

December 3, 2019

University of North Carolina School of the Arts
Kilpatrick Townsend & Stockton, LLP
1001 West Fourth Street
Winston-Salem, NC 27101

COMMITTEE MEMBERS:

Stephen Berlin, Chair
Anna Folwell
Rob King
Ralph Womble, ex officio

COMMITTEE STAFF:

Shannon B. Henry, Chief Audit, Risk, and Compliance Officer
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel
Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff
Michael Smith, Vice Chancellor for Finance and Administration
Amanda Balwah, Secretary of the University
Martha Golden, Faculty Council Representative
Sharon Fogarty, Staff Council Representative

AGENDA

OPEN SESSION

1. Call to Order and Confirm Quorum Chairman Berlin
2. Approval of Minutes from the April 23rd, July 30th, & September 24th, 2019 Meetings.....Chairman Berlin
3. Matters of Governance, Risk and Compliance.....Shannon Henry
 - a. Enterprise Risk ManagementJim DeCristo
 - Discussion of Risk #4.....Michael Smith
 - b. Emerging Risks in IT Security Greg Gleghorn, Director of Information Security
4. Discussion of External Audits & Reviews (if any).....Shannon Henry
 - a. The Semans Art Fund Financial Statement Audit.....Cindy Liberty, Executive Director of the UNCSA Foundation
 - b. UNCSA's External Audit Reports.....Lisa McClinton, Associate Vice Chancellor for Finance

- UNCSA Financial Statement Audit Report
- UNCSA Housing Corporation Financial Statement Audit Report
- UNCSA Program Support Corporation Financial Statement Audit Report
- UNCSA Federal Compliance Audit Procedures - Results

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

5. Discussion of Internal Audit's Reports, Open Projects, and Plans.....Shannon Henry and Rod Isom, Internal Audit Manager
 - a. Activity Summaries and Reports*
 - b. Quality Assurance Review Update
 - c. Approval of the Revised Office Charter**
 - d. Internal Audit Award of Excellence

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

CLOSED SESSION

6. Approval of Minutes from the April 23rd & July 30th, 2019 Meetings..... Chairman Berlin
7. Discussion of Special Items, Reviews and Investigations (*if any*)Shannon Henry & David Harrison

OPEN SESSION

8. Other Business... Committee Members & Staff
9. Adjourn...Chairman Berlin

Action Items**

DRAFT OPEN MINUTES

April 23, 2019

University of North Carolina School of the Arts
Law Office of Kilpatrick Townsend & Stockton LLP
Winston-Salem, North Carolina

TRUSTEES PRESENT

Steve Berlin (Chair)*, Anna Folwell (phone)*, Rob King*,

*denotes voting member

TRUSTEE ABSENT

Pete Brunstetter*, Ralph Womble (ex officio)*

COMMITTEE STAFF PRESENT

Shannon Henry (Chief Audit, Risk, and Compliance Officer), David Harrison (General Counsel), Jim DeCristo (Chief of Staff), Michael Smith (VC for Finance and Administration), Sharon Fogarty (Staff Counsel Representative)

OTHERS PRESENT

Lisa McClinton (Associate Vice Chancellor for Finance and Controller), Austin Grier (Risk and Compliance Program Specialist)

CONVENE MEETING AND CONFIRM QUORUM

Committee Chair Steve Berlin convened the Open Session of the University of North Carolina School of the Arts' Audit, Risk, and Compliance Committee at 4:05 p.m. A quorum was confirmed.

APPROVAL OF MINUTES

MOTION: Rob King moved to approve the minutes from the February 5, 2019 meeting. Anna Folwell seconded and the minutes were unanimously approved.

ENTERPRISE RISK MANAGEMENT (ERM) AND COMPLIANCE

Jim DeCristo, Chief of Staff, reported that during FY19, the ERM Steering Committee and Risk Owners focused on the following five strategic risks as priorities for the academic year:

1. UNCOSA may struggle to attract and retain the faculty talent needed to support excellence in its offerings.
2. A potential decline in financial and other incentives to attend UNCOSA may make it more difficult to effectively attract qualified students.

3. The condition of facilities and residence halls may decline to the point that it significantly deters students from attending UNCSCA.
4. The School may have difficulty attracting diverse faculty, students, and staff to advance its brand and reputation.
5. UNCSCA may have difficulty achieving the right balance of rigor, intimacy, transparency, and diversity necessary to maintain a balanced campus culture that promotes excellence, open-mindedness, and well-being alike.

These risks were captured and detailed in an ERM report. This year was management's first full year of ERM activities and management feels this year has been successful. There are opportunities to develop Key Risk Indicators (KRIs) that will enable management to better track progress with regard to mitigating activities and better predict and prevent risk events from occurring. Immediate next steps include facilitating a Bowtie Risk Analysis which examines opportunities to prevent risk events from occurring, and opportunities to react should risk events occur.

MATTERS OF GOVERNANCE AND COMPLIANCE

A. Information Security Update

Michael Smith, VC for Finance and Administration gave the following information governance and security update, on behalf of Greg Gleghorn, Director of Information Security:

- Seven new information security regulations have been submitted for legal and chancellor approval.
- Sixteen out of seventeen scheduled business impact analysis interviews have been completed.
- Centralized endpoint protection project 60% complete.
- Phishing and impersonation attempts have been reduced with constant monitoring, tweaking, and optimizing of Microsoft's advanced threat protection.

B. Director of Human Services – Posting Update

Lisa McClinton, Associate Vice Chancellor for Finance and Controller, gave the following posting update concerning the Director of Human Services:

On campus interviews were conducted with eight candidates, and two finalists were identified. The committee has submitted a recommendation to Michael Smith who anticipates an offer will be made soon.

INTERNAL AUDIT UPDATE

Summary of New Reports

- The follow-up report concerning deficiencies as it relates to contracting with vendors is in the draft phase. Two of the three findings have been resolved and management has identified compensating controls associated with lingering risks. Once evidence

of these controls has been reviewed and documented, the follow-up report will be released.

NEXT PLANNED REVIEW

- A review of Environmental Health and Safety has begun. The review will focus on Life Safety protocols with an emphasis on the quantity and quality of these protocols and related activities, and other matters of compliance. The review will include a campus-wide survey of faculty and staff that will serve as a micro engagement level risk assessment to identify potential risk exposures.

CLOSED SESSION

MOTION: Rob King moved to go into closed session to prevent the disclosure of privileged Internal Auditor's work papers, under Section 116-40.7 of the North Carolina General Statutes. Anna Folwell seconded and the motion was unanimously approved.

ADJOURNMENT

After returning to Open Session, there was no further business to discuss. Chairman Berlin adjourned the meeting at 4:59 p.m.

Respectfully submitted by:
Austin Grier
Risk and Compliance Program Specialist

OPEN SESSION MINUTES

July 30, 2019

University of North Carolina School of the Arts
Kilpatrick Townsend & Stockton, LLP
1001 West Fourth Street
Winston-Salem, North Carolina 27101

TRUSTEES PRESENT

***denotes voting committee members**

Steve Berlin (Chair)*, Skip Dunn (via phone), Philip Horne (via phone), Rob King*, Mark Land, Elizabeth Madden, Michael Tiemann (via phone), Erna Womble, and Ralph Womble (ex officio)*

TRUSTEES ABSENT

Pete Brunstetter*, Greer Cawood, and Anna Folwell*

ADMINISTRATION & STAFF PRESENT

Shannon Henry (Chief Audit, Risk, and Compliance Officer), David Harrison (VC and General Counsel), Karin Peterson (Interim Executive Vice Chancellor and Provost), Jim DeCristo (VC and Chief of Staff), Michael Smith (VC for Finance & Administration via phone), Amanda Balwah (AVC and Secretary of the University), Angela Mahoney (Director of HR)

CONVENE OPEN SESSION AND CONFIRM QUORUM

Committee Chair Steve Berlin convened the July 30, 2019 Special Meeting of the University of North Carolina School of the Arts Audit, Risk, and Compliance Committee at 4:00 p.m. A quorum was confirmed of three voting members as Pete Brunstetter is on leave from the Board of Trustees.

MOTION TO GO INTO CLOSED SESSION

MOTION: Elizabeth Madden moved to go into Closed Session to prevent the disclosure of information that is privileged or confidential pursuant to the Privacy of State Employee Personnel Records Act, Article 7 of Chapter 126 of the North Carolina General Statutes, to prevent the disclosure of information that is not considered a public record within the meaning of Chapter 132 of the General Statutes, to consult with our attorney in order to consider and give instructions concerning the handling or settlement of an EEOC claim by Nicole Alston, and to consider the qualifications, competence, performance, or condition of

appointment of a public officer or employee, or prospective public officer or employee. Rob King seconded and the motion was unanimously approved.

REPORT FROM CLOSED SESSION

Chairman Berlin reported that the committee went into Closed Session to discuss confidential personnel and institutional issues. No action was taken.

ADJOURN

With no further business to discuss, the July 30, 2019 special meeting of the Audit, Risk, and Compliance Committee adjourned at 4:39 p.m.

Respectfully submitted by Amanda Balwah, AVC for Institutional Integrity and Secretary of the University

OPEN SESSION MINUTES

September 24, 2019
University of North Carolina School of the Arts
Kilpatrick Townsend & Stockton, LLP
1001 West Fourth Street
Winston-Salem, North Carolina 27101

TRUSTEES PRESENT

***denotes voting committee members**

Steve Berlin (Chair)*, Erna Womble, and Ralph Womble (ex officio)*

TRUSTEES ABSENT

Pete Brunstetter*, Anna Folwell*, and Rob King*

ADMINISTRATION & STAFF PRESENT

Shannon Henry (Chief Audit, Risk, and Compliance Officer), David Harrison (VC and General Counsel), Karin Peterson (Interim Executive Vice Chancellor and Provost), Jim DeCristo (VC and Chief of Staff), Michael Smith (VC for Finance & Administration), Amanda Balwah (AVC and Secretary of the University), Angela Mahoney (Director of HR), Cindy Liberty (Ex. Director of the UNCSA Foundation), Valerie Thelen (Chief Compliance Officer and Director of Title IX), Joshua Canzona (University Ombudsman), Greg Gleghorn (Director of Information Security), Devin Doss (Internal Auditor), Rod Isom (Audit Manager), Lisa McClinton (AVC and Controller), Marquetta Smith (Staff Council Representative), Martha Golden (Faculty Council Representative)

CONVENE OPEN SESSION AND CONFIRM QUORUM

Committee Chair Steve Berlin convened the September 24, 2019 Meeting of the University of North Carolina School of the Arts Audit, Risk, and Compliance Committee at 4:00 p.m. A quorum was not present.

MATTERS OF GOVERNANCE, RISK, AND COMPLIANCE

Jim DeCristo presented the Enterprise Risk Management (ERM) update. A number of previously identified risk owners have left the university. The ERM team is in the process of meeting with new leadership to bring them up to speed on UNCSA's risk priorities. Throughout the 2019-2020 academic year, UNCSA's ERM Initiative will delve deeper into the strategic work of examining the potential causes, responses to prevent risk, consequences, and responses to minimize the impact for each of the identified risk priorities.

The Director of Information Security provided an update regarding Information Governance and Security:

- An email security gateway has been installed that has reduced well over half of the phishing attacks.
- Email encryption and data loss prevention was successfully tested. This complements the email security gateway in that any personally identifiable information sent outside of the organization unencrypted will receive a friendly reminder to encrypt this type of data before sending.
- A Network Admission Control has been installed and is currently running in audit mode. This allows IT to profile all devices connected and connecting to our campus infrastructure whether it is wired or wireless. We are currently profiling all of our connected devices (wired and wireless). This process will give us specific knowledge in determining if a device is a friend, foe, guest, contractor, etc. This, in turn, helps us with incident response and management, service requests, access, authorization, and accounting.

