee approval.
(Only leave one action item listed)

Clery Crime	Year	On Campus	Residence Halls*	Non-Campus**	Public Property	Total	Unfounded Crimes***
Murder / Non-Negligent Manslaughter	2023	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Manslaughter by Negligence	2023	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Rape	2023	4	4	0	0	4	0
	2022	0	0	0	0	0	0
	2021	1	1	0	0	1	0
Fondling	2023	4	1	0	0	4	0
	2022	2	1	0	0	2	0
	2021	1	1	0	0	1	0
Incest	2023	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Statutory Rape	2023	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Robbery	2023	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Aggravated Assault	2023	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Burglary	2023	0	0	0	0	0	0
	2022	1	0	0	0	1	0
	2021	0	0	0	0	0	0
Motor Vehicle Theft	2023	3	0	0	0	3	0
	2022 ¹	0	0	0	1	1	0
	2021	0	0	0	0	0	0
Arson	2023	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Domestic Violence	2023	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2021	0	0	0	1	1	0
Dating Violence	2023	3	2	0	0	3	0
	2022	2	2	0	0	2	0
	2021	0	0	0	0	0	0
Stalking	2023	0	0	0	0	0	0
	2022	2	1	0	0	2	0
	2021	0	0	0	0	0	0
Liquor Law Arrests	2023	0	0	0	0	0	0
	2022	0	0	0	0	0	0
	2021	0	0	0	1	1	0
Drug Related Arrests	2023	1	0	0	0	1	0
	2022	1	0	0	2	3	0
	2021	1	0	0	7	8	0
Weapons Arrests	2023	0	0	0	1	1	0
	2022	1	0	0	0	1	0
	2021	0	0	0	0	0	0
Liquor Law Disciplinary	2023	5	1	2	2	5	0
	2022	9	9	0	2	11	0
	2021	9	6	0	2	11	0
Drug Related Disciplinary	2023	5	3	0	0	5	0
	2022	10	10	0	2	12	0
	2021	12	12	0	4	16	0
Weapons Disciplinary	2023	0	0	0	0	0	0
	2022	1	1	0	0	1	0
	2021	2	1	0	0	2	0

*Residence Hall Crime Statistics are a subset of the On-Campus Category

**Non-Campus Category includes locations owned or controlled by the institution away from campus for institutionally-sponsored trips for a duration of longer than one nights' stay.

***This number represents crimes investigated by Sworn Law Enforcement and determined to be 'Unfounded'; meaning there was evidence the reported crime did not occur.

¹One Motor Vehicle Theft on public property was inadvertently left off the 2022 Crime Statistics. This crime statistic has been adjusted to include this omission.



MEETING OF THE BOARD OF TRUSTEES

Audit, Risk, and Compliance Committee
Thursday, Dec. 5, 2024

AGENDA ITEM

Financial Statement Audits.....Wendy Emerson

Summary: The NC Office of the State Auditor is conducting the University’s financial statement audit for FY 2024 and Bernard Robinson & Company, LLP conducted 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 UNCSA Financial Statement Audit for Fiscal Year 2024 is being finalized. The results of the audit are expected before the end of December.
- The UNCSA Housing Corporation Financial Statement Audit for Fiscal Year 2024 was recently completed. The results of the audit were an unqualified opinion (clean audit), with no findings or issues to report.
- The UNCSA Program Support Corporation Financial Statement Audit for Fiscal Year 2024 was recently completed. The results of the audit were an unqualified opinion (clean audit), with no findings or issues to report.
- The Thomas S. Kenan Institute for the Arts Supporting Organization Financial Statement Audit for Fiscal Year 2024 was recently completed. The results of the audit were an unqualified opinion (clean audit), with no findings or issues to report.

Action: This item is for informational purposes only.



September 25, 2024

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

We have audited the financial statements of University of North Carolina School of the Arts Housing Corporation as of and for the year ended June 30, 2024, and have issued our report thereon dated September 25, 2024. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated February 19, 2024, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of University of North Carolina School of the Arts Housing Corporation solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Safeguards include: Continuing education on independence and ethics, client personnel have suitable skill and knowledge, firm policies related to monitoring relationships and communicating any issues that arise. The importance of professional skepticism was stressed to the Engagement team during preliminary discussions

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Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by University of North Carolina School of the Arts Housing Corporation is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2024. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgment. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

There are no significant accounting estimates affecting the financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting University of North Carolina School of the Arts Housing Corporation's financial statements relate to: capital assets.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. No significant unusual transactions were noted during our audit of your financial statements.

Identified or Suspected Fraud

No identified or suspected fraud activities were identified during our audit of your financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. No such misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to University of North Carolina School of the Arts Housing Corporation's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. No circumstances occurred during the audit that affected the form or content of our auditor's report for your audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the representation letter dated September 25, 2024.

Management's Consultations with Other Accountants

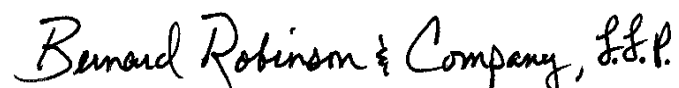
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with University of North Carolina School of the Arts, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as University of North Carolina School of the Arts Housing Corporation's auditors.

This report is intended solely for the information and use of the Board of Directors and management of University of North Carolina School of the Arts Housing Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Bernard Robinson & Company, L.L.P." in a cursive script.

BERNARD ROBINSON & COMPANY, L.L.P.

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

FINANCIAL REPORT

JUNE 30, 2024



UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of University of North Carolina School of the Arts Housing Corporation (a nonprofit corporation) (the "Corporation"), which comprise the statement of net position as of June 30, 2024, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets and net assets of University of North Carolina School of the Arts Housing Corporation as of June 30, 2024, and its results of operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibility of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 25, 2024

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

Introduction

This section of the University of North Carolina School of the Arts Housing Corporation (Corporation) financial report provides an overview of the financial position and activities for the year ended June 30, 2024. This discussion has been prepared by management along with the financial statements and related notes to the financial statements and should be read in conjunction with the financial statements and the notes thereto, which follow this section. This discussion and analysis are designed to focus on current activities, resulting change, and current known facts.

Using the Financial Statements

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

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

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

Statement of Net Position

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

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

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

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

Condensed Statement of Net Position

	Year Ended June 30,		
	2024	2023	Change
Assets			
Current Assets	\$ 2,517,819.41	\$ 2,132,085.51	\$ 385,733.90
Capital Assets, Net	3,849,461.45	3,706,583.34	142,878.11
Total Assets	<u>6,367,280.86</u>	<u>5,838,668.85</u>	<u>528,612.01</u>
Liabilities			
Current Liabilities	398,535.91	408,455.60	(9,919.69)
Noncurrent Liabilities	2,078,389.54	2,450,491.37	(372,101.83)
Total Liabilities	<u>2,476,925.45</u>	<u>2,858,946.97</u>	<u>(382,021.52)</u>
Net Position			
Net Investment in Capital Assets	1,402,461.45	891,583.34	510,878.11
Unrestricted	2,487,893.96	2,088,138.54	399,755.42
Total Net Position	<u>\$ 3,890,355.41</u>	<u>\$ 2,979,721.88</u>	<u>\$ 910,633.53</u>

The total assets of the Corporation increased by \$528,612.01 for the year, with an increase in capital assets of \$142,878.11 and an increase in current assets of \$385,733.90. The increase in capital assets is due mainly to the capitalization of group purchases, less annual depreciation expense. The increase in current assets is primarily due to an increase in cash of \$376,096.90 that was mainly a result of sustained cash receipts over expenses, similar to the prior year.

The total liabilities of the Corporation decreased by \$382,021.52 for the year, with a decrease in long-term liabilities of \$362,086.51. The decrease in long-term liabilities is primarily due to the Corporation continuing to pay down its capital debt for the Series 2021 Certificates of Participation.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Management’s Discussion and Analysis

The Corporation’s net position was \$3,890,355.41 at June 30, 2024, an increase of \$910,633.53 from the prior year. The significant change within net position is in the category of Net Investment in Capital Assets, which increased \$510,878.11 due to payments made on the Series 2021 Certificates of Participation and a beginning net position restatement attributable to the capitalization of group purchases in 2022 as required by *GASB Implementation Guide 2021-1 Question 5.1*. The remaining increase in Unrestricted is attributable to the aforementioned cash increase.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

	Year Ended June 30,		
	2024	2023	Change
Operating Revenues	\$ 1,353,587.80	1,371,199.40	\$ (17,611.60)
Operating Expenses			
Salaries and Benefits	157,504.49	141,932.69	15,571.80
Supplies and Services	196,816.79	262,301.00	(65,484.21)
Utilities	123,395.85	92,240.46	31,155.39
Depreciation Expense	140,091.89	111,094.33	28,997.56
Total Operating Expenses	617,809.02	607,568.48	10,240.54
Operating Income	735,778.78	763,630.92	(27,852.14)
Nonoperating Revenues (Expenses)			
Investment Income	110,344.97	52,726.09	57,618.88
Interest and Fees on Debt	(58,186.66)	(65,345.00)	7,158.34
Other Nonoperating Expenses	(100,097.56)	(93,437.14)	(6,660.42)
Total Nonoperating Expenses	(47,939.25)	(106,056.05)	58,116.80
Increase in Net Position	687,839.53	657,574.87	30,264.66
Beginning Net Position (restated)	3,202,515.88	2,322,147.01	880,368.87
Ending Net Position	\$ 3,890,355.41	\$ 2,979,721.88	\$ 910,633.53

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Management's Discussion and Analysis

The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in the net position at the end of the year. Total revenues for the fiscal year were \$1,463,932.77 compared to \$1,423,925.49 from the previous year, an increase of \$40,007.28. The highlight of the revenue accounts presented on the Statement of Revenues, Expenses, and Changes in Net Position is as follows:

- Operating revenues decreased by \$17,611.60. This decrease was attributable to slightly decreased occupancy with no change in housing rates.
- Nonoperating revenues increased by \$57,618.88. This increase was attributable to an increase in investment income from short-term investment fund (STIF) activities.

