

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

WINSTON-SALEM, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

A COMPONENT UNIT OF THE UNIVERSITY OF NORTH CAROLINA
SCHOOL OF THE ARTS



NC OSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Directors
University of North Carolina School of the Arts Housing Corporation

We have completed a financial statement audit of the University of North Carolina School of the Arts Housing Corporation for the year ended June 30, 2018, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

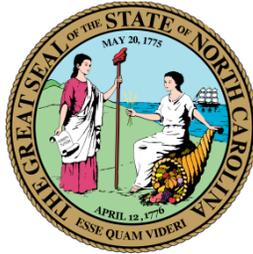


Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina School of the Arts Housing Corporation (Corporation), a component unit of the University of North Carolina School of the Arts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina School of the Arts Housing Corporation, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

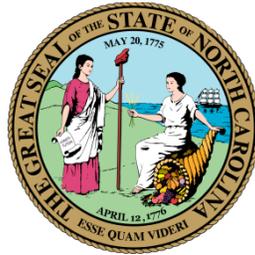
In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 16, 2018



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, 2018. 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, 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.

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,		
	2018	2017	Change
Assets			
Current Assets	\$ 1,251,894	\$ 1,174,828	\$ 77,066
Capital Assets, Net	4,252,533	4,363,124	(110,591)
Total Assets	5,504,427	5,537,952	(33,525)
Deferred Outflows of Resources	0	0	0
Liabilities			
Current Liabilities	344,910	329,865	15,045
Long-Term Liabilities	4,189,454	4,506,650	(317,196)
Total Liabilities	4,534,364	4,836,515	(302,151)
Deferred Inflows of Resources	0	0	0
Net Position			
Net Investment in Capital Assets	(245,467)	(442,876)	197,409
Unrestricted	1,215,530	1,144,313	71,217
Total Net Position	\$ 970,063	\$ 701,437	\$ 268,626

The total assets of the Corporation decreased by \$33,525 for the year, with a decrease in capital assets of \$110,591, offset by an increase in current assets of \$77,066. The decrease in capital assets is due to annual depreciation expense. The increase in current assets is primarily due to an increase in cash and cash equivalents of \$76,739 that was a result of a decrease in spending related to supplies and materials, utilities, and interest payments on debt. In addition, the Corporation received insurance recovery funds during the year as well as increased investment income as a direct result of improvements in the market.

The total liabilities of the Corporation decreased by \$302,151 for the year, with a decrease in long-term liabilities of \$317,196, offset by an increase in current liabilities of \$15,045. The decrease in long-term liabilities is primarily due to the Corporation continuing to pay down its capital debt for the Series 2015 Certificates of Participation. The increase in current liabilities is primarily due to an increase in the current portion of the Series 2015 Certificates of Participation of \$9,000. The current portion of the Series 2015 Certificates of Participation will increase over the life of the debt.

The Corporation's net position was \$970,063 at June 30, 2018, an increase of \$268,626 from the prior year. The significant change within net position is in the category of net investment in capital assets which increased \$197,409. Net investment in capital assets increased due to payments made on the Series 2015 Certificates of Participation.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports the Corporation's

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

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

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

	Year Ended June 30,		
	2018	2017	Change
Operating Revenues	\$ 1,025,843	\$ 1,116,691	\$ (90,848)
Operating Expenses			
Salaries and Benefits	77,138	62,088	15,050
Supplies and Materials	62,860	96,330	(33,470)
Services	295,118	229,675	65,443
Utilities	96,677	108,298	(11,621)
Depreciation	110,591	110,253	338
Total Operating Expenses	642,384	606,644	35,740
Operating Income	383,459	510,047	(126,588)
Nonoperating Revenues (Expenses)			
Investment Income	20,498	13,597	6,901
Interest and Fees on Debt	(142,932)	(154,894)	11,962
Other Nonoperating Revenues	7,601		7,601
Net Nonoperating Expenses	(114,833)	(141,297)	26,464
Increase in Net Position	268,626	368,750	(100,124)
Beginning Net Position	701,437	332,687	368,750
Ending Net Position	\$ 970,063	\$ 701,437	\$ 268,626

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 \$1,053,942 compared to \$1,130,288 from the previous year, a decrease of \$76,346. The highlights of the revenue accounts presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- Operating revenues decreased by \$90,848. This decrease was primarily a result of a decline in student housing occupancy.
- Other Nonoperating Revenues increased by \$7,601. This increase was a direct result of insurance recovery funds received during the year.
- Investment income increased by \$6,901. This increase was a direct result of improvements in the market.

Total expenses were \$785,316 for the fiscal year ended June 30, 2018 and \$761,538 for 2017. Operating expenses totaled \$642,384 for the year compared to \$606,644 from the previous year, an increase of \$35,740. The significant changes include:

- Supplies and materials decreased \$33,470 primarily due to a decline in equipment purchases compared to the prior year.
- Services increased \$65,443 primarily due to an increase in service related repairs and maintenance.