The Chief Compliance Officer and Director of Title IX provided an update regarding Title IX and Clery Compliance:

- During orientation week students received training on sexual assault prevention, consent, and bystander intervention. This training is part of an overall Title IX related training and education program to increase student knowledge to prevent and address sexual misconduct.
- Title IX related training for staff is ongoing by department and attendance is being tracked. This is part of an overall training and education program for staff and faculty to increase knowledge and understand their responsibility for reporting, specifically targeted for those with the most interaction with students.
- The Annual Security Report (ASR) for Clery compliance is due October 1, 2019.

The university Ombudsman provided an update regarding the function and responsibility of an Ombudsman and the visitor totals and demographics for academic years (AY) 2017-18 and 2018-19.

- The Ombuds Office provides a safe environment where faculty, staff, and administrators may speak in confidence about issues of concern related to their work at UNCSA. Acting as an informal and independent resource, the Ombuds Office serves as an alternative means of resolution for conflicts and other workplace challenges.
- The Ombudsman had 19 visitors in AY 2017-18 and 29 in AY 2018-19.

DISCUSSION OF EXTERNAL AUDITS & REVIEWS

The Executive Director of the UNCSA Foundation shared this year's financial statement audit report for the UNCSA Foundation. It was a clean audit.

The Associate Vice Chancellor for Finance reported the following:

- UNCSA Housing Corporation and UNCSA Program Support Financial Statement Audits for 2019 are underway, and are expected to be completed by October.

- UNCSA Financial Statement Audit for FY 2019 has been delayed due to a change to the audit team.
- The audit of the university's compliance with Federal Financial Aid regulations is also underway.

DISCUSSION OF INTERNAL AUDIT'S REPORTS, OPEN PROEJCTS, AND PLANS

Internal Audit Reports:

- The Vendor Contract Follow-up Review resulted in the previous three issues being resolved by management.
- Two risk monitoring memos (RMM) were issued to inform management of deficiencies identified during an audit where controls should be strengthened. Internal Audit issued RMM's concerning the following:
 - Worker Classification for Federal Tax Purposes; and
 - Business Continuity Management.

Other Internal Audit Activity

- The Environmental Health & Safety review is complete and the draft report has been prepared. The final report, inclusive of management's response, will be issued in the coming weeks.
- Two follow-up memos were issued to follow-up on the status of the recommended actions from previous reviews and ensure management has implemented corrective measures sufficient to address the issues. The following follow-up memos were issued:
 - Housekeeping Survey Report; and
 - Operational Review of Information Technology at UNCSA.

Fiscal Year 2019 Recap

- Internal Audit completed audits and advisory services resulting in reports that produced 23 written recommendations and 9 verbal recommendations for improvements in the following university offices and departments: Controller's Office, Finance & Administration, Information Technology, Purchasing, Human Resources, Provost's Office, Chief of Staff, General Counsel, and CDI.
- A summary of the past five years (2015 - 2019) of Internal Audit activity was shared:
 - Internal Audit has reported 59 findings that have produced 81 written recommendations.
 - The university has resolved 95% of previous Internal Audit findings and implemented 86% of Internal Audit's recommendations, which meets Internal Audit's target recommendation rate of 70%.

Memorandum of Understanding

- The contract between UNCSA and WSSU has been renegotiated to assist the university with its efforts to identify cost savings. The contracted hours have been reduced from 3,100 hours to 1,800 hours.
- Internal Audit will focus on smaller scoped projects with more efficient budgets.

QAR Process

- The Internal Audit department is due for its External Quality Assessment Review and is in the process of performing a self-assessment that will be validated by the North Carolina Office of State Budget and Management for conformance with the Institute of Auditors' International Standards for the Professional Practices of Internal Auditing.

Review Committee and Office Charters

- Internal Auditing Standards requires a periodic review of the Audit, Risk, and Compliance Committee Charter (ARCC) by senior management and the board.
 - The ARCC is charged to direct and/or oversee the university's activities related to its audit, risk, and compliance activities and hold senior management accountable.

ADJOURNMENT

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

AGENDA ITEM

Enterprise Risk Management Updatepresented by Michael Smith

Summary: An update will be provided regarding one of UNCSA’s top five previously identified institutional risks, and the initiatives being implemented to mitigate the risk.

Enterprise Risk Management Risk #4: The condition of facilities and residence halls may decline to the point that it detrimentally affects the recruitment and retention of students.

- Root Causes of Risk
- Potential Consequences
- Preventative Responses
- Reactive Responses
- Financial Implications

Action: This item is for informational purposes only.

ERM Risk #4: Declining facility conditions detrimentally affecting recruitment and retention of students.

Tier 1: Has a direct effect on the mission, strategy, and goals of the entire institution.

Causes	Responses to Prevent Risk	Risk Appetite	Consequences	Responses to Minimize Impact	Is Funding Required?	
Limited UNCSA revenue generating capabilities and inability to institutionally fund all facilities deferred maintenance and renovation requirements.	Refining campus master plan, instituted space allocation committee, and implemented 5-year financial model to identify, prioritize, and plan to address backlog of issues.			UNCSA may experience declining enrollment and student retention, which has multiple financial and operational implications.	Campus-wide prioritization of most critical requirements and reallocation of resources to meet emerging needs. Increasing housing rates to plan for future requirements.	Yes.
Historically volatile and unpredictable R&R allocations.	BOG working group revised R&R allocation methodology to add consistency and minimum annual allocations.			Inconsistent annual funding contributed to a backlog of deferred maintenance outpacing existing resources.	Refining multi-year R&R expenditure plan to address life safety, building envelopes, roofs, infrastructure, and mechanical systems.	Yes.
Lack of legislative support for state funded capital projects.	Ongoing lobbying and cultivation of legislative and external support for significant capital projects.			Limited financial resources would be consumed by most critical life safety, environmental, and regulatory needs.	Developed multi-year, multi-phase plan to renovate facilities while pursuing funding (Capital Campaign).	Yes.

Tier 1: Has a direct effect on the mission, strategy, and goals of the entire institution.

Tier 2: Has a direct effect on the mission, strategy, and goals of multiple departments.

Tier 3: Has a direct effect on the mission, strategy, and goals of one department.

AGENDA ITEM

Emerging Risks in IT Security.....presented by Greg Gleghorn

Summary: Include a brief summary of the agenda item, noting what is important and why.

The current buzz phrase for IT and Business is digital transformation. Digital transformation is simply four domains: IoT (Internet of Things), Elastic Cloud computing, Artificial Intelligence, and Big Data. The information security risks that these domains may expose is a lack of visibility and control.

These are the specific emerging information security risks that digital transformation poses to UNCSA:

UNCSA has a cloud-first approach, so as this model matures, the risks may increase without proper controls. One of the primary ways to mitigate this emerging risk is to gain greater visibility and control of UNCSA data, applications, and services held in the cloud. We are currently investigating a brokerage relationship with vendors that provide cloud access security brokerage service know as CASB (pronounced *cas bee*). Once we settle on the right CASB partnership this should improve our visibility and control over UNCSA’s cloud architecture.

Another emerging information security risk is disaster recovery and business continuity. While UNCSA does have disaster recovery and business continuity processes in place, the digital transformation will demand more from this area. Digital transformation places emphasis on data being available in realtime from different vectors (cloud, on-premises, mobile, or hybrid) and multiple devices (laptop, tablet, smartphone, etc.) this, in turn, may expose risk associated with business continuity and disaster recovery plans. Part of our UNCSA information security roadmap is to address this risk in milestone four of 5 milestones. More specifically, this will become a priority during the first quarter of 2020.

Action: Agenda item is for informational purposes only

The Semans Art Fund, Inc.

Financial Statements
Years Ended June 30, 2019 and 2018



The Semans Art Fund, Inc.

Financial Statements
Years Ended June 30, 2019 and 2018

The Semans Art Fund, Inc.

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Independent Auditor's Report

Board of Directors
The Semans Art Fund, Inc.
Winston-Salem, North Carolina

We have audited the accompanying financial statements of The Semans Art Fund, Inc. (a nonprofit organization) (the "Fund"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Semans Art Fund, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Smith Leonard PLLC

High Point, North Carolina
October 25, 2019

The Semans Art Fund, Inc.

Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 328,784	\$ 328,923
Investments:		
Mutual funds	2,304,806	2,225,457
Common stocks	1,619,215	1,539,808
Collection item	-	60,000
Total assets	\$ 4,252,805	\$ 4,154,188
Liabilities and Net Assets		
Accounts payable	\$ 24,680	\$ 20,563
Total liabilities	24,680	20,563
Commitments		
Net assets		
Without donor restrictions	2,539,048	2,487,484
With donor restrictions	1,689,077	1,646,141
Total net assets	4,228,125	4,133,625
Total liabilities and net assets	\$ 4,252,805	\$ 4,154,188

See accompanying notes to financial statements.

The Semans Art Fund, Inc.

Statement of Activities Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Interest and dividend income	\$ 34,086	\$ -	\$ 34,086
Gains (losses) on investments reported at fair value, net of fees	(10,019)	182,936	172,917
Gain on sale of collection item	43,000	-	43,000
Net assets released from restrictions	140,000	(140,000)	-
Total revenue	207,067	42,936	250,003
Expenditures			
Scholarships and awards	132,578	-	132,578
Administrative costs	22,925	-	22,925
Total expenditures	155,503	-	155,503
Change in net assets	51,564	42,936	94,500
Net assets, beginning of year	2,487,484	1,646,141	4,133,625
Net assets, end of year	\$ 2,539,048	\$ 1,689,077	\$ 4,228,125

See accompanying notes to financial statements.

The Semans Art Fund, Inc.

Statement of Activities Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Interest and dividend income	\$ 33,383	\$ -	\$ 33,383
Contributions received	-	500	500
Gains (losses) on investments reported at fair value, net of fees	(9,629)	195,520	185,891
Net assets released from restrictions	140,000	(140,000)	-
Total revenue	163,754	56,020	219,774
Expenditures			
Scholarships and awards	127,276	-	127,276
Administrative costs	32,606	-	32,606
Total expenditures	159,882	-	159,882
Change in net assets	3,872	56,020	59,892
Net assets, beginning of year	2,483,612	1,590,121	4,073,733
Net assets, end of year	\$ 2,487,484	\$ 1,646,141	\$ 4,133,625

See accompanying notes to financial statements.

The Semans Art Fund, Inc.

Statement of Functional Expenses Year Ended June 30, 2019

	Scholarships and Awards	Administrative Costs	Total
Scholarships and awards	\$ 132,578	\$ -	\$ 132,578
Service fees	-	14,857	14,857
Audit fees	-	6,000	6,000
Insurance and bonding	-	1,100	1,100
Bank service charges	-	724	724
Meeting costs and supplies	-	244	244
Total functional expenses	\$ 132,578	\$ 22,925	\$ 155,503

See accompanying notes to financial statements.

The Semans Art Fund, Inc.

Statement of Functional Expenses Year Ended June 30, 2018

	Scholarships and Awards	Administrative Costs	Total
Scholarships and awards	\$ 127,276	\$ -	\$ 127,276
Service fees	-	14,566	14,566
Donations	-	10,000	10,000
Audit fees	-	5,950	5,950
Insurance and bonding	-	1,100	1,100
Bank service charges	-	714	714
Meeting costs and supplies	-	276	276
Total functional expenses	\$ 127,276	\$ 32,606	\$ 159,882

See accompanying notes to financial statements.