Total expenses were \$776,093.24 for the fiscal year ended June 30, 2024, and \$766,350.62 for 2023. Operating expenses totaled \$617,809.02 for the year compared to \$607,568.48 from the previous year, an increase of \$10,240.54. The significant change includes:

- Supplies and Services expenses decreased \$65,484.21 largely due to the prior-year accrual of TV/Cable contract termination expense.
- Utilities expense increased \$31,155.39 primarily as a result of rate increases for both electricity and water.
- Depreciation expense increased by \$28,997.56 primarily as a result of the capitalization of grouped assets including furniture purchased in the fiscal year ended June 30, 2022, and grouped assets purchased in the current fiscal year.

Capital Asset and Debt Administration

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

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

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

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

As of June 30, 2024, the Corporation has outstanding balance of \$2,447,000.00 in University of North Carolina School of the Arts Student Housing Project Refunding Certificates of Participation, Series 2021, and continues to make all its debt payments in a timely manner. No new debt was issued during the 2023-2024 fiscal year.

Economic Outlook

The University of North Carolina School of the Arts Housing Corporation continued to manage and use its resources wisely in fiscal year 2024. Based on currently known facts about the Corporation's financial performance in fiscal year 2024, management is confident that its sound financial position will be maintained throughout the next operating period. University administration will continue to effectively manage the financial resources of the Corporation to serve the University of North Carolina School of the Arts and to provide the highest quality housing experience to our students.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION**Statement of Net Position****June 30, 2024****Exhibit A-1****ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 2,472,388.78
Prepaid Items	45,430.63
Total Current Assets	<u>2,517,819.41</u>

Noncurrent Assets:

Capital Assets - Nondepreciable (Note 4)	451,326.00
Capital Assets - Depreciable, Net (Note 4)	3,398,135.45
Total Noncurrent Assets	<u>3,849,461.45</u>
Total Assets	<u>6,367,280.86</u>

DEFERRED OUTFLOWS OF RESOURCES-**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities	15,395.12
Interest Payable	4,078.33
Long-Term Liabilities - Current Portion (Note 5)	379,062.46
Total Current Liabilities	<u>398,535.91</u>

Noncurrent Liabilities:

Long-Term Liabilities, Net (Note 5)	<u>2,078,389.54</u>
Total Noncurrent Liabilities	<u>2,078,389.54</u>
Total Liabilities	<u>2,476,925.45</u>

DEFERRED INFLOWS OF RESOURCES-**NET POSITION**

Net Investment in Capital Assets	1,402,461.45
Unrestricted	<u>2,487,893.96</u>
Total Net Position	<u>\$ 3,890,355.41</u>

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2024

Exhibit A-2

OPERATING REVENUES

Sales and Services	\$ 1,346,887.80
Other Operating Revenues	6,700.00
	<hr/>
Total Operating Revenues	1,353,587.80
	<hr/>

OPERATING EXPENSES

Salaries and Benefits	157,504.49
Supplies and Services	196,816.79
Utilities	123,395.85
Depreciation	140,091.89
	<hr/>
Total Operating Expenses	617,809.02
	<hr/>
Operating Income	735,778.78
	<hr/>

NONOPERATING REVENUES (EXPENSES)

Investment Income	110,344.97
Interest and Fees on Debt	(58,186.66)
Other Nonoperating Expense	(100,097.56)
	<hr/>
Net Nonoperating Expenses	(47,939.25)
	<hr/>
Increase in Net Position	687,839.53

NET POSITION

Net Position - July 1, 2023, as Restated (Note 9)	3,202,515.88
	<hr/>
Net Position - June 30, 2024	\$ 3,890,355.41
	<hr/> <hr/>

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

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION**Statement of Cash Flows****For the Fiscal Year Ended June 30, 2024****Exhibit A-3****CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 1,353,587.80
Payments to Employees and Fringe Benefits	(143,430.92)
Payments to Vendors and Suppliers	<u>(357,331.39)</u>
Net Cash Provided by Operating Activities	<u>852,825.49</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Noncapital Contributions	<u>(100,097.56)</u>
Cash Used by Noncapital Financing Activities	<u>(100,097.56)</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Capital Assets	(60,176.00)
Principal Paid on Capital Debt and Leases	(368,000.00)
Interest and Fees Paid on Capital Debt and Leases	<u>(58,800.00)</u>
Cash Used by Capital Financing and Related Financing Activities	<u>(486,976.00)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>110,344.97</u>
Net Increase in Cash and Cash Equivalents	376,096.90
Cash and Cash Equivalents - July 1, 2023	<u>2,096,291.88</u>
Cash and Cash Equivalents - June 30, 2024	<u><u>\$ 2,472,388.78</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 735,778.78
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	140,091.89
Changes in Assets and Liabilities:	
Prepaid Items	(9,637.00)
Accounts Payable and Accrued Liabilities	(19,935.01)
Compensated Absences	<u>6,526.83</u>
Net Cash Provided by Operating Activities	<u><u>\$ 852,825.49</u></u>

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

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

E. Capital Assets - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015, are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Corporation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. In addition, grouped acquisitions of machinery and equipment that have an estimated useful life of more than one year but are individually below the \$5,000 threshold are capitalized using the layering approach.

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

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

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

F. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes: certificates of participation payable and other long-term liabilities include compensated absences.

G. Compensated Absences - The Corporation's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Notes to Financial Statements

G. Compensated Absences (Continued)

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

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

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

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

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

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

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

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

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

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2024, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$2,472,388.78, which represents the Corporation's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.4 years as of June 30, 2024. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

As of June 30, 2024, the Corporation did not have any cash deposits outside the State Treasurer's STIF; therefore, the Corporation was not exposed to custodial credit risk. The corporation does not have a formal investment policy related to interest rate and credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2024. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Notes to Financial Statements

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

Short-Term Investment Fund - At year-end, the Corporation’s investments held in the STIF were valued at \$2,472,388.78. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The Corporation’s position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2024, is presented as follows:

	Balance July 1, 2023 (as Restated)	Increases	Decreases	Balance June 30, 2024
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 451,326.00	\$ -	\$ -	\$ 451,326.00
Total Capital Assets, Nondepreciable	<u>451,326.00</u>	<u>-</u>	<u>-</u>	<u>451,326.00</u>
Capital Assets, Depreciable:				
Buildings	5,495,783.49	-	-	5,495,783.49
Machinery and Equipment	279,790.00	60,176.00	-	339,966.00
Total Capital Assets, Depreciable	<u>5,775,573.49</u>	<u>60,176.00</u>	<u>-</u>	<u>5,835,749.49</u>
Less Accumulated Depreciation for:				
Buildings	2,253,271.23	109,915.67	-	2,363,186.90
Machinery and Equipment	44,250.92	30,176.22	-	74,427.14
Total Accumulated Depreciation	<u>2,297,522.15</u>	<u>140,091.89</u>	<u>-</u>	<u>2,437,614.04</u>
Total Capital Assets, Depreciable, Net	<u>3,478,051.34</u>	<u>(79,915.89)</u>	<u>-</u>	<u>3,398,135.45</u>
Capital Assets, Net	<u>\$ 3,929,377.34</u>	<u>\$ (79,915.89)</u>	<u>\$ -</u>	<u>\$ 3,849,461.45</u>

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Notes to Financial Statements

During the year ended June 30, 2024, the Corporation incurred \$58,186.66 in interest costs related to the acquisition and construction of capital assets. All of these costs were charged in interest expense.

NOTE 5 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2024, is presented as follows:

	Balance July 1, 2023	Additions	Reductions	Balance June 30, 2024	Current Portion
Long-Term Debt					
Certificates of Participation	\$2,815,000.00	\$ -	\$ 368,000.00	\$ 2,447,000.00	\$ 378,000.00
Other Long-Term Liabilities					
Employee Benefits					
Compensated Absences	\$ 3,925.17	\$ 7,841.13	\$ 1,314.30	\$ 10,452.00	\$ 1,062.46
Total Long-Term Liabilities, Net	<u>\$2,818,925.17</u>	<u>\$ 7,841.13</u>	<u>\$ 369,314.30</u>	<u>\$ 2,457,452.00</u>	<u>\$ 379,062.46</u>

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

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Outstanding June 30, 2024	See Table Below
Certificates of Participation						
Student Housing Project	(A)	2.00%	06/01/2030	\$5,400,000	\$2,447,000	(1)

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

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

Ref	Revenue Source	Total Future Revenues Pledged	Revenues Net of Expenses	Principal	Interest	Estimate of % of Revenues Pledged
(1)	Housing Revenues	\$ 2,622,540.00	\$ 829,162.08	\$ 368,000.00	\$ 55,686.66	52.71%

C. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2024, are as follows:

Fiscal Year	Certificates of Participation	
	Principal	Interest
2025	\$ 378,000.00	\$ 48,940.00
2026	390,000.00	41,380.00
2027	401,000.00	33,580.00
2028	413,000.00	25,560.00
2029	426,000.00	17,300.00
2030-2034	439,000.00	8,780.00
Total Requirements	<u>\$ 2,447,000.00</u>	<u>\$ 175,540.00</u>

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Notes to Financial Statements

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

Certificates of Participation - The University has pledged the Center Stage Apartment complex as collateral for its outstanding Certificates of Participation of \$2,447,000.00, maturing on June 1, 2030. Rentals from the apartment complex are pledged for the retirement of this debt. The indenture of trust, the use agreement, and the deed of trust contain provisions related to events of default and remedies.

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

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

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

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

In addition to the above, per the deed of trust, in the event of a default, the trustee may also: (1) manage and operate the mortgaged property and carry on business and receive all earnings from the mortgaged property after deducting expenses, (2) foreclose the deed of trust, or (3) take such steps to protect and enforce its rights whether by action, suit, or

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

Notes to Financial Statements

proceedings in equity or at law for the specific performance of any covenant, condition, or agreement in the indenture or the deed of trust.

NOTE 6 - TRANSACTIONS WITH THE UNIVERSITY

University employees provide certain services to the Corporation for which the Corporation reimburses the University for salary and salary related expenses. Thus, the Corporation has no employee obligations nor employee benefit obligations. For the year ended June 30, 2024, the Corporation reimbursed the University \$157,504.49 for these expenses.