Capital Asset and Debt Administration

The Corporation's capital assets, net of accumulated depreciation at June 30, 2018, were \$4,252,533. For more information about the Corporation's asset holdings, refer to Note 4 of the Notes to the Financial Statements.

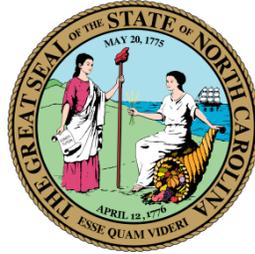
In September of 2005, the Corporation took out certificates of participation in the amount of \$7,200,000 to provide funds to discharge certain indebtedness used for the acquisition, construction, equipping, and subsequent improvements of the Center Stage apartment complex. The Corporation has leased 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 3.50% to 4.50%. The Corporation has extinguished these long-term debt obligations by the issuance of new long-term debt instruments.

On June 12, 2015, 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 and resulted in a net present value savings of \$771,181.

The Corporation had \$4,498,000 in outstanding long-term debt at June 30, 2018, and continues to make all of its debt payments in a timely manner. No new debt was issued during the 2017-2018 fiscal year. Refer to Note 5 of the Notes to the Financial Statements for more detailed information about the Corporation's debt obligations.

Economic Outlook

The University of North Carolina School of the Arts Housing Corporation continued to manage and use its resources wisely in fiscal year 2018. Based on currently known facts about the Corporation's financial performance in fiscal year 2018, management is confident that its sound financial position will not only be maintained, but strengthened 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.



FINANCIAL STATEMENTS

University of North Carolina School of the Arts Housing Corporation
Statement of Net Position
June 30, 2018

Exhibit A-1

ASSETS

Current Assets:		
Cash and Cash Equivalents	\$	1,236,291
Prepaid Insurance		15,603
Total Current Assets		<u>1,251,894</u>
Noncurrent Assets:		
Capital Assets - Nondepreciable (Note 4)		451,326
Capital Assets - Depreciable, Net (Note 4)		3,801,207
Total Noncurrent Assets		<u>4,252,533</u>
Total Assets		<u>5,504,427</u>

DEFERRED OUTFLOWS OF RESOURCES

0

LIABILITIES

Current Liabilities:		
Accounts Payable and Accrued Liabilities		12,375
Unearned Revenue		3,427
Interest Payable		11,210
Long-Term Liabilities - Current Portion (Note 5)		317,898
Total Current Liabilities		<u>344,910</u>
Noncurrent Liabilities:		
Long-Term Liabilities (Note 5)		4,189,454
Total Liabilities		<u>4,534,364</u>

DEFERRED INFLOWS OF RESOURCES

0

NET POSITION

Net Investment in Capital Assets		(245,467)
Unrestricted		1,215,530
Total Net Position	\$	<u>970,063</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
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2018

Exhibit A-2

REVENUES

Operating Revenues:	
Sales and Services	\$ 1,025,723
Other Operating Revenues	120
	<hr/>
Total Operating Revenues	1,025,843
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	77,138
Supplies and Materials	62,860
Services	295,118
Utilities	96,677
Depreciation	110,591
	<hr/>
Total Operating Expenses	642,384
	<hr/>
Operating Income	383,459
	<hr/>

NONOPERATING REVENUES (EXPENSES)

Investment Income	20,498
Interest and Fees on Debt	(142,932)
Other Nonoperating Revenues	7,601
	<hr/>
Net Nonoperating Revenues	(114,833)
	<hr/>
Increase in Net Position	268,626

NET POSITION

Net Position - July 1, 2017	701,437
	<hr/>
Net Position - June 30, 2018	\$ 970,063
	<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, 2018

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,029,280
Payments to Employees and Fringe Benefits	(77,585)
Payments to Vendors and Suppliers	(451,356)
	<hr/>
Net Cash Provided by Operating Activities	500,339
	<hr/>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Insurance on Capital Assets	7,601
Principal Paid on Capital Debt	(308,000)
Interest and Fees Paid on Capital Debt	(143,699)
	<hr/>
Net Cash Used by Capital Financing and Related Financing Activities	(444,098)
	<hr/>

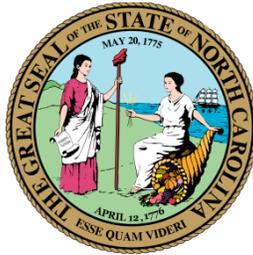
CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	20,498
	<hr/>
Net Increase in Cash and Cash Equivalents	76,739
Cash and Cash Equivalents - July 1, 2017	1,159,552
	<hr/>
Cash and Cash Equivalents - June 30, 2018	\$ 1,236,291
	<hr/> <hr/>

RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 383,459
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	110,591
Changes in Assets and Liabilities:	
Receivables	11
Prepaid Insurance	(338)
Accounts Payable and Accrued Liabilities	3,636
Unearned Revenue	3,427
Compensated Absences	(447)
	<hr/>
Net Cash Provided by Operating Activities	\$ 500,339
	<hr/> <hr/>

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



NOTES TO THE 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 of North Carolina School of the Arts, its financial statements have been blended with those of the University.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, 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 occur when the Corporation receives (or gives) value without directly giving (or receiving) equal value in exchange. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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

E. Capital Assets - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. Interest costs incurred are capitalized during the period of construction.