The Semans Art Fund, Inc.

Statements of Cash Flows Years Ended June 30, 2019 and 2018

	2019	2018
Operating activities		
Change in net assets	\$ 94,500	\$ 59,892
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gain on sale of collection item	(43,000)	-
Net gain on investments reported at fair value	(182,936)	(195,520)
Changes in operating liabilities:		
Accounts payable	4,117	533
Net cash used in operating activities	(127,319)	(135,095)
Investing activities		
Sales of investments, net of reinvested	24,180	356,122
Proceeds from sale of collection item	103,000	-
Net cash provided by investing activities	127,180	356,122
Change in cash and cash equivalents	(139)	221,027
Cash and cash equivalents, beginning of year	328,923	107,896
Cash and cash equivalents, end of year	\$ 328,784	\$ 328,923

See accompanying notes to financial statements.

The Semans Art Fund, Inc.

Notes to Financial Statements

1. Organization

The Semans Art Fund, Inc. (the “Fund”) is a private foundation established in 1977 through the generosity of Dr. and Mrs. James H. Semans of Durham, North Carolina, co-founders of the University of North Carolina School of the Arts. The Fund has the following primary purposes:

- Aid and promote, by financial assistance and otherwise, the international programs carried on by the University of North Carolina School of the Arts (“UNCSA”) and support, by financial assistance and other means, said institution’s curricula and special programs in music, drama, dance, stage design and production and film.
- Serve as a non-profit organization for the purpose of soliciting, accepting and receiving funds from public and private sources, and to distribute such funds to the UNCSA for use in supporting music programs and innovative ventures, programs and projects in music, drama, dance, stage design and production and film.

The Fund is sustained by an independently funded endowment and is governed by a Board of Directors.

2. Summary of Significant Accounting Policies

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

- Without donor restrictions – net assets that are not subject to donor-imposed stipulations.
- With donor restrictions – net assets subject to donor-imposed stipulations that may or will be met either by actions of the Fund and/or passage of time, as well as those that may be maintained permanently by the Fund. Generally, the donors of these assets permit the Fund to use all of or part of the income (which includes realized and unrealized gains on investments) earned on related investments for general or specified purposes.

Gains and losses on permanent endowment funds are reported as increases or decreases within net assets with donor restrictions as endowment returns subject to future appropriation.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of net assets with donor restrictions (i.e., the donor-imposed stipulation has been fulfilled and/or the stipulation time period has elapsed) are reported as net assets released from restrictions on the statement of activities.

The Semans Art Fund, Inc.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Continued)

During 2019, the Fund adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and expenses by both their natural and functional classification.

A recap of the net asset reclassifications as of June 30, 2018 related to the adoption of ASU 2016-14 follows:

Net Asset Classifications	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	\$ 2,487,484	\$ -	\$ 2,487,484
Temporarily restricted	-	642,085	642,085
Permanently restricted	-	1,004,056	1,004,056
Net assets, as reclassified	\$ 2,487,484	\$ 1,646,141	\$ 4,133,625

Use of Estimates

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

Contributions

The Fund recognizes contributions, including unconditional promises to give, as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions, if any, to be received after one year are discounted at a risk-adjusted market rate determined at the date of the gift. Amortization of the discount is recorded as additional contribution revenue. Allowance is made for uncollectible contributions receivable based upon an analysis of past collection experience and other relevant factors. There were no unconditional promises to give recorded at June 30, 2019 and 2018.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which will assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. This ASU was adopted during 2019 without impact on these financial statements.

The Semans Art Fund, Inc.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Contributions (Concluded)

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

Collection Item

Collection item comprised a single painting at June 30, 2018 which was sold during 2019. Purchased collection items are capitalized at cost, or if donated or transferred from an affiliated organization, at fair value. Gains or losses on the acquisition or disposal of collection items are classified on the statement of activities depending on donor restrictions, if any, placed on the item when originally received.

Cash and Cash Equivalents

The Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Fund maintains cash balances with various financial institutions, the amounts of which may at times exceed federally insured limits. Risks associated with cash balances are mitigated by banking with credit worthy institutions.

Investments

Investments are stated at fair value. Purchases and sales of investments are recorded on a trade date basis. Interest and dividends are recorded when earned.

The Fund has significant investments that are also subject to concentrations of credit risk. Investments are made by investment managers engaged by the Fund and are monitored by management. The Fund's investment objectives are to achieve an annualized total return from income and capital appreciation that provides a real return in excess of inflation over normal capital markets and business cycles. Although the market value of investments is subject to fluctuations, management believes the investment policy is prudent for the long-term welfare of the Fund.

Endowments

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

The Semans Art Fund, Inc.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (Concluded)

Endowments (Concluded)

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

Spending Policy

The Fund has a policy of appropriating for distribution each year 4.5% of each endowment fund's average fair value of the prior three years.

Income Taxes

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

It is the Fund's policy to evaluate all tax positions and to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. Any changes in the amount of a tax position will be recognized in the period the change occurs. Currently, the statute of limitations remains open subsequent to and including fiscal year 2016; however, no examinations are in process.

Functional Expenses

The Fund's payments and expenses are directly attributed to specific scholarships and awards or administrative costs. Therefore, the preparation of the statement of functional expenses does not require estimation of expense by functional costs.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation. The reclassifications have no effect on the change in net assets or total net assets as previously reported.

Subsequent Events

Management has evaluated events occurring through October 25, 2019, the date that the financial statements were available to be issued, determining no events require adjustment to or additional disclosure in the financial statements.

The Semans Art Fund, Inc.

Notes to Financial Statements

3. Fair Value Measurements and Investments

The fair value of accounts payable is not materially different than its carrying amount since it approximates the amount for which the liabilities could be settled.

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

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

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

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

The following are the assets measured at fair value as of June 30, 2019.

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,304,806	\$ -	\$ -	\$ 2,304,806
Common stocks	1,619,215	-	-	1,619,215
Total assets at fair value	\$ 3,924,021	\$ -	\$ -	\$ 3,924,021

The following are the assets measured at fair value as of June 30, 2018.

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,225,457	\$ -	\$ -	\$ 2,225,457
Common stocks	1,539,808	-	-	1,539,808
Total assets at fair value	\$ 3,765,265	\$ -	\$ -	\$ 3,765,265

4. Service Fees

The University of North Carolina School of the Arts Foundation (the "Foundation") is an affiliated entity also formed to promote the activities of UNCSA. The Foundation provides accounting and other services to the Fund under a service agreement. Beginning December 14, 2015, the Fund pays a fixed fee of \$14,000 per annum increasing by 2% annually. The service agreement can be terminated by either party with 90-day notice. The fee for services amounted to approximately \$14,900 and \$14,600 in 2019 and 2018.

The Semans Art Fund, Inc.

Notes to Financial Statements

5. Liquidity and Availability

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

	2019	2018
Total assets	\$ 4,252,805	\$ 4,154,188
Net assets with donor restrictions	1,689,077	1,646,141
Collection item	-	60,000
Total financial assets available for general expenditures	\$ 2,563,728	\$ 2,448,047

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

6. Restrictions on Net Assets

Net assets with donor restrictions are available for the following purposes.

<i>June 30,</i>	2019	2018
Time or purpose restrictions		
Endowment returns subject to future appropriation	\$ 685,021	\$ 642,085
Perpetual restrictions		
Permanent endowment funds	1,004,056	1,004,056
Total net assets with donor restrictions	\$ 1,689,077	\$ 1,646,141

7. Investment Income

Net gain on other investments reported at fair value consist of the following:

<i>Year ended June 30,</i>	2019	2018
Gain on investments reported at fair value	\$ 182,936	\$ 195,520
Investment management fees	10,019	9,629
	\$ 172,917	\$ 185,891

The Semans Art Fund, Inc.

Notes to Financial Statements

8. New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which replaces all previous guidance on recognition of revenue. For the Fund, the ASU (as amended) is effective in periods beginning after December 15, 2018. Management is currently assessing the impact this guidance may have on the Fund's future financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which replaces all previous guidance on leases and will require entities to recognize assets and liabilities arising from operating leases. For the Fund, the ASU (as amended) is effective for fiscal years beginning after December 15, 2019, with early application permitted. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provided an alternative transition method when initially applying ASU 2016-02. Entities may elect to apply ASU 2016-02 at the beginning of the earliest period presented or recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. Management is currently assessing the impact this guidance will have on the Fund's future financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*, which clarifies how certain cash receipts and payments are presented and classified in the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2018, with early application permitted. Management does not expect this update to materially impact the Fund's financial statements.

In August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies disclosure requirements related to fair value measurements. The ASU is effective for fiscal years beginning after December 15, 2019, with early application permitted. Management does not expect this guidance to materially impact the Fund's future financial statements.

In March 2019, FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958), Updating the Definition of Collections*, which expands the criteria under which contribution of works of art and similar assets need not be recognized. The ASU is effective for fiscal year beginning after December 15, 2019. Management does not expect this guidance to materially impact the Fund's future financial statements.

AGENDA ITEM

Financial Statement Audits.....Lisa McClinton, Associate Vice Chancellor for Finance

Summary: The NC Office of State Auditor conducted the FY 2019 audits for the University and Bernard Robinson CPA Firm conducted the FY2019 audits for UNCSA Housing Corporation and UNCSA Program Support Corporation.

- UNCSA Financial Statement Audit for Fiscal Year 2019 - The University received a clean financial statement audit with no issues to report.
- UNCSA Housing Corporation Financial Statement Audit 2019 - Housing Corp. received a clean audit with no issues to report.
- UNCSA Program Support Corporation Financial Statement Audit 2019 – Program Support Corp. received a clean audit with no issues to report.

A clean financial statement audit means that stakeholders can place reliance on the reported numbers; that there are no material misstatements. While clean annual Financial Statement Audits are a good thing, they do not give insight into whether or not there is fraud, waste, or abuse, or if the school and/or foundations uses its resources efficiently.

Action: This item is for informational purposes only.

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

FINANCIAL REPORT

JUNE 30, 2019



UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina School of the Arts Housing Corporation (the "Corporation") (a nonprofit corporation), a component unit of the University of North Carolina School of the Arts which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina School of the Arts Housing Corporation as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 4, 2019

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, 2019. 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,

Statement of Net Position (Continued)

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,		
	2019	2018	Change
Assets			
Current Assets	\$ 1,446,200	\$ 1,251,894	\$ 194,306
Capital Assets, Net	4,141,942	4,252,533	(110,591)
Total Assets	<u>5,588,142</u>	<u>5,504,427</u>	<u>83,715</u>
Liabilities			
Current Liabilities	390,720	344,910	45,810
Noncurrent Liabilities	3,862,529	4,189,454	(326,925)
Total Liabilities	<u>4,253,249</u>	<u>4,534,364</u>	<u>(281,115)</u>
Net Position			
Net Investment in Capital Assets	(39,057)	(245,467)	206,410
Unrestricted	1,373,950	1,215,530	158,420
Total Net Position	<u>\$ 1,334,893</u>	<u>\$ 970,063</u>	<u>\$ 364,830</u>

The total assets of the Corporation increased by \$83,715 for the year, with a decrease in capital assets of \$110,591, offset by an increase in current assets of \$194,306. The decrease in capital assets is due to annual depreciation expense. The increase in current assets is primarily due to an increase in cash due to increase housing cash equivalents of \$76,739 that was a result of a decrease in spending related to supplies and materials, services, utilities, and interest payments on debt. In addition, the Corporation received increased investment income as a direct result of improvements in the market.