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

NOTE 7 - RISK MANAGEMENT

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

NOTE 8 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2024, the University implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 100, Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62

GASB Statement No. 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity, and describes the transactions or other events that constitute those changes. This Statement prescribes the accounting and financial reporting for each type of accounting change and error corrections, and requires disclosure in the notes to the financial statements of descriptive information about accounting changes and error corrections, such as their nature. Furthermore, this Statement addresses how information that is affected by a change

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

in accounting principle or error correction should be presented in required supplementary information and supplementary information.

NOTE 9 - NET POSITION RESTATEMENT

As of July 1, 2023, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2023 Net Position as Previously Reported	\$ 2,979,721.88
Restatement	
Change in Accounting Principle for Grouped Assets	<u>222,794.00</u>
July 1, 2023 Net Position as Restated	<u><u>\$ 3,202,515.88</u></u>

The Corporation restated the July 1, 2023, balance of depreciable capital assets for machinery and equipment to account for grouped assets under *GASB Implementation Guide 2021-1* Question 5.1 Asset Capitalization policy for individual assets below capitalization threshold but significant in aggregate. The net position restatement reflects the net amount of these assets. See Note 4 for the details on the restated balances related to capital assets.



September 25, 2024

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

We have audited the financial statements of University of North Carolina School of the Arts Program Support Corporation as of and for the year ended June 30, 2024, and have issued our report thereon dated September 25, 2024. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated February 19, 2024, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of University of North Carolina School of the Arts Program Support Corporation solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

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brc.cpa

Safeguards include: Continuing education on independence and ethics, client personnel have suitable skill and knowledge, firm policies related to monitoring relationships and communicating any issues that arise. The importance of professional skepticism was stressed to the Engagement team during preliminary discussions.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by University of North Carolina School of the Arts Program Support Corporation is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2024. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are Management's estimate for the Regis Film Collection.

Management's estimate of the value of capital assets is based on the appraised value. We evaluated the key factors and assumptions used to develop the value of capital assets and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting University of North Carolina School of the Arts Program Support Corporation's financial statements relate to: capital assets.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. No significant unusual transactions were noted during our audit of your financial statements.

Identified or Suspected Fraud

No identified or suspected fraud activities were identified during our audit of your financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. No such misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to University of North Carolina School of the Arts Program Support Corporation's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. No circumstances occurred during the audit that affected the form or content of our auditor's report for your audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the representation letter dated September 25, 2024.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with University of North Carolina School of the Arts Program Support Corporation we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as University of North Carolina School of the Arts Program Support Corporation's auditors.

University of North Carolina School of the Arts - Component Unit

September 25, 2024

Page 4

This report is intended solely for the information and use of the Board of Directors and management of University of North Carolina School of the Arts Program Support Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Bernard Robinson & Company, L.L.P.

BERNARD ROBINSON & COMPANY, L.L.P.

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

FINANCIAL REPORT

JUNE 30, 2024



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

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

Opinion

We have audited the financial statements of University of North Carolina School of the Arts Program Support Corporation (a nonprofit corporation) (the "Corporation"), which comprise the statement of net position as of June 30, 2024, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets and net assets of University of North Carolina School of the Arts Program Support Corporation as of June 30, 2024, and its results of operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibility of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 25, 2024

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

Introduction

This section of the University of North Carolina School of the Arts Program Support Corporation (Corporation) financial report provides an overview of the financial position and activities as of and for the year ended June 30, 2024. This discussion has been prepared by management along with the financial statements and related notes to the financial statements and should be read in conjunction with the financial statements and the notes thereto, which follow this section. This discussion and analysis is designed to focus on current activities, resulting change, and current known facts.

Using the Financial Statements

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

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

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

Statement of Net Position

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

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

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

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

Condensed Statement of Net Position

	Year Ended June 30,		
	2024	2023	Change
Assets			
Current Assets	\$ 63,756.58	\$ 72,927.96	\$ (9,171.38)
Capital Assets, Net	1,082,625.00	1,082,625.00	-
Total Assets	<u>1,146,381.58</u>	<u>1,155,552.96</u>	<u>(9,171.38)</u>
Liabilities			
Current Liabilities	1,291.80	462.90	828.90
Total Liabilities	<u>1,291.80</u>	<u>462.90</u>	<u>828.90</u>
Net Position			
Net Investment in Capital Assets	1,082,625.00	1,082,625.00	-
Unrestricted	62,464.78	72,465.06	(10,000.28)
Total Net Position	<u>\$ 1,145,089.78</u>	<u>\$ 1,155,090.06</u>	<u>\$ (10,000.28)</u>

The total assets of the Corporation decreased by \$9,171.38 for the year due to a decrease in current assets.

The Corporation's net position was \$1,145,089.78 at June 30, 2024, a decrease of \$10,000.28 from the prior year. The significant change was within the category of unrestricted.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

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

	Year Ended June 30,		
	<u>2024</u>	<u>2023</u>	<u>Change</u>
Operating Revenues	\$ 11,604.09	\$ 14,413.57	\$ (2,809.48)
Operating Expenses			
Salaries and Benefits	13,931.13	5,751.52	8,179.61
Supplies and Services	7,673.24	9,692.51	(2,019.27)
Total Operating Expenses	<u>21,604.37</u>	<u>15,444.03</u>	<u>6,160.34</u>
Operating Loss	<u>(10,000.28)</u>	<u>(1,030.46)</u>	<u>(8,969.82)</u>
Decrease in Net Position	(10,000.28)	(1,030.46)	(8,969.82)
Beginning Net Position	<u>1,155,090.06</u>	<u>1,156,120.52</u>	<u>(1,030.46)</u>
Ending Net Position	<u>\$ 1,145,089.78</u>	<u>\$ 1,155,090.06</u>	<u>\$ (10,000.28)</u>

The Statement of Revenues, Expenses, and Changes in Net Position reflects a decrease in the net position at the end of the year. Total operating revenues for the fiscal year were \$11,604.09 compared to \$14,413.57 from the previous year, a decrease of \$2,809.48. Operating revenues decreased primarily due to a decrease in film rental revenues.

Total operating expenses were \$21,604.37 for the fiscal year ended June 30, 2024, and \$15,444.03 for 2023. This increase was primarily due to an increase in temporary employee utilization.

Economic Outlook

The University of North Carolina School of the Arts Program Support Corporation continued to manage and use its resources wisely in fiscal year 2024. Based on currently known facts about the Corporation's financial performance in fiscal year 2024, management is confident that its sound financial position will be maintained throughout the next operating period. University administration will continue to effectively manage the financial resources of the Corporation to serve the University of North Carolina School of the Arts and to provide the highest quality educational experience to our students.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS
PROGRAM SUPPORT CORPORATION
Statement of Net Position
June 30, 2024**

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 57,359.08
Receivables	645.00
Prepaid Items	<u>5,752.50</u>
Total Current Assets	<u>63,756.58</u>

Noncurrent Assets:

Capital Assets - Nondepreciable	<u>1,082,625.00</u>
Total Noncurrent Assets	<u>1,082,625.00</u>
Total Assets	<u>1,146,381.58</u>

DEFERRED OUTFLOWS OF RESOURCES

-

LIABILITIES

1,291.80

DEFERRED INFLOWS OF RESOURCES

-

NET POSITION

Net Investment in Capital Assets	1,082,625.00
Unrestricted	<u>62,464.78</u>
Total Net Position	<u>\$ 1,145,089.78</u>

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS
PROGRAM SUPPORT CORPORATION
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2024**

Exhibit A-2

OPERATING REVENUES

Film Rentals	\$ 11,604.09
Total Operating Revenues	<u>11,604.09</u>

OPERATING EXPENSES

Salaries and Benefits	13,931.13
Supplies and Services	<u>7,673.24</u>
Total Operating Expenses	<u>21,604.37</u>
Operating Loss	<u>(10,000.28)</u>
Decrease in Net Position	(10,000.28)

NET POSITION

Net Position - July 1, 2023	<u>1,155,090.06</u>
Net Position - June 30, 2024	<u><u>\$ 1,145,089.78</u></u>

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

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS
PROGRAM SUPPORT CORPORATION
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2024**

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 12,279.09
Payments to Employees and Fringe Benefits	(13,102.23)
Payments to Vendors and Suppliers	<u>(8,043.74)</u>
Net Cash Used by Operating Activities	<u>(8,866.88)</u>
Net Decrease in Cash and Cash Equivalents	(8,866.88)
Cash and Cash Equivalents - July 1, 2023	<u>66,225.96</u>
Cash and Cash Equivalents - June 30, 2024	<u><u>\$ 57,359.08</u></u>

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

Operating Loss	\$ (10,000.28)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Receivables	675.00
Prepaid Items	(370.50)
Accounts Payable and Accrued Liabilities	<u>828.90</u>
Net Cash Used by Operating Activities	<u><u>\$ (8,866.88)</u></u>

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Corporation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. In addition, grouped acquisitions of machinery and equipment that have an estimated useful life of more than one year but are individually below \$5,000 threshold are capitalized using the layering approach.

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

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

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

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

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

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

- G. Revenue and Expense Recognition** - The Corporation classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Corporation's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as film rentals. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

At June 30, 2024, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$57,359.08, which represents the Corporation's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.4 years as of June 30, 2024. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report.

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

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

As of June 30, 2024, the Corporation did not have any cash deposits outside the State Treasurer's STIF; therefore, the Corporation was not exposed to custodial credit risk. The corporation does not have a formal investment policy related to interest rate and credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2024. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

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

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

Short-Term Investment Fund - At year-end, the Corporation's investments held in the STIF were valued at \$57,359.08. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The Corporation's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

NOTE 4 - TRANSACTIONS WITH THE UNIVERSITY

University employees provide certain services to the Corporation for which the Corporation reimburses the University for salary and salary related expenses. Thus, the Corporation has no employee obligations nor employee benefit obligations. For the year ended June 30, 2024, the Corporation reimbursed UNCSA \$13,931.13 for these expenses.