The Corporation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

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

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

F. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Long-term debt includes certificates of participation payable and other long-term liabilities include compensated absences.

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

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

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

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

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

Unrestricted Net Position - Unrestricted net position includes resources derived from rental and interest income. It also includes the net position of accrued employee benefits such as compensated absences.

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.

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

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

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

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

The Corporation is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. The Corporation is also required to file an exempt organization business income tax return (Form 990-T) for any year in which gross unrelated business income exceeds \$1,000. The Corporation's Form 990 filings are generally subject to examination by the Internal Revenue Service for three years after they are filed.

NOTE 2 - DEPOSITS

The Corporation's deposits in the STIF are pooled with the University. Unless specifically exempt, the University 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, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,236,291, 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, 2018. 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, 2018, the Corporation did not have any cash deposits outside the State Treasurer's STIF; therefore, the Corporation was not exposed to custodial 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. The Corporation does not have a deposit policy for custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2018. 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.

Short-Term Investment Fund - At year-end, all of the Corporation's investments valued at \$1,236,291 were held in the STIF. Ownership interest of the STIF is 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 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, 2018, is presented as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land	\$ 451,326	\$ 0	\$ 0	\$ 451,326
Capital Assets, Depreciable:				
Buildings	5,495,783			5,495,783
Machinery and Equipment	10,130			10,130
Total Capital Assets, Depreciable	5,505,913			5,505,913
Less Accumulated Depreciation for:				
Buildings	1,593,777	109,916		1,703,693
Machinery and Equipment	338	675		1,013
Total Accumulated Depreciation	1,594,115	110,591		1,704,706
Total Capital Assets, Depreciable, Net	3,911,798	(110,591)		3,801,207
Capital Assets, Net	\$ 4,363,124	\$ (110,591)	\$ 0	\$ 4,252,533

During the year ended June 30, 2018, the Corporation incurred \$142,932 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, 2018, is presented as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Certificates of Participation	\$ 4,806,000	\$ 0	\$ 308,000	\$ 4,498,000	\$ 317,000
Other Long-Term Liabilities					
Compensated Absences	9,799	4,038	4,485	9,352	898
Total Long-Term Liabilities	\$ 4,815,799	\$ 4,038	\$ 312,485	\$ 4,507,352	\$ 317,898

B. Certificates of Participation - The Corporation was indebted for certificates of participation for the purpose shown in the following table:

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2018	Principal Outstanding June 30, 2018	See Table Below
Certificates of Participation							
Student Housing Project, Series 2015	(A)	2.99%	06/01/2030	\$ 5,400,000	\$ 902,000	\$ 4,498,000	(1)

(A) University of North Carolina School of the Arts Student Housing Project, Series 2015 (Refunding of 2005 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	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing Revenues	\$ 5,419,369	\$ 529,690	\$ 308,000	\$ 142,932	85%

C. Annual Requirements - The annual requirements to pay principal and interest on the certificates of participation at June 30, 2018, are as follows:

Fiscal Year	Annual Requirements Certificates of Participation	
	Principal	Interest
2019	\$ 317,000	\$ 134,490
2020	327,000	125,012
2021	336,000	115,235
2022	346,000	105,188
2023	357,000	94,843
2024-2028	1,950,000	307,611
2029-2030	865,000	38,990
Total Requirements	\$ 4,498,000	\$ 921,369

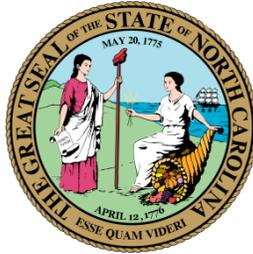
NOTE 6 - TRANSACTIONS WITH UNCSA

UNCSA employees provide certain services to the Corporation for which the Corporation reimburses UNCSA for salary and salary related expenses. Thus, the Corporation has no employee obligations nor employee benefit obligations. For the year ended June 30, 2018, the Corporation reimbursed UNCSA \$77,138 for these expenses.

UNCSA enters into certain contracts for maintenance, repairs, and custodial services to residence halls and apartments for UNCSA students. This includes the Center Stage Apartments, owned by the Corporation. Management makes estimates based on the services, time, and resources devoted to allocate 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.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of North Carolina School of the Arts Housing Corporation (Corporation), a component unit of the University of North Carolina School of the Arts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 16, 2018

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For additional information contact:
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This audit required 87 hours at an approximate cost of \$8,961.