The total liabilities of the Corporation decreased by \$281,115 for the year, with a decrease in long-term liabilities of \$326,925, offset by an increase in current liabilities of \$45,810. 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 accounts payable for repairs and maintenance as well as the current portion of the Series 2015 Certificates of Participation of \$10,000. The current portion of the Series 2015 Certificates of Participation will increase over the life of the debt.

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

Statement of Net Position (Continued)

The Corporation's net position was \$1,334,893 at June 30, 2019, an increase of \$364,830 from the prior year. The significant change within net position is in the category of net investment in capital assets, which increased \$206,410. 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.

	2019	2018	Change
Operating Revenues	\$ 1,074,981	\$ 1,025,843	\$ 49,138
Operating Expenses			
Salaries and Benefits	92,394	77,138	15,256
Supplies and Materials	35,782	62,860	(27,078)
Services	277,952	295,118	(17,166)
Utilities	91,177	96,677	(5,500)
Depreciation Expense	110,591	110,591	-
Total Operating Expenses	607,896	642,384	(34,488)
Operating Income	467,085	383,459	83,626
Nonoperating Revenues (Expenses)			
Investment Income	29,896	20,498	9,398
Interest and Fees on Debt	(136,698)	(142,932)	6,234
Other Nonoperating Revenues	4,547	7,601	(3,054)
Total Nonoperating Expenses	(102,255)	(114,833)	12,578
Increase in Net Position	364,830	268,626	96,204
Beginning Net Position	970,063	701,437	268,626
Ending Net Position	\$ 1,334,893	\$ 970,063	\$ 364,830

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 \$1,109,424 compared to \$1,053,942 from the previous year, an increase of \$55,482. The highlights of the revenue accounts presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

- Operating revenues increased by \$49,138. This decrease was primarily attributable to a 3% increase in housing fees.
- Investment income increased by \$9,398. This increase was a direct result of improvements in the market.

Total expenses were \$744,594 for the fiscal year ended June 30, 2019 and \$785,316 for 2018. Operating expenses totaled \$607,896 for the year compared to \$642,384 from the previous year, a decrease of \$34,488. The significant changes include:

- Salaries and benefits increases \$15,256 due to allocation of resources.
- Supplies and materials decreased \$27,078 due to a decline in equipment purchases and repair supplies needed compared to the prior year.
- Services decreased \$17,166 primarily due to a decrease in service related repairs and maintenance.

Capital Asset and Debt Administration

The Corporation, a blended entity of the University of North Carolina School of the Arts (UNCSA), took out certificates of participation in the amount of \$7,200,000 to provide funds to discharge certain indebtedness used for the acquisition, construction, equipping and subsequent improvements of the Center Stage Apartment complex. The Corporation has leased the apartment complex to UNCSA 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 and resulted in a net present value savings of \$771,181.

As of June 30, 2019, the Corporation has outstanding balance of \$4,181,000 in University of North Carolina School of the Arts Student Housing Project Refunding Certificates of Participation, Series 2015, and continues to make all of its debt payments in a timely manner. No new debt was issued during the 2018-2019 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 2019. Based on currently known facts about the Corporation's financial performance in fiscal year 2019, 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.

University of North Carolina School of the Arts Housing Corporation
Statement of Net Position
June 30, 2019

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,418,782
Receivables	7,900
Prepaid Items	19,518

Total Current Assets	1,446,200
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Noncurrent Assets:

Capital Assets - Nondepreciable (Note 4)	451,326
Capital Assets - Depreciable, Net (Note 4)	3,690,616

Total Noncurrent Assets	4,141,942
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Total Assets	5,588,142
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	47,865
Unearned Revenue	4,800
Interest Payable	10,418
Long-Term Liabilities - Current Portion (Note 5)	327,637

Total Current Liabilities	390,720
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Noncurrent Liabilities:

Long-Term Liabilities, Net (Note 5)	3,862,529
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Total Liabilities	4,253,249
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NET POSITION

Net Investment in Capital Assets	(39,057)
Unrestricted	1,373,950

Total Net Position	\$ 1,334,893
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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, 2019

Exhibit A-2

OPERATING REVENUES

Sales and Services	\$ 1,027,265
Other Operating Revenues	47,716
	<u>1,074,981</u>
Total Operating Revenues	<u>1,074,981</u>

OPERATING EXPENSES

Salaries and Benefits	92,394
Supplies and Materials	35,782
Services	277,952
Utilities	91,177
Depreciation	110,591
	<u>607,896</u>
Total Operating Expenses	<u>607,896</u>
Operating Income	<u>467,085</u>

NONOPERATING REVENUES (EXPENSES)

Investment Income	29,896
Interest and Fees on Debt	(136,698)
Other Nonoperating Revenues	4,547
	<u>(102,255)</u>
Net Nonoperating Expenses	<u>(102,255)</u>
Increase in Net Position	364,830

NET POSITION

Net Position - July 1, 2018	<u>970,063</u>
Net Position - June 30, 2019	<u>\$ 1,334,893</u>

University of North Carolina School of the Arts Housing Corporation
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,068,454
Payments to Employees and Fringe Benefits	(94,958)
Payments to Vendors and Suppliers	<u>(370,958)</u>
Net Cash Provided by Operating Activities	<u>602,538</u>

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

Proceeds from Insurance on Capital Assets	4,547
Principal Paid on Capital Debt and Leases	(317,000)
Interest and Fees Paid on Capital Debt and Leases	<u>(137,490)</u>
Net Cash Used by Capital Financing and Related Financing Activities	<u>(449,943)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>29,896</u>
Net Increase in Cash and Cash Equivalents	182,491
Cash and Cash Equivalents - July 1, 2018	<u>1,236,291</u>
Cash and Cash Equivalents - June 30, 2019	<u>\$ 1,418,782</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Income	\$ 467,085
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation Expense	110,591
Changes in Assets and Liabilities:	
Receivables, Net	(7,900)
Prepaid Insurance	(3,915)
Accounts Payable and Accrued Liabilities	35,490
Unearned Revenue	1,373
Compensated Absences	<u>(186)</u>
Net Cash Provided by Operating Activities	<u>\$ 602,538</u>

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

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

E. Capital Assets - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. 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.

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.

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.

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

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

- J. **Income Tax Status** - The Corporation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose. The Corporation's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that the Corporation has no uncertain tax positions that would be subject to change upon examination.

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

NOTE 2 - DEPOSITS (CONTINUED)

At June 30, 2019, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,418,782, which represents the Corporation's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2019. 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, 2019, 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.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2019. 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:

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

Short-Term Investment Fund - At year-end, all of the Corporation's investments valued at \$1,418,782. 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 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, 2019, is presented as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 451,326	\$ 0	\$ 0	\$ 451,326
Total Capital Assets, Nondepreciable	451,326			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	1,703,693	109,916		1,813,609
Machinery and Equipment	1,013	675		1,688
Total Accumulated Depreciation	1,704,706	110,591		1,815,297
Total Capital Assets, Depreciable, Net	3,801,207	(110,591)		3,690,616
Capital Assets, Net	\$ 4,252,533	\$ (110,591)	\$ 0	\$ 4,141,942

During the year ended June 30, 2019, the Corporation incurred \$136,698 in interest costs related to the acquisition and construction of capital assets. All of these costs were charged in interest expense.

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

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, 2019, is presented as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Current Portion
Long-Term Debt					
Certificates of Participation	\$ 4,498,000	\$ 0	\$ 317,000	\$ 4,181,000	\$ 327,000
Other Long-Term Liabilities					
Compensated Absences	9,352	4,120	4,306	9,166	637
Total Long-Term Liabilities	\$ 4,507,352	\$ 4,120	\$ 321,306	\$ 4,190,166	\$ 327,637

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	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2019	Principal Outstanding June 30, 2019	See Table Below
Certificates of Participation							
Student Housing Project, Series 2015	(A)	2.99%	06/01/2030	\$ 5,400,000	\$ 1,219,000	\$ 4,181,000	(1)

(A) University of North Carolina School of the Arts 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	\$ 4,967,878	\$ 639,921	\$ 317,000	\$ 133,698	71%

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

C. Annual Requirements - The annual requirements to pay principal and interest on the certificates of participation at June 30, 2019, are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements</u>	
	<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 327,000	\$ 125,012
2021	336,000	115,235
2022	346,000	105,188
2023	357,000	94,843
2024	368,000	84,169
2025-2029	2,008,000	249,306
2030	439,000	13,126
Total Requirements	\$ 4,181,000	\$ 786,879

NOTE 6 - TRANSACTIONS WITH THE UNIVERSITY

The 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, 2019, the Corporation reimbursed the University \$92,394 for these expenses.

The University enters into certain contracts for maintenance, repairs, and custodial services to residence halls and apartments for the University 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.



Bernard Robinson & Company, L.L.P.

September 4, 2019

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

We have audited the financial statements of the University of North Carolina School of the Arts Housing Corporation (the “Organization”) for the year ended June 30, 2019, and we will issue our report thereon dated September 4, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 10, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2019. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management’s estimate for depreciation of capital assets.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 4, 2019.

Management Consultations with Other Independent Accountants

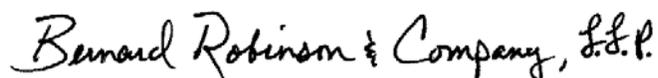
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination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

Other Audit Findings or Issues

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

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

Very truly yours,



BERNARD ROBINSON & COMPANY, L.L.P.

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, 2019



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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of North Carolina School of the Arts Program Support Corporation (the "Corporation") (a nonprofit corporation), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina School of the Arts Program Support Corporation as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 4, 2019

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, 2019. 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.

Statement of Net Position (Continued)

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,		
	2019	2018	Change
Assets			
Current Assets	\$ 114,223	\$ 124,574	\$ (10,351)
Capital Assets, Net	1,082,625	1,082,625	-
Total Assets	<u>1,196,848</u>	<u>1,207,199</u>	<u>(10,351)</u>
Liabilities			
Current Liabilities	<u>1,107</u>	<u>4,398</u>	<u>(3,291)</u>
Total Liabilities	<u>1,107</u>	<u>4,398</u>	<u>(3,291)</u>
Net Position			
Net Investment in Capital Assets	1,082,625	1,082,625	-
Unrestricted	<u>113,116</u>	<u>120,176</u>	<u>(7,060)</u>
Total Net Position	<u>\$ 1,195,741</u>	<u>\$ 1,202,801</u>	<u>\$ (7,060)</u>

The total assets of the Corporation decreased by \$10,351 for the year due to a decrease in current assets. Current assets decreased primarily due to an increase in operating expenses.

The current liabilities of the Corporation decreased by \$3,291 for the year due to a decrease in accounts payable related to audit services that were paid in fiscal year 2019 that pertained to a prior period.

The Corporation's net position was \$1,195,741 at June 30, 2019, a decrease of \$7,060 from the prior year. The significant change was within the category of unrestricted which decreased due to an increase in operating expenses.

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,		
	2019	2018	Change
Operating Revenues	\$ 26,655	\$ 27,720	\$ (1,065)
Operating Expenses			
Salaries and Benefits	19,330	14,798	4,532
Supplies and Materials	1,377	-	1,377
Services	13,008	8,001	5,007
Total Operating Expenses	33,715	22,799	10,916
Operating Income	(7,060)	4,921	(11,981)
Increase in Net Position	(7,060)	4,921	(11,981)
Beginning Net Position	1,202,801	1,197,880	4,921
Ending Net Position	\$ 1,195,741	\$ 1,202,801	\$ (7,060)

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 \$26,655 compared to \$27,720 from the previous year, a decrease of \$1,065. Operating revenues decreased due to a decline in demand for film print rentals.