NOTE 5 - RISK MANAGEMENT

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

NOTE 6 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2024, the Corporation implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 100, Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62

GASB Statement No. 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity, and describes the transactions or other events that constitute those changes. This Statement prescribes the accounting and financial reporting for each type of accounting change and error corrections and requires disclosure in the notes to the financial statements of descriptive information about accounting changes and error corrections, such as their nature. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information.



September 25, 2024

To the Board of Directors
Thomas S. Kenan Institute for the Arts Supporting Organization
Winston-Salem, NC 27127

We have audited the financial statements of Thomas S. Kenan Institute for the Arts Supporting Organization (the “Organization”) as of and for the year ended June 30, 2024, and have issued our report thereon dated September 25, 2024. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated February 19, 2024, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Organization solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

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brc.cpa

Safeguards include: Continuing education on independence and ethics, client personnel have suitable skill and knowledge, firm policies related to monitoring relationships and communicating any issues that arise. The importance of professional skepticism was stressed to the Engagement team during preliminary discussions.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Organization is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2024. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

There were no such significant accounting estimates affecting the financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Organization's financial statements relate to: capital assets.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. No significant unusual transactions were noted during our audit of your financial statements.

Identified or Suspected Fraud

No identified or suspected fraud activities were identified during our audit of your financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. No such misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Organization's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. No circumstances occurred during the audit that affected the form or content of our auditor's report for your audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the representation letter dated September 25, 2024.

Management's Consultations with Other Accountants

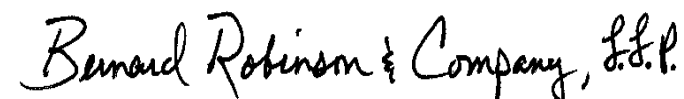
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Organization's auditors.

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

Sincerely,



BERNARD ROBINSON & COMPANY, L.L.P.

**THOMAS S. KENAN INSTITUTE FOR THE ARTS
SUPPORTING ORGANIZATION**
(A Component Unit of the University of North Carolina School of the Arts)

FINANCIAL REPORT

JUNE 30, 2024



THOMAS S. KENAN INSTITUTE FOR THE ARTS SUPPORTING ORGANIZATION
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Independent Auditor's Report

To the Board of Directors
Thomas S. Kenan Institute for the Arts Supporting Organization
Winston-Salem, North Carolina

Opinion

We have audited the financial statements of Thomas S. Kenan Institute for the Arts Supporting Organization (a nonprofit corporation) (the "Corporation"), which comprise the balance sheet as of June 30, 2024, and the related statements of revenues, expenses, and change in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets and net assets of Thomas S. Kenan Institute for the Arts Supporting Organization as of June 30, 2024, and its results of operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 Financial Statements section of our report. We are required to be independent of Thomas S. Kenan Institute for the Arts Supporting Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Thomas S. Kenan Institute for the Arts Supporting Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 25, 2024

THE THOMAS S. KENAN INSTITUTE FOR THE ARTS SUPPORTING ORGANIZATION

Management's Discussion and Analysis

Introduction

This section of The Thomas S. Kenan Institute for the Arts Supporting Organization (Corporation) financial report provides an overview of the financial position and activities as of and for the year ended June 30, 2024. This discussion has been prepared by management along with the financial statements and related notes to the financial statements and should be read in conjunction with the financial statements and the notes thereto, which follow this section. This discussion and analysis is designed to focus on current activities, resulting change, and current known facts.

Using the Financial Statements

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

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

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

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the Corporation as of the end of the fiscal year. The purpose of the Statement of Net Position is to present the readers of the financial statements a fiscal snapshot of The Thomas S. Kenan Institute for the Arts Supporting Organization. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets plus deferred outflows minus liabilities plus deferred inflows).

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

THE THOMAS S. KENAN INSTITUTE FOR THE ARTS SUPPORTING ORGANIZATION
Management's Discussion and Analysis

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

Condensed Statement of Net Position

	Year Ended June 30,		
	2024	2023	Change
Assets			
Current Assets	\$ 2,095,412.70	\$ 2,008,878.89	\$ 86,533.81
Noncurrent Assets	31,247.00	-	31,247.00
Total Assets	<u>2,126,659.70</u>	<u>2,008,878.89</u>	<u>117,780.81</u>
Liabilities			
Current Liabilities	83,608.76	62,074.72	21,534.04
Total Liabilities	<u>83,608.76</u>	<u>62,074.72</u>	<u>21,534.04</u>
Net Position			
Net Investment in Capital Assets	31,247.00	-	31,247.00
Unrestricted	<u>2,011,803.94</u>	<u>1,946,804.17</u>	<u>64,999.77</u>
Total Net Position	<u>\$ 2,043,050.94</u>	<u>\$ 1,946,804.17</u>	<u>\$ 96,246.77</u>

The total assets of the Corporation increased by \$117,780.81 for the year due to increases in both current and noncurrent assets. The current asset increase of \$86,533.81 was in cash and cash equivalents due mainly to an increase in noncapital contributions. The noncurrent asset increase of \$31,247.00 was due to the capitalization of furniture purchased as a grouped asset during the fiscal year.

The total liabilities of the Corporation increased by \$21,534.04 for the year due to an increase in current liabilities. This was mainly attributed to an increase in the amount due to primary government representing supplies and materials purchases owed to the University.

The Corporation's net position was \$2,043,050.94 at June 30, 2024, an increase of \$96,246.77 from the prior year. The significant change was within the category of unrestricted due to an increase in cash and cash equivalents in addition to the aforementioned capital asset acquisition.

THE THOMAS S. KENAN INSTITUTE FOR THE ARTS SUPPORTING ORGANIZATION
Management's Discussion and Analysis

Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

	Year Ended June 30,		
	2024	2023	Change
Operating Revenues	\$ 2,597.30	\$ 1,250.00	\$ 1,347.30
Operating Expenses			
Salaries and Benefits	459,341.19	443,943.08	15,398.11
Supplies and Services	1,489,204.83	1,035,994.60	453,210.23
Utilities	3,995.88	4,499.37	(503.49)
Depreciation	1,645.00	-	1,645.00
Total Operating Expenses	1,954,186.90	1,484,437.05	469,749.85
Operating Loss	(1,951,589.60)	(1,483,187.05)	(468,402.55)
Nonoperating Revenues (Expenses)			
Noncapital Contributions	2,047,500.00	1,957,500.00	90,000.00
Investment Income	249.46	216.35	33.11
Other Nonoperating Revenues	86.91	-	86.91
Total Nonoperating Revenues	2,047,836.37	1,957,716.35	90,120.02
Increase (Decrease) in Net Position	96,246.77	474,529.30	(378,282.53)
Beginning Net Position	1,946,804.17	1,472,274.87	474,529.30
Ending Net Position	\$ 2,043,050.94	\$ 1,946,804.17	\$ 96,246.77

The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in the net position at the end of the year. Total revenues for the fiscal year were \$2,050,433.67 compared to \$1,958,966.35 from the previous year, an increase of \$91,467.32. This was mainly due to an increase in noncapital contributions.

THE THOMAS S. KENAN INSTITUTE FOR THE ARTS SUPPORTING ORGANIZATION
Management's Discussion and Analysis

Total operating expenses were \$1,954,186.90 for the fiscal year ended June 30, 2024, and \$1,484,437.05 for 2023. The increase was due to an increase in service expenditures and grantmaking.

Economic Outlook

The Thomas S. Kenan Institute for the Arts Supporting Organization continued to manage and use its resources wisely in fiscal year 2024. Based on currently known facts about the Corporation's financial performance in fiscal year 2024, management is confident that its sound financial position will be maintained throughout the next operating period. University administration will continue to effectively manage the financial resources of the Corporation to support the programs, activities, and administration of the Thomas S. Kenan Institute of the Arts at the University of North Carolina School of the Arts.

**THE THOMAS S. KENAN INSTITUTE FOR THE ARTS
SUPPORTING ORGANIZATION
Statement of Net Position
June 30, 2024**

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,095,412.70
Total Current Assets	<u>2,095,412.70</u>

Noncurrent Assets:

Capital Assets - Depreciable, Net (Note 3)	<u>31,247.00</u>
Total Noncurrent Assets	<u>31,247.00</u>

Total Assets	<u>2,126,659.70</u>
--------------	---------------------

DEFERRED OUTFLOWS OF RESOURCES

<u>-</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	19,498.72
Due to Primary Government	<u>64,110.04</u>
Total Current Liabilities	<u>83,608.76</u>

Total Liabilities	<u>83,608.76</u>
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DEFERRED INFLOWS OF RESOURCES

<u>-</u>

NET POSITION

Net Investment in Capital Assets	31,247.00
Unrestricted	<u>2,011,803.94</u>
Total Net Position	<u>\$ 2,043,050.94</u>

**THE THOMAS S. KENAN INSTITUTE FOR THE ARTS
SUPPORTING ORGANIZATION
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2024**

Exhibit A-2

OPERATING REVENUES	
Other Operating Revenues	\$ 2,597.30
Total Operating Revenues	<u>2,597.30</u>
OPERATING EXPENSES	
Salaries and Benefits	459,341.19
Supplies and Services	1,489,204.83
Utilities	3,995.88
Depreciation	1,645.00
Total Operating Expenses	<u>1,954,186.90</u>
Operating Loss	<u>(1,951,589.60)</u>
NONOPERATING REVENUES	
Noncapital Contributions	2,047,500.00
Investment Income	249.46
Other Nonoperating Revenues	86.91
Net Nonoperating Revenues	<u>2,047,836.37</u>
Increase in Net Position	96,246.77
NET POSITION	
Net Position - July 1, 2023	<u>1,946,804.17</u>
Net Position - June 30, 2024	<u>\$ 2,043,050.94</u>

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

**THE THOMAS S. KENAN INSTITUTE FOR THE ARTS
SUPPORTING ORGANIZATION
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2024**

