

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

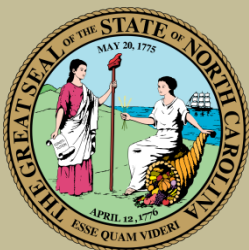
BETH A. WOOD, CPA



UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM SUPPORT CORPORATION

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

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



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

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

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

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

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

Beth A. Wood, CPA
State Auditor

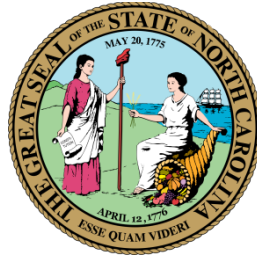


Beth A. Wood, CPA
State Auditor

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

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

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

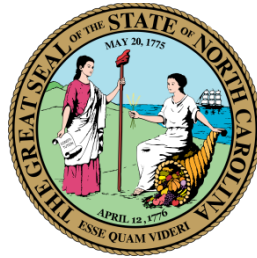
In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 16, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This section of the University of North Carolina School of the Arts Program Support Corporation (Corporation) financial report provides an overview of the financial position and activities as of and for the year ended June 30, 2018. This discussion has been prepared by management along with the financial statements and related notes to the financial statements and should be read in conjunction with the financial statements and the notes thereto, which follow this section. This discussion and analysis is designed to focus on current activities, resulting change, and current known facts.

Using the Financial Statements

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

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

The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits, detailed information on deposits, 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.

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,		
	2018	2017	Change
Assets			
Current Assets	\$ 124,574	\$ 117,277	\$ 7,297
Capital Assets	1,082,625	1,082,625	
Total Assets	1,207,199	1,199,902	7,297
Deferred Outflows of Resources	0	0	0
Liabilities			
Current Liabilities	4,398	2,022	2,376
Deferred Inflows of Resources	0	0	0
Net Position			
Investment in Capital Assets	1,082,625	1,082,625	
Unrestricted	120,176	115,255	4,921
Total Net Position	\$ 1,202,801	\$ 1,197,880	\$ 4,921

The total assets of the Corporation increased by \$7,297 for the year due to an increase in current assets. Current assets increased primarily due to an increase in insurance policy premiums prepaid during the year.

The current liabilities of the Corporation increased by \$2,376 for the year due to an increase in accounts payable related to audit services that were not paid before year end.

The Corporation's net position was \$1,202,801 at June 30, 2018, an increase of \$4,921 from the prior year. The significant change within net position is in the category of unrestricted which increased \$4,921 due to an increase in prepaid insurance.

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

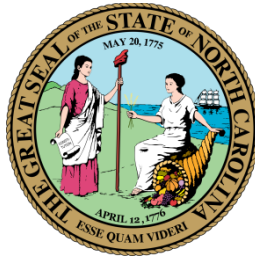
	Year Ended June 30,		
	2018	2017	Change
Operating Revenues	\$ 27,720	\$ 40,890	\$ (13,170)
Operating Expenses			
Salaries and Benefits	14,798	14,647	151
Services	8,001	8,537	(536)
Total Operating Expenses	22,799	23,184	(385)
Operating Income	4,921	17,706	(12,785)
Increase in Net Position	4,921	17,706	(12,785)
Beginning Net Position	1,197,880	1,180,174	17,706
Ending Net Position	\$ 1,202,801	\$ 1,197,880	\$ 4,921

The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in the net position at the end of the year. Total operating revenues for the fiscal year were \$27,720 compared to \$40,890 from the previous year, a decrease of \$13,170. Operating revenues decreased due to a decline in demand for film print rentals.

Total operating expenses were \$22,799 for the fiscal year ended June 30, 2018 and \$23,184 for 2017. The significant changes include a decrease in Services of \$536 primarily due to a decrease in travel related expenses of \$1,128, offset by an increase related to property insurance expense of \$1,414.

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 2018. Based on currently known facts about the Corporation's financial performance in fiscal year 2018, management is confident that its sound financial position will not only be maintained, but strengthened throughout the next operating period. University administration will continue to effectively manage the financial resources of the Corporation to serve the University of North Carolina School of the Arts and to provide the highest quality educational experience to our students.



FINANCIAL STATEMENTS

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

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 115,856
Receivables	4,475
Prepaid Insurance	4,243
	<hr/>
Total Current Assets	124,574
	<hr/>

Noncurrent Assets:

Capital Assets - Nondepreciable	1,082,625
	<hr/>

Total Assets	1,207,199
	<hr/>

DEFERRED OUTFLOWS OF RESOURCES

0

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	4,398
	<hr/>

DEFERRED INFLOWS OF RESOURCES

0

NET POSITION

Investment in Capital Assets	1,082,625
Unrestricted	120,176
	<hr/>

Total Net Position	\$ 1,202,801
	<hr/> <hr/>

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

University of North Carolina School of the Arts Program Support Corporation
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2018

Exhibit A-2

REVENUES

Operating Revenues:

Film Rentals	\$ 27,720
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EXPENSES

Operating Expenses:

Salaries and Benefits	14,798
Services	8,001

Total Operating Expenses	<u>22,799</u>
--------------------------	---------------

Operating Income	<u>4,921</u>
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Increase in Net Position	4,921
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NET POSITION

Net Position - July 1, 2017	<u>1,197,880</u>
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Net Position - June 30, 2018	<u><u>\$ 1,202,801</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

University of North Carolina School of the Arts Program Support Corporation
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Exhibit A-3

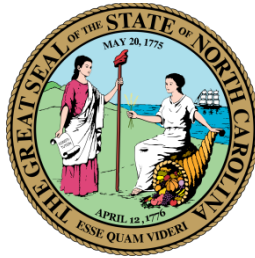
CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 26,400
Payments to Employees and Fringe Benefits	(14,798)
Payments to Vendors and Suppliers	(9,868)
	<hr/>
Net Cash Provided by Operating Activities	1,734
	<hr/>
Net Increase in Cash and Cash Equivalents	1,734
Cash and Cash Equivalents - July 1, 2017	114,122
	<hr/>
Cash and Cash Equivalents - June 30, 2018	<u>\$ 115,856</u>

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

Operating Income	\$ 4,921
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Receivables	(1,320)
Prepaid Insurance	(4,243)
Accounts Payable and Accrued Liabilities	2,376
	<hr/>
Net Cash Provided by Operating Activities	<u>\$ 1,734</u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The University of North Carolina School of the Arts 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 occur when the Corporation receives (or gives) value without directly giving (or receiving) equal value in exchange. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation.

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.

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

NOTE 2 - DEPOSITS

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

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$115,856, which represents the Corporation's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.4 years as of June 30, 2018. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

As of June 30, 2018, the Corporation did not have any cash deposits outside the State Treasurer's STIF; therefore, the Corporation was not exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2018. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make

valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

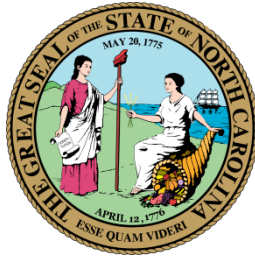
- Level 2 Investments with inputs - other than quoted prices included within Level 1 - that are observable for an asset, either directly or indirectly.

- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, all of the Corporation's investments valued at \$115,856 were held in the STIF. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The Corporation's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

NOTE 4 - RISK MANAGEMENT

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



INDEPENDENT AUDITOR'S REPORT

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

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

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

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 16, 2018

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For additional information contact:
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919-807-7513



This audit required 51 hours at an approximate cost of \$5,253.