Total operating expenses were \$33,715 for the fiscal year ended June 30, 2019 and \$22,799 for 2018. The significant changes include an increase in Salaries and Benefits of \$4,532 due to an allocation of resources and Services of \$5,007 due to an increase in property insurance.

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 2019. Based on currently known facts about the Corporation's financial performance in fiscal year 2019, 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 educational experience to our students.

University of North Carolina School of the Arts Program Support Corporation
Statement of Net Position
June 30, 2019

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	105,225
Receivables		4,755
Prepaid Insurance		4,243

Total Current Assets 114,223

Noncurrent Assets:

Capital Assets - Nondepreciable		<u>1,082,625</u>
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Total Noncurrent Assets 1,082,625

Total Assets 1,196,848

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities		<u>1,107</u>
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NET POSITION

Investment in Capital Assets 1,082,625

Unrestricted 113,116

Total Net Position \$ 1,195,741

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, 2019

Exhibit A-2

OPERATING REVENUES

Film Rentals 26,655

OPERATING EXPENSES

Salaries and Benefits 19,330

Supplies and Materials 1,377

Services 13,008

Total Operating Expenses 33,715

Operating Loss (7,060)

Decrease in Net Position (7,060)

NET POSITION

Net Position - July 1, 2018 1,202,801

Net Position - June 30, 2019 \$ 1,195,741

University of North Carolina School of the Arts Program Support Corporation
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 26,375
Payments to Employees and Fringe Benefits	(19,330)
Payments to Vendors and Suppliers	<u>(17,676)</u>
Net Cash Used in Operating Activities	<u>(10,631)</u>
Net Decrease in Cash and Cash Equivalents	(10,631)
Cash and Cash Equivalents - July 1, 2018	<u>115,856</u>
Cash and Cash Equivalents - June 30, 2019	<u><u>\$ 105,225</u></u>

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

Operating Loss	\$ (7,060)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Changes in Assets and Liabilities:	
Receivables, Net	(280)
Accounts Payable and Accrued Liabilities	<u>(3,291)</u>
Net Cash Used in Operating Activities	<u><u>\$ (10,631)</u></u>

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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. 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, 2019, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$105,225, which represents the Corporation's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2019. 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, 2019, 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.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2019. 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

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

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 \$105,225. 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 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 - RISK MANAGEMENT

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



Bernard Robinson & Company, L.L.P.

September 4, 2019

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

We have audited the financial statements of University of North Carolina School of the Arts Program Support Corporation (the “Organization”) for the year ended June 30, 2019, and we will issue our report thereon dated September 4, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 10, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2019. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management’s estimate for depreciation of capital assets.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 4, 2019.

Management Consultations with Other Independent Accountants

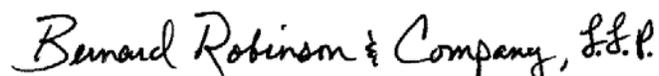
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination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

Other Audit Findings or Issues

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

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

Very truly yours,



BERNARD ROBINSON & COMPANY, L.L.P.

AGENDA ITEM

Single Audit (Federal Financial Aid).....Lisa McClinton, Associate
Vice Chancellor for Finance

Summary: The NC Office of the State Auditor conducted the FY 2019 federal compliance audit for the University relating to federal financial aid.

- On October 31, 2019, the University received a management letter with no issues to report. The report will be issued sometime in spring 2020, when the State’s single audit report is scheduled to be release.

Action: This item is for informational purposes only.

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<https://www.auditor.nc.gov>

October 31, 2019

Brian Cole, Interim Chancellor
University of North Carolina School of the Arts
1533 South Main Street
Winston-Salem, North Carolina 27127

Dear Mr. Cole:

We have completed the federal compliance portion of our audit at the University of North Carolina School of the Arts for the year ended June 30, 2019. In planning and performing our audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we considered the University of North Carolina School of the Art's internal control over federal compliance (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on whether the State has complied, in all material respects, with the compliance requirements that have a direct and material effect on major federal programs, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the University of North Carolina School of the Art's internal control over federal compliance.

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 noncompliance 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, material weaknesses may exist that have not been identified. These audit results were discussed with your staff and will be included in a report for the University of North Carolina School of the Arts.

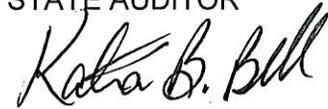
Brian Cole, Interim Chancellor
October 31, 2019
Page 2

The purpose of this letter is solely to describe the scope of our testing of internal control over compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over compliance. This letter is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of North Carolina School of the Art's internal control over compliance. Accordingly, this letter is not suitable for any other purpose.

We express our appreciation to you and your staff for the cooperation extended to us during our audit. Please contact me if you have any questions or concerns about the audit.

Sincerely,

BETH A. WOOD, CPA
STATE AUDITOR

A handwritten signature in black ink that reads "Katina B. Bell". The signature is written in a cursive style with a large initial "K".

Katina B. Bell, CPA
Financial Audit Director

BAW/KBB:ae

cc: Michael J. Smith, Vice Chancellor for Finance and Administration
Lisa McClinton, Associate Vice Chancellor for Finance and Controller
Jane Kamiab, Director of Student Financial Aid

AGENDA ITEM

Internal Audit Activity Update..... presented by Rod Isom & Shannon Henry

Summary:

1. Internal Audit Reports*
2. Other Internal Audit Activity*
3. Summary of Observations and Recommendations for FY2020 – YTD*
 - o Internal Audit completed audits and advisory services resulting in reports with findings that produced **15** written recommendations for the following university departments: Human Resources, Controller’s Office, and Environmental Health & Safety.
4. Quality Assurance Review Update

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

Action: These items are for informational purposes only.



WINSTON-SALEM
STATE UNIVERSITY



Office of Audit, Risk, and Compliance

Shannon B. Henry, Chief Audit, Risk, and Compliance Officer
1600 Lowery Street, Winston-Salem, North Carolina 27110
(336) 750-2065 | www.wssu.edu

November 21, 2019

Michael Smith
Vice Chancellor for Finance and Administration
University of North Carolina School of the Arts
1533 South Main Street
Winston-Salem, NC 27127

Dear Mr. Smith:

The Internal Audit Unit of Winston-Salem State University's Office of Audit, Risk, and Compliance has completed its review of Environmental Health & Safety's life safety protocols at the University of North Carolina School of the Arts. The scope of the review was January 1, 2018 through June 30, 2019. The results of the review, along with recommendations for corrective actions and management's responses, are contained in this report. Other observations, considered minor or outside of the scope of the review, will be communicated to management by way of a management letter, risk monitoring memo, or verbally.

Engagements completed by the Internal Audit Unit of the Office of Audit, Risk, and Compliance are conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors.

Respectfully submitted,

Shannon B. Henry

Shannon B. Henry
Chief Audit, Risk, and Compliance Officer

cc: Brian Cole, Interim Chancellor
Steve Martin, Associate Vice Chancellor for Facilities Management

November 21, 2019

Page 2

Toni Beery, Director of Environmental Health & Safety
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel
Audit, Risk, and Compliance Committee, UNCSA Board of Trustees

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EXECUTIVE SUMMARY

In light of the potential for loss or liability, and other compliance and reputational risks associated with problems that may arise from an ineffective or inefficient Environmental Health & Safety Department (EHS), an audit of the area was identified during Internal Audit's (IA) annual risk assessment. Selection of this audit was based on a comprehensive plan to assess the internal control environment across all divisions of the University of North Carolina School of the Arts (UNCSA).

EHS plays a key role in providing a safe and healthy environment in which to learn, live, and work. The Director of EHS reports organizationally to the Associate Vice Chancellor for Facilities Management, who reports to the Vice Chancellor for Finance and Administration.

The objective of the review was to evaluate life safety protocols at the university. As part of the overall review, specific goals included making the following determinations:

- Assessing the quality as well as the quantity of safety and health activities;
- Ensuring the life safety protocols comply with UNCSA and University of North Carolina System Office (UNC System Office) policies as well as federal and state laws and regulations; and
- Ensuring employees are properly trained and made aware of life safety protocols.

The scope of the review was January 1, 2018 through June 30, 2019.

As part of the review's procedures, IA conducted a micro-engagement level risk assessment of EHS by way of a campus-wide survey of the university's faculty and staff (see Appendix A). The main purpose of the survey was to identify potential risk areas for further assessment. The most cited concerns were evaluated and the relevant findings were captured and are communicated in this report.

The following procedures were also performed:

- Reviewed state and federal laws and regulations as well as UNC System Office and UNCSA policies and procedures;
- Interviewed individuals internal and external to the university;
- Reviewed system access to EHS applications; and
- Examined, on a test basis, evidence supporting internal controls and compliance with the appropriate policies.

The review identified policies and procedures in place that comply with standards and address university and State requirements. The review also noted how management was

EXECUTIVE SUMMARY

aware of the need for improvements to achieve efficient and effective operations and support compliance and how they were beginning to strategize to resolve the identified issues, such as implementing a new software system (School Dude) to improve the efficiency, safety and operations of the workplace. Further, university employees made positive remarks about EHS in the comment section of the campus-wide survey, and through discussion with senior management, it was noted how EHS is improving under the new leadership.

However, we also identified several deficient practices that need improvement to mitigate strategic, operational and compliance risks associated with this area of operation. These items are discussed in the following Summary of Findings, followed by IA's Summary of Recommendations for corrective actions.

Summary of Findings:

- Lack of a Comprehensive and Effective Safety Management Plan;
- Insufficient Health and Safety Training Plan;
- No Safety Committee;
- Ineffective Information and Communication about EHS Services;
- No Risk Management Process; and
- Campus Perception of EHS.

Summary of Recommendations:

- EHS should develop a safety management plan that establishes policies, controls, and workplace protocols addressing how hazardous exposures and work related injuries or illnesses are identified and addressed.
- Protocols should be created to ensure plans are put in place to effectively address safety violations identified by internal and external reviewers.
- Fire prevention guidelines should be documented and communicated accordingly.
- EHS should implement accountability and control measures to assist in ensuring all necessary and required trainings are offered and attended by the appropriate personnel.
- EHS should work with Human Resources to coordinate training efforts and develop a system that will allow EHS to effectively and efficiently train new hires and employees transferring into roles where such training is required.
- EHS should create an acknowledgement form that employees, visitors, and/or contractors have to sign indicating that they have been informed and properly educated of hazardous areas before entering.
- EHS should work with university administration to develop a safety committee.
- The university should develop an EHS webpage on its website to inform the campus community of matters related to environmental health and safety.

EXECUTIVE SUMMARY

- EHS should work with the Office of Strategic Communications and develop a communication strategy.
- EHS should develop a risk management process so that management has the tools necessary to identify health and safety risks and develop the corresponding risk mitigating procedures.
- University management, in conjunction with EHS, should further consider and address the concerns provided via the IA survey.
- EHS should occasionally survey the campus community in order to assess services provided and address opportunities for improvement.

INTRODUCTION

EHS plays a key role in providing a safe and healthy environment in which to learn, live, and work. The Director of EHS reports organizationally to the Associate Vice Chancellor for Facilities Management, who reports to the Vice Chancellor for Finance and Administration.