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 2,684.21
Payments to Employees and Fringe Benefits	(465,587.39)
Payments to Vendors and Suppliers	<u>(1,465,420.47)</u>
Net Cash Used by Operating Activities	<u>(1,928,323.65)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Noncapital Contributions	<u>2,047,500.00</u>
Cash Provided by Noncapital Financing Activities	<u>2,047,500.00</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Capital Assets	<u>(32,892.00)</u>
Cash Used by Capital Financing and Related Financing Activities	<u>(32,892.00)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>249.46</u>
Cash Provided by Investing Activities	<u>249.46</u>
Net Increase in Cash and Cash Equivalents	86,533.81
Cash and Cash Equivalents - July 1, 2023	<u>2,008,878.89</u>
Cash and Cash Equivalents - June 30, 2024	<u><u>\$ 2,095,412.70</u></u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (1,951,589.60)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,645.00
Other Nonoperating Income	86.91
Changes in Assets and Liabilities:	
Due to Primary Government	17,214.93
Accounts Payable and Accrued Liabilities	<u>4,319.11</u>
Net Cash Used by Operating Activities	<u><u>\$ (1,928,323.65)</u></u>

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

THE THOMAS S. KENAN INSTITUTE FOR THE ARTS SUPPORTING ORGANIZATION
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The Thomas S. Kenan Institute for the Arts Supporting Organization (Corporation), a blended component unit of the University of North Carolina School of the Arts (University), is a North Carolina nonprofit corporation organized to receive and administer funds exclusively for, and to exclusively support the programs, activities, and administration of, the Thomas S. Kenan Institute for the Arts at UNCASA. The Corporation is governed by at least five (5) and no more than ten (10) appointed directors. Its purpose includes, but is not limited to receiving, investing, and administering funds for the University to use for its charitable, scientific, and educational purposes. Because the directors are mainly officers of the University and the Corporation's sole purpose is to provide support to the University and affiliated and associated entities, its financial statements have been blended with those of the University.

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

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

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

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

D. Cash and Cash Equivalents - This classification includes cash on deposit with private bank accounts.

E. Capital Assets - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015, are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

THE THOMAS S. KENAN INSTITUTE FOR THE ARTS SUPPORTING ORGANIZATION
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Corporation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. In addition, grouped acquisitions of machinery and equipment that have an estimated useful life of more than one year but are individually below the \$5,000 threshold are capitalized through the layering approach.

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

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

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

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

Unrestricted Net Position - Unrestricted net position includes resources derived from sales and services, unrestricted gifts, surplus sales, and rental income.

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

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

THE THOMAS S. KENAN INSTITUTE FOR THE ARTS SUPPORTING ORGANIZATION
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The carrying amount of the Corporation’s deposits not with the State Treasurer, as of June 30, 2024, was \$2,095,412.70. Custodial credit risk is the risk that in the event of a bank failure, the Corporation’s deposits may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk. As of June 30, 2024, \$1,938,188.85 of the Corporation’s bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

NOTE 3 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2024, is presented as follows:

	Balance July 1, 2023	Increases	Decreases	Balance June 30, 2024
Capital Assets, Depreciable:				
Machinery and Equipment	\$ -	\$ 32,892.00	\$ -	\$ 32,892.00
Total Capital Assets, Depreciable	-	32,892.00	-	32,892.00
Less Accumulated Depreciation for:				
Machinery and Equipment	-	1,645.00	-	1,645.00
Total Accumulated Depreciation	-	1,645.00	-	1,645.00
Total Capital Assets, Depreciable, Net	-	31,247.00	-	31,247.00
Capital Assets, Net	\$ -	\$ 31,247.00	\$ -	\$ 31,247.00

THE THOMAS S. KENAN INSTITUTE FOR THE ARTS SUPPORTING ORGANIZATION
Notes to Financial Statements

NOTE 4 - TRANSACTIONS WITH THE UNIVERSITY

University employees provide certain services to the Corporation for which the Corporation reimburses the University for salary and salary related expenses. Thus, the Corporation has no employee obligations nor employee benefit obligations. For the year ended June 30, 2024, the Corporation reimbursed the University \$459,341.19 for these expenses.

NOTE 5 - RISK MANAGEMENT

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

NOTE 6 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2024, the Corporation implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 100, Accounting Changes and Error Corrections –
an Amendment of GASB Statement No. 62*

GASB Statement No. 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity, and describes the transactions or other events that constitute those changes. This Statement prescribes the accounting and financial reporting for each type of accounting change and error corrections and requires disclosure in the notes to the financial statements of descriptive information about accounting changes and error corrections, such as their nature. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information and supplementary information.

AGENDA ITEM

Internal Audit Activity UpdateRod Isom & IA Staff

Summary*:

a) Recent Reports and Other Communication

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

- *Planned Review – Enrollment Operations*

b) Audit Plan Project Status and Updates *

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

- *One new project, PCard/TCard Compliance review, has been added to the audit plan based upon a regulation from the System Office.*

c) Charter Updates and Approval**

The IA Charter and ARCC Charter has been updated based upon the new audit standards (Global Standards).

- *The IA Charter is a formal document that includes the internal audit function's mandate, organizational position, reporting relationships, scope of work, types of services, and other specifications. The charter provides the organization a blueprint for how internal audit will operate and helps the governing body to clearly signal the value it places on internal audit's independence. The ARCC Charter is a formal document that governs the committee.*
- *This item is an action item and requires approval.*

d) Other Activities and Matters

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

- *IA Strategic Plan Update - IA updated strategy will be presented to the ARCC based upon the Global Standards.*
 - *Standard 9.2: Internal Audit Strategy - The Chief Audit Executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.*

**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 and include action items.

CLOSED UPDATE: An investigative audit report will be discussed in closed session.

OFFICE OF INTERNAL **A**UDIT

REPORT

ENROLLMENT OPERATIONS



AUDIT TEAM

Cory Billings, Audit Manager
Robert T. Davis III, Investigative Auditor

November 20, 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 | internalaudit@wssu.edu

November 20, 2024

Patrick J. Sims

Executive Vice Chancellor and Provost

University of North Carolina School of the Arts

1533 South Main Street

Winston-Salem, NC 27127-2738

Dear Provost Sims:

The Winston-Salem State University (WSSU) Office of Internal Audit (IA) has completed its planned review of the North Carolina School of the Arts' (UNCSA) protocols related to enrollment operations, specifically recruitment and retention. The scope of the review was Fiscal Year 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 WSSU's IA for UNCSA are conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Respectfully submitted,

Rod Isom

Chief Audit Officer

cc: Brian Cole, Chancellor
Sharon Hush, Director of Registrar's Office, Interim Co-Director of Admissions
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel
Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff
Audit, Risk, and Compliance Committee, UNCSA Board of Trustees

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EXECUTIVE SUMMARY

Based on the results of IA's annual risk assessment and other discussions with leadership, a review of the protocols related to enrollment operations, specifically recruitment and retention, was selected. UNCOSA's funding allocation received from the University of North Carolina System Office (System Office) is comprised of two parts: enrollment and performance metrics. A failure to meet established performance metrics or a decrease in enrollment will result in a decrease in state funding which will negatively impact operations.

The objective of the review is to assess the effectiveness of the enrollment processes as it relates to recruitment and retention goals.

During the review, IA noted that management is in the process of addressing the enrollment management structure as a need assessment had been conducted an internal task force, however, the review identified an opportunity for improvement and recommendations were provided to mitigate risk and improve operations at the university. This item is discussed in detail in the *Audit Observations and Recommendations* section and summarized below.

Observation:

- Ineffective Enrollment Management Structure

Recommendations:

- 1) Management should ensure that roles and responsibilities related to enrollment and retention are established, clearly defined, and documented.
- 2) Management should implement a documented enrollment and retention plan that is monitored to ensure the university is meeting strategic goals.

Implementation of the recommendations should assist the university with strategic success as it relates to the *Institutional Sustainability Core Strategy*, as well as assist the university with risk mitigation efforts toward a top enterprise risk, *Performance Funding and Enrollment*.

BACKGROUND, OBJECTIVE, AND SCOPE

BACKGROUND:

Based on the results of IA's annual risk assessment and other discussions with leadership, a review of the protocols related to enrollment operations, specifically recruitment and retention, was selected. UNCOSA's funding allocation received from the System Office is comprised of two parts: enrollment and performance metrics. A failure to meet established performance metrics or a decrease in enrollment will result in a decrease in state funding which will negatively impact operations.

Admissions, which is part of the enrollment management structure, at UNCOSA are different from applying to a traditional university. Because it is an arts conservatory, auditions and interviews are conducted with applicants to evaluate young artists' true artistic gifts and professional potential. Applicants apply for admission to a specific program in one of five conservatories where each conservatory and degree level has its own admissions process and requirements.

OBJECTIVE:

The objective of the review is to assess the effectiveness of the enrollment processes as it relates to recruitment and retention goals.

To conduct the review, IA performed the following procedures:

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

SCOPE:

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

This report presents the results of IA's review.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following audit observation was identified during the review and describes conditions that could adversely affect UNCSA's ability to meet its strategic goals.

1. Ineffective Enrollment Management Structure

The university does not have an effective enrollment management structure in place. As a result, the risk increases that the university will not meet strategic goals and objectives.

IA's review concluded the following:

Centralized Strategy

A centralized strategy related to enrollment and retention has not been developed and documented. Additionally, management stated it is difficult to provide students with estimated financial aid packages and costs of attendance when recruiting students using the current model. A centralized strategy would assist with developing scholarship needs and guide the enrollment efforts of each conservatory.

Roles and Responsibilities

Enrollment roles and responsibilities have not been established and documented. While the admissions process for the UNCSA is different from a traditional university and each conservatory has its own process and requirements, there is not a centralized monitoring role that can assist in evaluating current strategies for effectiveness to determine if UNCSA is meeting enrollment objectives. From the Fall 2021 semester through Fall 2023 semester, the university has experienced a 3.7% decrease in enrollment. Decreases have been experienced within 4 of the 5 schools, however, it is difficult for management to determine a root cause, develop a plan to increase enrollment, and provide monitoring and oversight to admissions and enrollment concerns as they occur. Additionally, performance metrics have been established by the System Office that relate to retention and completion where real-time monitoring and oversight of these metrics become increasingly important. A lack of documented roles and responsibilities impairs the university's ability to establish an enrollment and retention strategy, which could have an impact on university funding.