The objective of the review was to evaluate life safety protocols at the university. Within the overall review, specific goals include making the following determinations:

- Assess the quality as well as the quantity of safety and health activities;
- Ensure the life safety protocols comply with UNCSA and UNC System Office policies as well as federal and state laws and regulations; and
- Ensure employees are properly trained and made aware of life safety protocols.

The scope of the review was January 1, 2018 through June 30, 2019.

As part of the review's procedures, IA conducted a micro-engagement level risk assessment of EHS by way of a campus-wide survey of the university's faculty and staff (see Appendix A). The main purpose of the survey was to identify potential risk areas for further assessment. The most cited concerns were evaluated and the relevant findings were captured and are communicated in this report.

The following procedures were also performed:

- Reviewed state and federal laws and regulations as well as UNC System Office and UNCSA policies and procedures;
- Interviewed individuals internal and external to the university;
- Reviewed system access to EHS applications; and
- Examined, on a test basis, evidence supporting internal controls and compliance with the appropriate policies.

This report presents the results of our review.

AUDIT FINDINGS AND RECOMMENDATIONS

FINDINGS: *The following audit findings were identified during the current review and describe conditions that could adversely affect the university's ability to meet its operational, control, and compliance objectives.*

1. Lack of a Comprehensive and Effective Safety Management Plan

EHS does not have an effective safety management plan in place. Additionally, the plan is not comprehensive enough to effectively manage safety aspects that are decentralized and not overseen by the department, such as fires, epidemics, and work related injuries. As a result, management is not able to ensure safety and health risks of the campus community are sufficiently identified and mitigated.

During IA's review, the following instances were noted:

- There is no documentation that describes potential hazards in the workplace, corresponding policies, or practices used to minimize those hazards.
- There is no documentation to evidence that safety violations identified by external reviewers were addressed. The review was not able to identify work orders or requests to support issue resolution.
- The university does not have a responsibility matrix or other guide that encompasses all relevant aspects of environmental health and safety to ensure the campus community is effectively informed about the university's policies, controls, work practices, and departments responsible for each safety matter.
- There are no guidelines for fire prevention.
- EHS has limited resources with no succession plan.

Employees are the university's most valuable assets and their safety and health is essential to the university's success. A safety management plan is a necessary tool to help protect and inform the university's most valuable assets.

Criteria:

The "Management Leadership" section of the Occupational Safety and Health Administration's (OSHA) Recommended Practices for Safety and Health Programs indicates management should communicate their commitment to a safety and health program, define program goals, allocate resources, and expect performance.

The "Agency/University Responsibilities" section of the North Carolina State Employee Safety & Health Handbook states: "The agency or university shall develop and maintain an effective occupational safety and health program, including life safety and property protection."

AUDIT FINDINGS AND RECOMMENDATIONS

Occupational Safety and Health Administration (OSHA) 29 CFR 1910 – Occupational Safety and Health Standards – Fire Prevention Plans, Subpart 1910.39(b) Written and Oral Fire Prevention Plans states: “A fire prevention plan must be in writing, be kept in the workplace, and be made available to employees for review.” According to Subpart 1910.39(c), a fire prevention plan must include, “A list of all major fire hazards, proper handling and storage procedures for hazardous materials, potential ignition sources and their control, and the type of fire protection equipment necessary to control each major hazard.”

Recommendations:

- 1) EHS should develop a safety management plan that establishes policies, controls, and workplace protocols addressing how hazardous exposures and work related injuries or illnesses are identified and addressed.
- 2) Protocols should be created to ensure plans are put in place to effectively address safety violations identified by internal and external reviewers.
- 3) Fire prevention guidelines should be documented and communicated accordingly.

2. Insufficient Health and Safety Training Plan

EHS does not have a process in place to ensure their health and safety training program is sufficient. The failure to train employees adequately, on job specific health and safety practices in their work environment, could lead to work related injuries, illnesses, and other liability and loss to the university.

EHS Management was able to demonstrate that three training sessions were conducted and provided sign-in-sheets for each training. However, management does not have accountability measures established to ensure that all essential personnel receive training.

The university’s EHS training for calendar year 2018 covered the following topics:

- Session 1 - Heat Stress, Toxic and Hazardous Substances, Personal Protective Equipment (PPE);
- Session 2 - Electrical Safety, Confined Space, Welding/Cutting, Lock Out Tag Out, Platform Aerial Lifts and Ladder Safety; and
- Session 3 – Exit Routes, Emergency Action and Fire Prevention Plans, Respiratory Protection.

Other trainings that are required, but not conducted are:

AUDIT FINDINGS AND RECOMMENDATIONS

- Aids in the Workplace;
- Bloodborne Pathogens;
- Workplace Environment;
- Medical Service and First Aid;
- Materials Handling and Storage; and
- Machinery and Machine Guarding.

Additionally, management was unable to provide evidence to indicate that all employees, escorted visitors, and contractors are informed of hazards before entering a designated hazardous, caution, or restricted area.

Survey:

The survey revealed concerns from the campus community about the effectiveness and frequency of training provided by EHS.

Criteria:

The “Agency/University Responsibilities” section of the North Carolina State Employee Safety & Health Handbook states:

- The agency or university shall instruct each employee on how to recognize and avoid unsafe conditions, unsafe work practices, and the regulations and/or standards applicable to their work environment to control or eliminate any hazards.
- All employees, escorted visitors, and contractors shall be informed of hazards before entering a designated hazardous, caution, or restricted area; shall use required PPE; and shall adhere to safety and health procedures immediately upon access to the area.

The “Responsibilities - Agencies” section of North Carolina’s Office of State Human Resources’ (OSHR) Training and Development policy states: “Each agency has a responsibility for training and developing its employees. It is responsible for assuring that training programs geared to specific agency needs are planned, budgeted and established and that their employees participate in these programs.”

The “Training Requirements” section of the OSHA Standards lists the following trainings as required by employers:

- Exit Routes and Emergency Planning;
- Powered Platforms, Manlifts, and Vehicle-Mounted Work Platforms;

AUDIT FINDINGS AND RECOMMENDATIONS

- Hazardous Materials;
- Personal Protective Equipment;
- General Environmental Controls;
- Medical Service and First Aid;
- Fire Protection;
- Materials Handling and Storage;
- Machinery and Machine Guarding;
- Welding, Cutting, and Brazing;
- Electrical Safety-Related Work Practices; and
- Toxic and Hazardous Substances.

Recommendations:

- 1) EHS should implement accountability and control measures to assist in ensuring all necessary and required trainings are offered and attended by the appropriate personnel.
- 2) EHS should work with Human Resources to coordinate training efforts and develop a system that will allow EHS to effectively and efficiently train new hires and employees transferring into roles where such training is required.
- 3) EHS should create an acknowledgement form that employees, visitors, and/or contractors have to sign indicating that they have been informed and properly educated of hazardous areas before entering.

3. No Safety Committee

The university does not have an established safety committee. As a result, the university is not in conformance with the state policy requirement that all universities develop and maintain a safety committee.

Safety committees review health and safety programs, work related incidents, and conduct inspections of the campus. Opportunities for employees to participate in the safety committee can improve the university's ability to identify the presence and causes of workplace hazards, create a sense of program ownership amongst workers, enhance their understanding of how the safety program operates, and assist in sustaining the program over time.

Criteria:

The "Agency/University Responsibilities" section of the North Carolina State Employee Safety & Health Handbook states: "The agency or university will designate safety and

AUDIT FINDINGS AND RECOMMENDATIONS

health committees as required, assuring equal representation in the composition of the committees between management and employees.”

Recommendation:

- 1) EHS should work with university administration to develop a safety committee.

4. Ineffective Information and Communication about EHS Services

Relevant information about EHS at UNCSA is not identified, captured, and communicated in a form that enables the campus community to effectively respond to risks. As a result, there’s an increased risk that concerns affecting the health and safety of the campus community will not be resolved effectively and efficiently.

During IA’s review, it was noted that EHS did not have a webpage on UNCSA’s website. In reviewing the other 15 institutions within the UNC System, 14 out of 15 have an EHS webpage. In addition, management does not have a strategic way to communicate the results of its efforts to mitigate safety concerns. For example, management used external consultants to conduct mold assessments to address safety concerns of the campus community, but did not communicate the results back to the campus community or its key constituents.

Survey:

Survey respondents expressed uncertainty about EHS’s service offerings and how to get in contact with the department to report issues or concerns.

Criteria:

The “Components and Principles” section of the Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) Internal Control – Integrated Framework Executive Summary states:

The organization:

- Identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed;
- Identifies and assesses changes that could significantly affect the system of internal control;
- Selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels;

AUDIT FINDINGS AND RECOMMENDATIONS

- Selects and develops general control activities over technology to support the achievement of objectives; and
- Deploys control activities through policies that establish what is expected and procedures that put policies into action.

Recommendations:

- 1) The university should develop an EHS webpage on its website to inform the campus community of matters related to environmental health and safety.
- 2) EHS should work with the Office of Strategic Communications and develop a communication strategy.

5. No Risk Management Process

EHS does not have a risk management process in place that helps to identify, analyze, and mitigate risks related to environmental health and safety. As a result, the university is exposed to the potential for noncompliance, liability, and other loss.

EHS has no processes in place to identify and monitor risks that could affect the health and safety of the campus community. UNCSA is the only performing arts conservatory in the UNC System. The nature and uniqueness of its services presents its own set of risks that should be routinely assessed to ensure its people, programs, equipment, and surrounding environment are healthy and safe.

Survey:

There were a number of respondents with health and safety concerns about the Gray Building and other references of mold throughout university buildings.

Criteria:

The “Agency/University Responsibilities” section of the North Carolina State Employee Safety & Health Handbook states: “Frequent and regular inspections of the workplace, materials, and equipment shall be made by trained persons designated by each agency or university.”

Recommendation:

- 1) EHS should develop a risk management process so that management has the tools necessary to identify health and safety risks and develop the corresponding risk mitigating procedures.

AUDIT FINDINGS AND RECOMMENDATIONS

6. Campus Perception of EHS

An online tool was used by IA to survey the campus community and record responses (see Appendix A). The survey was available from May 7, 2019 – May 20, 2019 and yielded 129 responses as follows:

- 39 Faculty; and
- 90 Staff.

Common Concerns:

From the survey, IA identified the following concerns as the top five based on the numbers of mentions in the written feedback from the employee base:

- Out of the 129 respondents, 104 (81%) provided comments. From the comments, we identified the top five concerns (those having at least 10 mentions):
 - I. **Mold** (*referenced 18 times*)
 UNCSA employees cited concerns about the presence of mold in their buildings.
 - This area was reviewed by a third-party company with a report of findings shared with university management on April 26, 2019.
 - II. **Gun Violence** (*referenced 14 times*)
 UNCSA employees cited concerns about the possibility of gun violence on campus, such as an active shooter.
 - The matter is outside of EHS's responsibility. IA will communicate these concerns to Campus Police via a risk monitoring memo.
 - III. **Air Quality** (*referenced 13 times*)
 UNCSA employees feel the quality of air in classrooms and offices is low.
 - This area was reviewed by a third-party company with a report of findings shared with university management on April 26, 2019.
 - IV. **Training** (*referenced 13 times*)
 UNCSA employees believe that health and life safety trainings are insufficient.
 - Matters related to training were addressed in finding #2.
 - V. **Building Security** (*referenced 10 times*)
 UNCSA employees believe that unsecured buildings are a major problem on campus, especially in the case of an active shooter or other campus emergencies where buildings cannot be locked down.

AUDIT FINDINGS AND RECOMMENDATIONS

- This matter is outside of EHS's responsibility. IA will communicate these concerns to Campus Police via a risk monitoring memo.

Summary of All Survey Responses:

From the six questions related to EHS's operations and service delivery, IA identified two areas where the majority of respondents believe EHS's service delivery is strong or very strong, one area where the majority of respondents feel the level of service provided by EHS is weak or very weak, and three areas where the majority of respondents felt that the question was not applicable to them.

1. How frequently do you request services from Environmental Health & Safety (EHS)?

- The majority of respondents (90) do not request services from EHS, whereas 32 respondents request services from EHS in different frequencies.

DAILY	WEEKLY	MONTHLY	ANNUALLY	N/A	TOTAL
1 0.82%	5 4.10%	9 7.38%	17 13.93%	90 73.77%	122

Participant Comments:

- The open box comments for this question yielded 18 responses with the most common being:
 - Lack of awareness of EHS on campus (*referenced 5 times*).

2. How do you communicate with EHS?

- The majority of respondents (72) do not or do not know how to communicate with EHS, whereas 50 respondents communicate with EHS through different methods.

WORK ORDER SYSTEM	EMAIL	CAMPUS MAIL	PHONE	FACE-TO-FACE	N/A	TOTAL
13 10.66%	17 13.93%	4 3.28%	10 8.20%	6 4.92%	72 59.02%	122

Participant Comments:

- The open box comments for this question yielded 15 responses. The most common were as follows:

AUDIT FINDINGS AND RECOMMENDATIONS

- Communicates with the department face-to-face (*referenced 4 times*);
- Communicates with the department through other personnel (*referenced 4 times*); and
- Communicates with the department through email (*referenced 3 times*).

3. As an employee, do you feel that EHS contributes to ensuring that everyone feels safe while on campus?

- The majority of the respondents (65) feel EHS contributes to ensuring that everyone feels safe while on campus, whereas 27 respondents feel otherwise.

YES	NO	TOTAL
65 70.65%	27 29.35%	92

Participant Comments:

- The open box comments for this question yielded 52 responses with the most common being:
 - UNCSA employees are not aware of EHS's services (*referenced 27 times*).

4. Does the EHS staff provide adequate and knowledgeable health and life safety training?

- The majority of the respondents (42) answered that EHS does not provide adequate and knowledgeable health and life safety training, while 41 respondents answered otherwise.

YES	NO	TOTAL
41 49.40%	42 50.60%	83

Participant Comments:

- The open box comments for this question yielded 60 responses with the most common being:
 - UNCSA employees are not aware of EHS's services (referenced 28 times); and
 - The need for more effective training (*referenced 21 times*).

AUDIT FINDINGS AND RECOMMENDATIONS

5. Considering the circumstances, EHS staff are accessible and consistently meet their commitments by responding to inquiries and requests for service in a reasonable time frame.

- The majority of respondents (47) were unable to determine if the EHS staff is or is not operating effectively in this area, whereas 32 respondents felt neutral about the statement. There were 38 respondents who strongly agreed and agreed with the statement, and 8 respondents who disagreed or strongly disagreed.

STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE	STRONGLY DISAGREE	N/A	TOTAL
11 8.80%	27 21.60%	32 25.60%	3 2.40%	5 4.00%	47 37.60%	125

6. EHS staff are aware of, respect, and understand your needs as they relate to safety and compliance.

- The majority of respondents (47) strongly agreed or agreed that EHS has awareness, respect, and an understanding of the campuses needs regarding safety and compliance, whereas 15 respondents disagreed or strongly disagreed. The question was not applicable to 39 respondents, and 20 respondents felt neutral about the statement.

STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE	STRONGLY DISAGREE	N/A	TOTAL
15 12.40%	32 26.45%	20 16.53%	8 6.61%	7 5.79%	39 32.23%	121

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), an organization dedicated to providing enterprise risk management and internal control guidance, states that organizations should obtain or generate and use relevant, quality information to support the functioning of internal control and risk management. COSO provides further that an organization should select, develop, and perform ongoing and/or separate evaluations to ascertain whether the components of internal control and risk management are present and functioning and hold individuals accountable for their responsibilities in the pursuit of objectives.

AUDIT FINDINGS AND RECOMMENDATIONS

Recommendations:

- 1) University management, in conjunction with EHS, should further consider and address the concerns provided via the IA survey.
- 2) EHS should occasionally survey the campus community in order to assess services provided and address opportunities for improvement.



Michael J. Smith, CPA
Vice Chancellor
Finance and Administration

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smithmi@uncsa.edu
www.uncsa.edu

Date: November 8, 2019

To: Shannon B. Henry

From: Michael J. Smith

Re: Management Response to UNCSA's Environmental Health and Safety Program Review

Ms. Henry:

I am in receipt of your draft report reviewing the Environmental Health and Safety (EHS) program at the University of North Carolina School of the Arts (UNCSA) for the period January 1, 2018 through June 30, 2019.

UNCSA concurs with the recommendations in all material respects and is initiating corrective action to alleviate deficiencies and mitigate risk. Many policies and procedures have been subsequently implemented to address concerns relating to a lack of training, comprehensive safety management plan, safety committee, and risk management process. Additionally, significant resources are being expended to enhance EHS communication strategies and improve campus perceptions by the end of the fiscal year.

UNCSA's Environmental Health and Safety Department is currently undergoing a significant managerial and operational transition with the April 2019 hire of Ms. Toni Beery as the EHS Director. UNCSA and Facilities Management leadership are capitalizing on this opportunity to effect positive change relating to standardization of policies and procedures, implementation of safety committees and comprehensive safety plans, enhanced training and communication, management of risks, and elevation of the level of proficiency and professionalism of the department.

I would be pleased to discuss any of the recommendations in detail if you desire, and may be contacted directly at the number below.

As always, we value the partnership with Winston-Salem State University's Office of Audit, Risk, and Compliance to assist UNCSA as we continue to effect change, mitigate risk, and implement operational improvements.

Respectfully,



Michael J. Smith
Vice Chancellor for Finance & Administration
University of North Carolina School of the Arts

Received by:
The Office of Audit, Risk, and Compliance
11/19/19

APPENDIX A – CUSTOMIZED SURVEY FOR FACULTY AND STAFF

UNIVERSITY OF NORTH CAROLINA
**SCHOOL
OF THE
ARTS**

Environmental Health & Safety

EHS Assessment

1. What is your affiliation with UNCSA?

2. Please provide your name and title at UNCSA.

****If you wish to remain anonymous, leave this box empty or type N/A.****

3. How frequently do you request services from Environmental Health & Safety (EHS)?

Other (please specify)

4. How do you communicate with EHS?

Work Order System

Phone

Email

Face-to-Face

Campus Mail

N/A

Other (please specify)

5. As an employee, do you feel that EHS contributes to ensuring that everyone feels safe while on campus?

APPENDIX A – CUSTOMIZED SURVEY FOR FACULTY AND STAFF

Yes

No

Other (please specify)

6. Does the EHS staff provide adequate and knowledgeable health and life safety training?

Yes

No

Other (please specify)

7. Considering the circumstances, EHS staff are accessible and consistently meet their commitments by responding to inquiries and requests for service in a reasonable time frame.

Strongly Agree

Agree

Neutral

Disagree

Strongly Disagree N/A

8. EHS staff are aware of, respect, and understand your needs as they relate to safety and compliance.

Strongly Agree

Agree

Neutral

Disagree

Strongly Disagree N/A

9. What is the biggest safety concern you have?

10. Please provide any additional comments.

UNCSA FY20 Summary of Findings and Recommendations

Project Name	Finding(s)/Observation(s)	Recommendation(s)	Number of Recommendations	Report Type	Subject to Disclosure	Office or Department	New/Previous	Date	Follow-up Required (Y/N)
1 Environmental Health & Safety's Life Safety Protocols	Lack of a Comprehensive and Effective Safety Management Plan	<p>1) EHS should develop a safety management plan that establishes policies, controls, and workplace protocols addressing how hazardous exposures and work related injuries or illnesses are identified and addressed.</p> <p>2) Protocols should be created to ensure plans are put in place to effectively address safety violations identified by internal and external reviewers.</p> <p>3) Fire prevention guidelines should be documented and communicated accordingly.</p>	3	Audit Report	Yes	EHS	New	11/20/2019	Y
2 Environmental Health & Safety's Life Safety Protocols	Insufficient Health and Safety Training Plan	<p>1) EHS should implement accountability and control measures to assist in ensuring all necessary and required trainings are offered and attended by the appropriate personnel.</p> <p>2) EHS should work with Human Resources to coordinate training efforts and develop a system that will allow EHS to effectively and efficiently train new hires and employees transferring into roles where such training is required.</p> <p>3) EHS should create an acknowledgement form that employees, visitors, and/or contractors have to sign indicating that they have been informed and properly educated of hazardous areas before entering.</p>	3	Audit Report	Yes	EHS	New	11/20/2019	Y
3 Environmental Health & Safety's Life Safety Protocols	No Safety Committee	EHS should work with university administration to develop a safety committee.	1	Audit Report	Yes	EHS	New	11/20/2019	Y
4 Environmental Health & Safety's Life Safety Protocols	Ineffective Information and Communication about EHS Services	<p>1) The university should develop an EHS webpage on its website to inform the campus community of matters related to environmental health and safety.</p> <p>2) EHS should work with the Office of Strategic Communications and develop a communication strategy.</p>	2	Audit Report	Yes	EHS	New	11/20/2019	Y
5 Environmental Health & Safety's Life Safety Protocols	No Risk Management Process	EHS should develop a risk management process so that management has the tools necessary to identify health and safety risks and develop the corresponding risk mitigating procedures.	1	Audit Report	Yes	EHS	New	11/20/2019	Y
6 Environmental Health & Safety's Life Safety Protocols	Campus Perception of EHS	<p>1) University management, in conjunction with EHS, should further consider and address the concerns provided via the IA survey.</p> <p>2) EHS should occasionally survey the campus community in order to assess services provided and address opportunities for improvement.</p>	2	Audit Report	Yes	EHS	New	11/20/2019	Y
7 Vendor Contract Follow-up	Risk Monitoring Memo - Worker Classification for Federal Tax Purposes	<p>1) Ensure individuals' on-going relationships with the university are being evaluated in accordance with university policy and Internal Revenue Service guidelines.</p> <p>2) The university consider the circumstances surrounding the individual identified in this communication and rectify any noncompliance.</p> <p>3) The Temporary Hourly Employee Form 301 be updated to include questions that allow all existing or pre-existing relationships to be considered.</p>	3	Risk Monitoring Memo	Yes	* Human Resources * Controller's Office	Previous	8/9/2019	N

**STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING
PEER REVIEW PROGRAM**

MEMORANDUM OF UNDERSTANDING

PURPOSE:

This Memorandum of Understanding is entered into this 22 day of October, 2019 between the Validator (on behalf of the Council of Internal Auditing Peer Review Program) and the *Winston-Salem State University (WSSU)* for the purpose of providing/receiving a Self-assessment with Independent External Validation review.

SCOPE:

The scope of the review is to conduct an Independent External Validation review in accordance with the Institute of Internal Auditors Quality Assessment Manual. The objectives are to provide an independent valuation of the internal self-assessment and a report completed by the internal audit function related to the internal audit function and operations for compliance with the *International Professional Practice mandatory requirements (Standards)*. The scope will include WSSU and the University of North Carolina School of the Arts' (UNCSA) internal audit projects completed during the period from *July 1, 2018* through *June 30, 2019*.