According to management, there is a need to hire a Vice Chancellor for Enrollment Management, who would serve as the lead support to address enrollment management duties. Management performed a need assessment for the Vice Chancellor role and expects the position to be filled by the end of FY25.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a generally accepted framework for internal controls to improve

AUDIT OBSERVATIONS AND RECOMMENDATIONS

organizational performance and governance. A fundamental concept of the framework is the control activities. An underlying principle of control activities is that “The organization deploys control activities through policies that establish what is expected and in procedures that put policies into action.” Another fundamental concept of the framework is monitoring activities. An underlying principle of monitoring activities is that “The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.”

The UNCSA Strategic Plan identifies Institutional Sustainability as a Core Strategy where “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.” One of the aspects related to Enrollment Sustainability states, “Increase the number of full-tuition scholarships offered and the availability of scholarships to competitively recruit in-demand students.” Another aspect related to Enrollment Sustainability states, “Support student progress by increasing the first- and second-year retention rates.”

Recommendations:

- 1) Management should ensure that roles and responsibilities related to enrollment and retention are established, clearly defined, and documented.
- 2) Management should implement a documented enrollment and retention plan that is monitored to ensure the university is meeting strategic goals.



Patrick J. Sims

A handwritten signature in blue ink, appearing to read "Patrick J. Sims".

Executive Vice Chancellor
and Provost

1533 S. Main St.
Winston-Salem, NC 27127

o: (336) 770-3262

simsp@uncsa.edu

www.uncsa.edu

November 7, 2024

MEMO

To: Rod Isom, Chief Audit Officer

Cc: Brian Cole, Chancellor

Jim DeCristo, Chief of Staff

Karen Beres, Vice Provost for Academic Affairs

Laurel Donley, Vice Provost for Student Affairs

Endalyn T. Outlaw, Dean of Dance

Michael Kelley, Dean of Design and Production

Rachel Williams, Dean of Division of Liberal Arts

John Langs, Dean of Drama

Deborah LeVine, Dean of Filmmaking

Saxton Rose, Dean of Music

Martin Ferrell, Dean of High School Academic Program

Sharon Hush, Director of Registrar's Office Interim Co-Director of

Admissions

Re: Response to Audit Observation(s) and Recommendation(s) – Ineffective Enrollment Management Structure

Thank you for this report and the information that you have compiled regarding the investigation of our enrollment management process. The following outlines our initial response and timeline for implementation of processes related to your principal finding that the university has an: **Ineffective Enrollment Management Structure.**

Management's Response:

We agree with the assessment that the university has an ineffective enrollment management structure; in fact, we began a discussion with campus leadership three and half years ago to address inefficiencies that have since compounded with the departure of the Director of Admissions. The university seeks to create a Vice Provost for Enrollment Management position, which will have supervisory oversight for relevant units – admissions, registrar and financial aid – and play a critical in the enrollment growth and management strategy for the university. Despite the fact that it has taken some time to identify the funding for the role, the position was finally approved in the spring of 2024 through a series of reallocations. We expect to launch the search for the position in fall 2024, with the goal of having filled the position by mid-spring 2025. This position will play a critical role in collaborating with the various stakeholders on building out a recruitment strategy that capitalizes on our high school academic program and is sustainable.

Plan of action regarding the recommendations:

- 1) **Management should ensure that roles and responsibilities related to enrollment and retention are established, clearly defined, and documented.**
 - a. Commission a task force to provide recommendations and considerations on the creation of a Vice Provost of Enrollment Management. (Completed task report attached)
 - i. **Timeline for completion: November 30, 2023**
 - b. Based on the feedback from said report, a search committee was formed to support draft a job description that outlines the duties and process of identifying new Vice Provost for Enrollment Management. (Job description attached)
 - i. **Timeline for completion: July 30, 2024**
 - c. Given that the position does not currently exist at UNCSA, UNC System approval is needed to post the position.
 - i. **Timeline for completion: November 30, 2024**
 - d. Commence and conclude search for the VPEM. (Search committee roster and draft charge attached)
 - i. **Timeline for completion: November 1, 2024 thru March 30, 2025**
 - e. Once hired, a new organizational restructure will occur placing Admissions, Registrar's Office and Financial Aid under the supervision of the VPEM instead of the Provost.
 - i. **Timeline for completion: No later than July 1, 2025**

- 2) **Management should implement a documented enrollment and retention plan that is monitored to ensure the university is meeting strategic goals.**
 - a. Efforts are underway to improve student retention through partnerships such as academic coaching and Take 5 wellness campaigns with Academic Affairs and Student Affairs.
 - i. **Timeline for completion: Ongoing**
 - b. For the first time in the history of UNCSA, funding has been provided from the Provost Office to the Division of Liberal Arts to support a full-time academic advisor dedicated to ensuring students complete their general education requirements as well as their arts curriculum in a timely manner.
 - i. **Timeline for completion: Advisor hired by November 2024**
 - c. Preliminary enrollment planning is underway to increase student population from approximately 1,350 to 1,500 students. Enrollment growth is directly to the building of the new high school dormitory, additional classroom spaces and hiring of additional personnel to support the expanded student body.

i. Timeline for completion: Dormitory is expected to be completed no later than fall 2028.

ii. Timeline for completion: Strategic planning to right-size enrollment growth will be ongoing

Expected Date of Implementation:

See above for each recommendation

Party Responsible for Implementing the Identified Actions:

Recommendation 1:	Chancellor Provost Vice Provost for Academic Affairs Faculty Council Chair or designee Chief Human Resources Officer or designee
Recommendation 2:	Vice Provost for Academic Affairs Vice Provost for Student Affairs Division of Liberal Arts
Recommendation 2c:	Chancellor Provost Vice Chancellor for Finance and Administration Vice Provost for Academic Affairs Vice Provost for Student Affairs UNCSA Faculty Dance Design and Production Division of Liberal Arts Drama Filmmaking High School Academic Program Music

Fiscal Year 25 Plan Component Project Status

Plan Component	Last Milestone*	Progress Status^
FY2024 Self Assessment Maturity Model	FR	Complete
Planned: Enrollment Operations – 11/20/24	FR	Complete
Investigation: Faculty Hiring Process – 11/21/24	FR	Complete
Special Project: WSSU IA External Quality Assessment Review	IP	On Track
Follow-up: Outstanding Observations	OG	On Track
Special Project: New IIA Standards & Implementation Project	IP	On Track
PCard/TCard Regulation Compliance (ADDED)		Not Started

^Progress Status

Red - Major Delays

Orange - Some Delays

Green - On Track

Blue - Not Started

*Milestones

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

REGULATION TRANSMITTAL LETTERTransmittal # 09
November 7, 2024

Regulation	Title	Action
1300.7.2[R]	Regulation on University Procurement and Purchasing Card Programs	Adopted 11/7/24

The actions taken on the above regulations were reviewed and approved by the President for inclusion in the UNC Policy Manual.

The entire UNC Policy Manual is accessible at: <https://www.northcarolina.edu/apps/policy/index.php>

Regulation on University Procurement and Purchasing Card Programs

I. Purpose, Responsibility, and Procedures.

A. Purpose.

By virtue of G.S. 143-49, the North Carolina Secretary of Administration has the power and authority to establish and maintain a procurement card program for use by State agencies, community colleges, and nonexempted constituent institutions of The University of North Carolina. Pursuant to Section 01 NCAC 05B .1523 of the North Carolina Administrative Code, procurement cards (“P-Cards”) are utilized for official use only and shall be used in accordance with applicable state law and with the statewide contract established and maintained by the Division of Purchase and Contract (946A).¹ The University has elected to utilize P-Cards in accordance with the law. While P-Cards present an inherent enterprise risk, P-Cards used optimally, with proper compliance management, provide a ready-made and convenient tool for the professionals serving the business needs of the University.²

This regulation is designed to protect both P-Card users and the University. It is expected that all P-Card holders and P-Card program administrators, officers, and staff will uphold this regulation and applicable state law to the highest degree.

B. Responsibility.

The provision of P-Cards places a great deal of trust in University employees to utilize University resources solely in the best interests of the University. Thus, all purchases on a P-Card shall be strictly for official University business. As such, it is expected that University employees authorized to use a P-Card will do so in compliance with this regulation and applicable state law.

Misuse of a P-Card, including but not limited to violation of this regulation or applicable state law, or failure to adhere to the terms and conditions of the cardholder agreement as defined below, will result in revocation of the P-Card, potential disciplinary action up to termination, and possible filing of criminal charges. In addition, as a condition for use of the P-Card, an employee who is issued a P-Card agrees that his or her respective institution may direct repayment or withhold from the employee’s paycheck an amount equal to any unauthorized P-Card charges made by the employee.

C. Procedures.

1. Authorizing a P-Card.

¹For purposes of this regulation, P-Cards are defined as all transactional cards where the University’s resources are being utilized, including cards used specifically for travel expenses and commonly referred to as T-Cards.

²In accordance with 01 NCAC 05B .1523., the UNC System will submit a copy of this regulation to the Division of Purchase and Contract within 90 days after the regulation’s implementation and thereafter whenever this regulation is updated. Use of procurement cards by any agency is contingent on satisfactory compliance review, as determined by the Division of Purchase and Contract.

a. Eligible Cardholders. A P-Card may be made available to all University departments or units. P-Cards shall only be issued to a permanent employee, who purchases goods or services on behalf of the University on a recurring basis. An exception to this requirement may be granted by the Chief Procurement Officer or his or her designee for special circumstances. Such exceptions must be documented in writing.³

b. All P-Cards shall show the institution's name, cardholder, the state seal or institutional logo, and indicate they are for official use only.

c. P-Card Application, Training, and Agreement. All P-Card applicants must complete a P-Card application, a P-Card usage training session, and a P-Card holder agreement, outlining the terms and conditions of P-Card authorization and usage ("Agreement") prior to issuance and usage of a P-Card. The Agreement must state that failure to uphold the terms and conditions will result in revocation of the P-Card and may result in disciplinary action, potentially including termination of employment and criminal prosecution, as well as direct repayment or potential paycheck withholding equal to any unauthorized P-Card charges made by the employee.