The External Reviewer will validate the self-assessment work perform by WSSU's Internal Audit Function which includes:

- Review of assessment planning documents;
- Re-performing a sample of assessment work programs steps;
- Conduct interviews with key stakeholders; and
- Assessing the conformance conclusion reported in WSSU and UNCSA's Internal Audit self-assessment.

The External Validator is Barbara Baldwin, Office of State Budget and Management (OSBM) Internal Audit Director for WSSU and Michele Sykes for UNCSA. Both have received formal training from the Institute of Internal Auditors on conducting effective external quality assessments. Additional qualifications for performing this validation are:
Barbara Baldwin

- Certified Internal Auditor;
- Certified Public Accountant;
- Certified Internal Control Auditor;
- Director of Internal Auditing, OSBM for 11 years;
- Twenty-nine years of auditing experience;
- Participated as the lead reviewer on 15 QARs within NC State government including four universities;
- Conduct a review of Rhode Island's statewide internal audit program;
- Received generally conforms on three requested QARs;
- Administers the NC Quality Assurance (QAR) Peer Review Program (mirrors IIA QAR requirements); and
- Completed quality reviews on 25 QAR peer reviews conduct through the NC QAR peer review program

**STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING
PEER REVIEW PROGRAM**

Michele Sykes

- Certified Internal Auditor
- Certified Fraud Examiner
- Certified Government Auditor Professional
- Senior Auditor at OSBM for 11 years
- Certified Internal Auditor, Certified Fraud Examiner and Certified Government Auditing Professional
- 11 years as Senior Auditor, OSBM
- Provide audit services to seven small government agencies
- Twenty-four years of auditing experience
- Participated as the lead reviewer on 3 QARs within NC State government
- Participated as team member for the external quality assurance review for State of Rhode Island's Internal Audit Department
- Completed quality reviews on 9 peer reviews conduct by other internal auditors

The validation review will begin on December 2, 2019 with fieldwork scheduled for January 21, 2020. A draft report developed by WSSU for both universities will be validated by the External Validator and provided to the Chief Audit, Risk, and Compliance Officer (CARCO) upon completion of fieldwork, with a final report to be released within one week of fieldwork completion. An exit conference will be held at the request of the CARCO.

TERMS OF AGREEMENT:

The undersigned agree to the following terms and conditions in order to accomplish the purpose of this agreement:

WSSU agrees to:

- Provide the CARCO as the primary contact for the validation.
- Provide adequate working space, and equipment (i.e. printer, copier, and WiFi), access to phones and incidental office supplies, as needed, to the Validator.
- Complete and submit timely responses to Validator's inquiries.
- Fully cooperate with the Validator including providing all documents referenced in the Institute of Internal Auditors (IIA) Quality Assessment Guide.
- Reimburse all travel expenses incurred, including transportation, lodging and per diem.
- Provide the External Validator unrestricted access to all audit staff.
- Allow the Peer Review Committee and/or Council to resolve any disputes related to the outcome of the peer review and abide by the resolution of these groups.
- Hold the Council of Internal Auditing, the Office of Internal Audit (OIA), the Peer Review Committee, the Validator harmless for any damage or liability occurring by the performance or non-performance of activities in association with this peer review.

**STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING
PEER REVIEW PROGRAM**

- **Any audit engagement outsourced to a contractor hired from the State Term Contract 961A Supplemental Staff Internal Audit MUST be included for review during this process.**

The External Validators agrees to:

- Certify that they are qualified to perform the independent validation.
- Perform the assigned Validation review in accordance with the IIA Quality Assessment Guide.
- Ensure that all impairments or appearances of impairment are reported to the OIA prior to the commencement of audit work.
- Maintain confidentiality of information obtained during this process or conclusions draw from the review. This information will be discussed only when appropriate with the WSSU, OIA, QAR Committee or Council.

The Peer Review Committee will:

- Review the external review documentation and resolve discrepancies on an as needed basis as requested by the Validator or the CARCO for WSSU.
- Maintain confidentiality of information obtained during this process or conclusions drawn from the review. This information will only be discussed when appropriate with the requesting agency, OIA, Peer Review Committee or Council.

The Council of Internal Auditing will:

- Review the external review documentation and resolve discrepancies on an as needed basis as requested by the Peer Review Committee and the Office of Internal Audit.

The Validator will conduct the review with due regard for any applicable professional ethics, including the requirements of confidentiality, and that no information will be divulged by her to anyone not associated with the review. The restrictions on the disclosure of information shall not apply to any information that is required to be disclosed by law. Questions regarding this agreement should be directed to the Office of Internal Audit.

WSSU Chief Audit, Risk, and Compliance Officer:

Shannon B. Henry / Edward J. Robinson 10/22/19
Signature Date

Shannon B. Henry, WSSU Chief Audit, Risk, and Compliance Officer and Chancellor Robinson
Printed Name & Title

Validator for WSSU:

Barbara Balh 11/20/2019
Signature Date

**STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING
PEER REVIEW PROGRAM**

Barbara Baldwin, CIA, CPA, CICA, Internal Audit Director, OSBM

Printed Name & Title

Validator for UNCSA:

Michele Sykes

11/20/19

Signature

Date

Michele Sykes, CIA, CFE, CGAP Senior Internal Audit, OSBM

Printed Name & Title

AGENDA ITEM

Office of Audit, Risk and Compliance Charter.....Shannon Henry,
Chief Audit, Risk, and Compliance Officer

Summary: The charter was revised to recognize and clarify the full span and scope and responsibility of the Office of Audit, Risk, and Compliance (OARC) and each of its siloed operations, to document incorporation of the function into the university’s new Division of Institutional Integrity, and to ensure the mandatory standards of audit practice were recognized appropriately.

Action: This item requires board approval.



Shannon B. Henry,
Chief Audit, Risk and
Compliance Officer

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UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS OFFICE OF AUDIT, RISK, AND COMPLIANCE CHARTER

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I. MISSION

The mission of the Office of Audit, Risk, and Compliance (OARC) is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. OARC 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.

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II. SCOPE

The Winston-Salem State University OARC shares its services with the University of North Carolina School of the Arts. The scope of work of the OARC 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:

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1. Risks are appropriately identified and managed.
2. Interaction with the various governance groups occur 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

OARC shall maintain its independence. The Chief Audit, Risk, and Compliance Officer (CARCO) 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. OARC staff personnel shall report to the CARCO.

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To ensure roles related to enterprise risk management (ERM) and compliance do not impair, or appear

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to impair, the organizational independence and objectivity of the CARCO and the internal audit function, the following safeguards are in place:

- a. The CARCO does not own risks. University management remains responsible for risk management and compliance.
- b. The CARCO does not manage risks or compliance on behalf of management.
- c. University management sets the risk appetite, makes decisions about and implements risk responses.
- d. The ARCC and Chancellor are responsible for imposing risk management practices.

The ARCC will periodically evaluate reporting lines and responsibilities of the CARCO and the internal auditors and develop alternative processes to obtain assurance related to ERM, if deemed necessary. 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.

IV. AUTHORITY

1. The CARCO and staff are authorized to:
 - a. Have unrestricted access to all functions, records, property, and personnel, in a manner consistent with North Carolina law.
 - b. Have full and free 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 audits, as well as other specialized services from within or outside the university.
2. The CARCO 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 OARC.
 - c. Direct the activities of any university employee not employed by the OARC.

V. ACCOUNTABILITY

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

1. Provide an assessment 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.
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 department resources.
4. Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

Revised December 2019

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VI. RESPONSIBILITY

The CARCO and staff have responsibility to:

Internal Audit:

1. Apply and uphold the principles and rules of conduct in the Code of Ethics established by the Institute of Internal Auditors (IIA).
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 to the 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.
4. Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
5. Establish a quality assessment program by which the CARCO assures the operation of internal auditing activities.
6. Perform consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training and advisory services.
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. Keep the Chancellor and the ARCC informed of emerging trends and successful practices in internal auditing.
11. Provide significant goals and results to the ARCC.
12. Assist in the investigation of significant suspected fraudulent activities within the university and notify the Chancellor and the ARCC of the results.
13. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the university.
14. Provide audit and/or activity reports to the University of North Carolina (UNC) Board of Governors, the UNC System Office, the North Carolina (NC) Office of State Budget Management, and the NC Office of the State Auditor.

Enterprise Risk Management:

The CARCO's roles related to ERM include the following:

1. Championing the establishment of ERM.
2. Facilitation of the processes to identify, evaluate, manage and monitor risks.
3. Advising, challenging, coaching and supporting management's decisions on risk, as opposed to making risk management decisions.
4. Assisting with the coordination of ERM activities.
5. Consolidating the reporting on risks.
6. Communicating with senior management and the ARCC when management has accepted a level of risk that may be unacceptable to the university.

Compliance:

The CARCO's role related to university-wide compliance monitoring includes the following:

Revised December 2019

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<#>To help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively, the CAO's role has been expanded to include the following as it relates to the university's enterprise risk management (ERM) and compliance monitoring functions.¶
<#>¶
<#>ENTERPRISE RISK MANAGEMENT

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1. Serve as the connector for individual components of university compliance.
2. Facilitate reports from compliance managers to the ARCC.
3. Report auditor observations of noncompliance to the ARCC.

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VII. 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.

Deleted: To ensure these additional roles related to ERM and compliance do not impair, or appear to impair the organizational independence and objectivity of the CAO and the internal audit function, the following safeguards are in place:¶

¶ The CAO reports administratively to the Chancellor and functionally to the ARCC.¶

¶ The CAO does not own risks. University management remains responsible for risk management and compliance.¶

¶ The CAO does not manage risks or compliance on behalf of management.¶

¶ University management sets the risk appetite, makes decisions about and implements risk responses.¶

¶ The ARCC and Chancellor are responsible for imposing risk management practices.¶

¶ The ARCC will periodically evaluate reporting lines and responsibilities of the CAO and the internal auditors and develop alternative processes to obtain assurance related to ERM, if deemed necessary.¶

¶

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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.

Chair, Board of Trustees
UNC School of the Arts

Deleted: Stephen R. Berlin¶

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

Deleted: February 2018

Revised December 2019



STATE OF NORTH CAROLINA

COUNCIL OF INTERNAL AUDITING

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State Auditor

November 21, 2019

Ms. Shannon Henry
North Carolina Office of Audit, Risk and Compliance
Winston Salem University
601 South Martin Luther King Jr. Drive
Winston-Salem, North Carolina 27110

Dear Ms. Henry:

On behalf of the North Carolina Council of Internal Auditing, I am extremely pleased to inform you that you and your team have been selected to receive the 2019 North Carolina Internal Audit Award of Excellence. This award is given in recognition of your commitment and dedication to further the profession of internal auditing within the North Carolina State government. Congratulations on this outstanding achievement!

To celebrate and recognize your contributions to good government, I hope you and your team will join me at the annual State Controller's Fiscal Update Conference on Tuesday, December 10, 2019 at 8:00 am in the McKimmon Center. During that time, you will be honored for your exemplary service to the State, accomplishments within the Department of Internal Audit & Management Advisory Services, as well as your contribution to promote the profession of internal auditing.

Again, my sincere congratulations, and I look forward to seeing you and your nominator, Michael Smith, on this special occasion.

Sincerely,

A handwritten signature in cursive script that reads "Linda Combs".

Dr. Linda Combs
North Carolina State Controller
Chairman of the Council of Internal Auditing

/jj

CC: Michael J. Smith, Vice Chancellor for Finance and Administration,