2. Appropriate use of the P-Card.

a. Use of a P-Card is restricted to the authorized P-Card holder. Delegation of P-Card use is not allowed. An exception to this requirement may be granted by the Chief Procurement Officer or his or her designee for special circumstances. Such exceptions must be documented in writing.

b. P-Card use is to enable institutions to expedite applicable transactions quickly and efficiently by minimizing paperwork and processing time, acquiring appropriate goods and services in a timelier manner, and decreasing departmental difficulty with vendors.⁴

c. P-Card holders shall complete training regarding use of the P-Card at least every other year.

II. P-Card Program Personnel. Chancellors are responsible for ensuring the institution has adequate personnel to administer and monitor the P-card program. Rebates to the institution as a result of P-Card activity shall be prioritized to support these staffing costs.

A. P-Card Program Administrator. Each institution's Chief Financial Officer or designee shall designate a P-Card program administrator for the institution ("Administrator"). The Administrator is responsible for implementing the P-Card program, the requirements of this

³Regardless of any exception granted under this regulation, P-Cards shall only be issued to employees of the institution.

⁴Use of a P-Card is not intended to replace the University's formal bid process where that process is appropriate or required by law or University policy.

regulation, and the requirements in each P-Card holder Agreement.

1. Responsibilities. The P-Card Program Administrator shall, at a minimum:

- a. Receive and review P-Card holder applications⁵;
- b. Review transaction limit exceptions for disposition by the Chief Procurement Officer;
- c. Ensure transaction limit and merchant category code controls are activated;
- d. Review payments of monthly P-Card bills;
- e. Enforce P-Card holder terms and conditions; and
- f. Ensure P-Cards are deactivated for P-Card holders who no longer meet the requirements of this regulation, their cardholder Agreement, or applicable state law.

2. Transaction Limits. The Administrator, in consultation with the institution's Chancellor, or, if so, designated by the Chancellor, the institution's Chief Financial Officer, shall establish transaction limits for P-Cards in accordance with applicable law.⁶ Transaction limits for each P-Card shall not exceed \$5,000 per transaction and \$25,000 per month unless an exception is approved, in writing, by the Chief Procurement Officer or his or her designee.

B. Reconciliation Staff. The Chancellor or their designee shall ensure the institution has Reconciliation Staff ("Staff") to review, reconcile, and approve P-Card expenditures within thirty days of either (1) payment or (2) the conclusion of applicable travel.

1. The Staff shall, at a minimum, be responsible for ensuring they have received supporting documentation for each purchase, each purchase has been made pursuant to this regulation and state law, and that any discrepancies are pursued immediately.
2. Discrepancies reviewed by staff may include but are not limited to failure to receive the goods or services purchased, fraud or misuse, altered charges, duplicate charges, and incorrect amounts.

C. Delegations. The institution shall document in writing any delegations of authority. Any such delegations shall be included in the Audit report pursuant to Section IV. of this regulation.

D. Personnel training. At a minimum, P-Card Program Personnel, including the Administrator and Staff, shall complete P-Card training every other year. Each institution may require further training or certifications.

⁵All P-Cards requested on behalf of a department or unit shall be sent to the Administrator (not to individual cardholders) by a traceable delivery method.

⁶ [01 NCAC 05B .1523](#)

III. Institutional Regulations.

Each institution shall implement their own respective policies and regulations on P-Card usage consistent with the requirements of this regulation and applicable state law. At a minimum, each institution's P-Card policy shall be reviewed annually by the institution's Chief Financial Officer and Chief Procurement Officer, making revisions as needed.

IV. Audit Oversight.

Each institution's Chief Audit Officer shall evaluate its institution's compliance with this regulation and state law as it relates to use of P-Cards. The Chief Audit Officer, or his or her designee, shall report the findings of their P-Card program compliance to the institution's Board of Trustees' Audit Committee on at least an annual basis. Inclusive of this review and report, the Chief Audit Officer, along with the Chief Procurement Officer, shall review the list of their institution's active P-Card holders at least once a year.

V. Certification.

Each institution's Chancellor, Chief Financial Officer, and Chief Procurement Officer shall certify their institution's compliance with this regulation by January 31, 2025, and again on or before January 31 annually thereafter. The president may, from time to time, in his or her discretion, impose further requirements on an institution's P-Card program, particularly when an institution fails to uphold the standards outlined within this regulation.

VI. Other Matters.

A. Effective Date. The requirements of this regulation shall be effective on the date of its adoption by the president.

B. Relation to State Laws. This regulation as adopted by the president supplements, and does not supplant or modify, those statutory enactments, regulations, and policies which may govern the activities of public officials.

UNIVERSITY OF NORTH CAROLINA
SCHOOL OF THE ARTS

UNIVERSITY OF NORTH CAROLINA
SCHOOL OF THE ARTS

1533 South Main Street
Winston-Salem, NC 27127

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UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS OFFICE OF INTERNAL AUDIT CHARTER

I. PURPOSE MISSION

The mission of the Office of Internal Audit (IA) is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. IA helps the university accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The purpose of the Office of Internal Audit (OIA) is to strengthen the university's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight

II. MANDATE

The mandate for internal auditing is found in the North Carolina General Statute (NC GS) Chapter 143, Article 79, the Internal Auditing Act, which sets guidelines for internal auditing within state agencies, which includes adhering to the current Internal Audit Standards (Global Standards) of the Institute of Internal Auditors' International Professional Practices Framework. NC GS 116-40.7, Internal Auditors, establishes the independent audit function at state universities. OIA will also be governed by audit related requirements from the University of North Carolina (UNC) Board of Governors, the UNC System Office, and the NC Council of Internal Auditing.

Circumstances may justify a follow-up discussion between the Chief Audit Officer (CAO), the Audit, Risk and Compliance Committee (ARCC) of the university Board of Trustees, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to significant changes in the Global Standards; reorganization within the university; changes in leadership; changes in the university's strategies or risk profile; or new laws or regulations that may affect OIA's services.

III. INDEPENDENCE AND OBJECTIVITY

The CAO will be positioned at a level in the university that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence and objectivity of the internal audit function. The CAO reports administratively to the Chancellor and the Vice Chancellor for Institutional Integrity and functionally to the Audit, Risk, and Compliance Committee (ARCC) of the university Board of Trustees in a manner outlined in the section on *Accountability*. OIA staff personnel shall report to the CAO. The CAO will confirm to the ARCC, at least annually, the organizational independence and objectivity of OIA as part of the regularly scheduled ARCC meetings or upon request from the Chair of the ARCC.

H.IV. SCOPE

The Winston-Salem State University OIA shares its services with the University of North Carolina School of the Arts. The scope of work of the OIA is to determine whether the university's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

1. Risks are appropriately identified and managed.

Revised February 2023

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2. Interaction with the various governance groups occurs as needed.
3. Significant financial, managerial, and operating information is accurate, reliable, and timely.
4. Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
5. Resources are acquired economically, used efficiently, and adequately protected.
6. Programs, plans, and objectives are achieved.
7. Quality and continuous improvement are fostered in the university's control processes.
8. Significant legislative and regulatory issues impacting the university are recognized and addressed properly.

Opportunities for improving risk management, management control, efficiency, compliance, and the university's image may be identified during audits. They will be communicated to the appropriate level of management.

~~III. INDEPENDENCE AND OBJECTIVITY~~

~~IA shall maintain its independence. The Chief Audit Officer (CAO) reports administratively to the Chancellor and the Vice Chancellor for Institutional Integrity and functionally to the Audit, Risk, and Compliance Committee (ARCC) of the university Board of Trustees in a manner outlined in the section on Accountability. IA staff personnel shall report to the CAO. The CARCO shall include a report on OARC personnel as part of the regularly scheduled ARCC meetings or upon request from the Chair of the ARCC~~

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VI.V. AUTHORITY

9.1. The CAO and staff are authorized to:

- a. Have unrestricted access to all functions, records, property, and personnel, in a manner consistent with North Carolina law and UNC System Policies.
- b. Have full and independent access to the ARCC.
- c. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply techniques required to accomplish audit objectives.
- d. Obtain the necessary assistance of personnel in units of the university where they perform audit services, as well as other specialized services from within or outside the university.

10.2. The CAO and staff are **not** authorized to:

- Perform any operational duties for the university or its affiliates.
- a. ~~Initiate~~ or approve accounting transactions external to OIA.
- b. ~~Direct~~ the activities of any university employee not employed by the OIA.

VII.VI. ACCOUNTABILITY

The CAO, in the discharge of his/her duties, shall be accountable to the Chancellor and the ARCC to:

- 11.1. Provide ~~an~~ assessments on the adequacy and effectiveness of the university's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- 12.2. Report significant issues related to the processes for controlling the activities of the university and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- 13.3. Provide information periodically on the status and results of the annual audit plan and the sufficiency of OIA department resources.
- 14.4. Coordinate with and provide oversight of other control and monitoring functions such as enterprise (risk management, compliance, IT and information security, legal, ethics, environmental, safety, and external audit).

VII.VII. RESPONSIBILITY

The CAO and OIA staff have responsibility to:

Internal Audit:

- 15.1. Conform with the Global Standards, including Apply and uphold the principles and rules of conduct ~~in the Code of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality established by the Institute of Internal Auditors (IIA).~~
- 16.2. Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan and any significant updates to the Chancellor and ARCC for review and approval.
- 17.3. Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the ARCC. Communicate the impact of resource

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limitations on the internal audit plan to the Chancellor and ARCC as appropriate.

~~18-4.~~ Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements the audit mandate and of this Charter.

~~19-5.~~ Establish and maintain a quality assurance and improvement assessment program (QAIP) that covers all aspects of the internal audit function, inclusive of internal and external assessments, that supports continuous improvement by which the CAO assures the operation of ~~internal auditing activities.~~ Annually communicate results to the ARCC and senior management.

~~20-6.~~ Perform advisory consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives and to proactively address issues. ~~Examples may include facilitation, process design, training and advisory services.~~

~~21-7.~~ Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.

~~22-8.~~ Periodically report to the Chancellor and the ARCC summarizing the results of audit activities.

~~9.~~ Communicate appropriate and significant risk findings to the University's General Counsel.

~~23-10.~~ Follow-up on engagement observations and confirm the implementation of recommendations or actions plans and communicate results to the Chancellor, ARCC, and other senior management.

~~24-11.~~ Keep the Chancellor and the ARCC informed of emerging trends and successful practices in internal auditing.

~~25-12.~~ Provide significant goals and results to the ARCC.

~~26-13.~~ Assist in the investigation of significant suspected fraudulent activities within the university and notify the Chancellor and the ARCC of the results.

~~27-14.~~ Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the university.

~~28-15.~~ Provide audit and/or activity reports to the ~~University of North Carolina (UNC)~~ Board of Governors, the UNC System Office, the ~~Council of Internal North Carolina (NC) Office of State Budget Management,~~ and the NC Office of the State Auditor.

Revised version approved by the Board of Trustees Audit, Risk, and Compliance Committee on December 5, 2024.

IX. Standards of Audit Practice

~~The Internal Audit Unit of the OARC will govern itself by adherence to The Institute of Internal Auditors' Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.~~

~~Internal Audit is also subject to the North Carolina Internal Audit Act, established by North Carolina General Statute.~~

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

Adopted: This the 6th day of December 2019

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Chair, Board of Trustees
UNC School of the Arts

Chair, Audit, Risk, and Compliance Committee
UNC School of the Arts

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS OFFICE OF INTERNAL AUDIT CHARTER

I. PURPOSE

The purpose of the Office of Internal Audit (OIA) is to strengthen the university's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight

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2. Interaction with the various governance groups occurs as needed.

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 - b. Have full and independent access to the ARCC.
 - c. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply techniques required to accomplish audit objectives.
 - d. Obtain the necessary assistance of personnel in units of the university where they perform audit services, as well as other specialized services from within or outside the university.
2. The CAO and staff are **not** authorized to:
 - a. Perform any operational duties for the university or its affiliates.
 - b. Initiate or approve accounting transactions external to OIA.
 - c. Direct the activities of any university employee not employed by the OIA.

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2. Report significant issues related to the processes for controlling the activities of the university and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
3. Provide information periodically on the status and results of the annual audit plan and the sufficiency of OIA resources.
4. Coordinate with and provide oversight of other control and monitoring functions such as enterprise risk management, compliance, IT and information security, legal, ethics, environmental, safety, and external audit.

VII. RESPONSIBILITY

The CAO and OIA staff have responsibility to:

Internal Audit:

1. Conform with the Global Standards, including the principles and rules of conduct Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
2. Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan and any significant updates to the Chancellor and ARCC for review and approval.
3. Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the ARCC. Communicate the impact of resource limitations on the internal audit plan to the Chancellor and ARCC as appropriate.
4. Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements the audit mandate and of this Charter.
5. Establish and maintain a quality assurance and improvement program (QAIP) that covers all aspects of the internal audit function, inclusive of internal and external assessments, that supports continuous improvement. Annually communicate results to the ARCC and senior management.
6. Perform advisory services, beyond internal auditing's assurance services, to assist management in meeting its objectives and to proactively address issues.
7. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
8. Periodically report to the Chancellor and the ARCC summarizing the results of audit activities.
9. Communicate appropriate and significant risk findings to the University's General Counsel.
10. Follow-up on engagement observations and confirm the implementation of recommendations or actions plans and communicate results to the Chancellor, ARCC, and other senior management.
11. Keep the Chancellor and the ARCC informed of emerging trends and successful practices in internal auditing.
12. Provide significant goals and results to the ARCC.
13. Assist in the investigation of significant suspected fraudulent activities within the university and notify the Chancellor and the ARCC of the results.
14. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the university.
15. Provide audit and/or activity reports to the UNC Board of Governors, the UNC System Office, the Council of Internal, and the NC Office of the State Auditor.

Revised version approved by the Board of Trustees Audit, Risk, and Compliance Committee on December 5, 2024.

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

Adopted: This the 6th day of December 2019

Chair, Board of Trustees
UNC School of the Arts

Chair, Audit, Risk, and Compliance Committee
UNC School of the Arts

UNCSA

OFFICE OF INTERNAL AUDIT

IA STRATEGIC PLAN: FY25-FY27 (3 YEARS)

Vision: To be recognized as a trusted advisor for the university, assisting management with improving operations and contributing to achieving strategic success and enhancing value.

- **GOAL 1: Optimal Risk Coverage** - Effectively identify the best use of limited audit resources with collaboration of other assurance providers to maximize coverage of key risk areas.
 - Task – Prepare the annual audit plan identifying key risks over all major functional areas.
 - ❖ Measures: Percentage of audit coverage obtained in major functional areas annually.
 - Target: Audit plan to include audits annually in 4 of the 10 major functional areas (Governance and Leadership, Academic Affairs, Student Affairs, Finance & Administration, Human Resources, Information Technology, Advancement, Marketing & Communications, Facilities, Campus Safety)
 - Target: Risk assessment conducted in 100% of the 10 major functional areas annually
 - Task – Use data to proactively assist with continuous monitoring of key risk areas
 - ❖ Measure: Key performance indicators identified by management
 - Target: Assist management with developing at least one dashboard to monitor risk and identify trends
 - Task – Coordinate with other assurance functions, internally and externally, to enhance risk coverage and minimize duplication
 - ❖ Measure: Assurance map of top risks
 - Target: Ensure assurance map has identified coverage of top 5 risks annually
 - ❖ Measure: Collaborative risk assessment
 - Target: 50% of annual risk assessment discussions are conducted with ERM during their review cycle
 - Task – Collaborate with management to identify opportunities to expand audit's advisory services
 - ❖ Measure: Advisory engagement projects
 - Target: Complete at least one advisory projects annually
- **GOAL 2: Talent Management** – Employ and maintain a highly-effective team that possess the skill set to optimize the services of the audit function by keeping pace with risk
 - Tasks – Provide routine feedback to auditors during and after audit engagements and complete formal evaluations annually.
 - ❖ Measure: Post-engagement evaluations are completed timely.
 - Target: Written feedback provided within 10 days of the audit report date.

- ❖ Measure: Annual staff performance evaluations
 - Target: 100% of evaluations are completed on time with a good rating or higher.
 - Task – Develop training goals for each staff member
 - ❖ Measure: Number of professional development hours obtained
 - Target: Each staff member must obtain at least 30 hours of CPE annually
 - Task – Ensure team is appropriately resourced to meet the demands and expectations of management and key stakeholders
 - ❖ Measure: Staff Analysis
 - Target: Internal staffing Analysis completed by 6/30/25
 - Target: External staffing analysis completed by 6/30/27
 - Task - Promote professional association involvement and pursuit of certifications.
 - ❖ Measure: Certifications obtained and maintained
 - Target - All staff members must hold at least one professional certification and be in good standing
 - Task – Ensure succession and continuity planning is in place
 - ❖ Measure: Succession Plan
 - Target: IA leadership succession plans completed by 6/30/25
 - Target: IA leadership succession plans are reviewed and updated annually
 - ❖ Measure: Continuity Plans
 - Target: IA continuity of operations are reviewed and updated annually
 - Task – Be intentional about the overall wellbeing of the team
 - ❖ Measure: 1-on-1 wellness meetings with team members
 - Target: CAO meet quarterly individually with team members
 - ❖ Measure: Team bonding and engagement
 - Target: One offsite team event each year
- **GOAL 3 – Quality Audit Execution & Engagement** - Employ effective and high-quality practices that comply with auditing standards and promote efficient use of limited resources.
 - Task – Formalize agile auditing practices to increase efficiency and effectiveness
 - ❖ Measure: Agile Audit Framework
 - Target: Prepare framework by 6/30/25
 - Task – Monitor completion of audit plan
 - ❖ Measure: Audit plan completion percentage
 - Target: 80% annually
 - Task – Audit reports are issued timely to management
 - ❖ Measure: Total engagement time from audit planning to report issue date
 - Target: Average of 100 days from plan to draft report
 - Task – Ensure successful implementation of value-added recommendations
 - ❖ Measure: Follow-up reviews

- Target: The annual recommendation implementation rate equals 90%
 - Task – Ensure engagements are of good quality and meets client’s expectations
 - ❖ Measure: Quality and satisfaction surveys
 - Target: A survey will be issued for 100% of engagements
 - Target: Surveys received should have an overall favorable rating
- **GOAL 4 – Awareness & Outreach** – Increase awareness of the audit function by providing valuable resources and education to the campus community that assist the campuses in meeting their objectives.
 - Task – Conduct campus trainings to assist with risk mitigation and office awareness
 - ❖ Measure: Trainings offered
 - Target: One training will be offered annually
 - Task – Participate in university/system-wide meetings to enhance collaboration, maintain trusted partnerships, and assist with risk mitigation
 - ❖ Measures: University committees and meetings
 - Target: Attend board meetings annually
 - Target: Ensure office representation on key strategic committees
 - Task – Create opportunities for student engagement to assist improving student success.
 - ❖ Measure: Number of student focused initiatives
 - Target: At least 1 student initiative per year
- **GOAL 5 – Data and Technology** – Increase the use of data and technology to streamline audit practices and enhance audit capabilities to deliver deeper insights into information and risks
 - Task – Enhance the use of audit’s software and maximize features to improve audit effectiveness and efficiencies and minimize the use of spreadsheets
 - ❖ Measure: Use of Support Center
 - Target: Implement two strategic initiatives annually
 - ❖ Measure: Automation and minimization of spreadsheets
 - Target: Identify a key practice to automate annually
 - Task – Enhance audit effectiveness and influence by leveraging advanced data analytics
 - ❖ Measure: Engagements using data analytics
 - Target: At least one projects each year should contain data analytics
 - ❖ Measure: Data analytics framework
 - Target: Develop data analytic framework by 6/30/25
 - Task - Artificial Intelligence – Integrate Artificial Intelligence (AI) practices within the audit process to enhance efficiency
 - ❖ Measure: Audit procedures using AI capabilities
 - Target: Integrate AI into planning for engagements by 6/30/25