

STATE BOARD OF REFRIGERATION EXAMINERS

FINANCIAL STATEMENTS

DECEMBER 31, 2016 and 2015

STATE BOARD OF REFRIGERATION EXAMINERS

Raleigh, North Carolina

FINANCIAL AUDIT REPORT

December 31, 2016

BOARD MEMBERS

C. L. Smith, Chairman

W. D. Frye., Secretary
B. R. Cook, Treasurer
E. M. Blanchard

G. G. Ramsay
T. F. Welch

Executive Director

Barbara H. Hines

STATE BOARD OF REFRIGERATION EXAMINERS
Raleigh, North Carolina

CONTENTS

| | Page |
|--|------|
| Independent Auditor's Report on the Financial Statements | - |
| Financial Statements | |
| Statements of Net Assets | 3 |
| Statements of Revenues, Expenses and Changes In Fund Net Assets | 4-5 |
| Statements of Cash Flows | 6 |
| Notes to Financial Statements | 7-12 |

MADDISON & CAISON, LLP
CERTIFIED PUBLIC ACCOUNTANTS
RALEIGH, NORTH CAROLINA

Independent Auditor's Report

The Honorable Roy A. Cooper, III
Governor of North Carolina
State Board of Refrigeration Examiners
The General Assembly of North Carolina

We have audited the accompanying financial statements of the State Board of Refrigeration Examiners (the Board) as of and for the years ended December 31, 2016 and 2015, which collectively comprise the Board's basic financial statements as listed in the table of contents, 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 of 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 State Board of Refrigeration Examiners as of December 31, 2016 and 2015, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Board will continue as a going concern. As discussed in Note 10 to the financial statements, the Board has suffered recurring significant losses for the past few years that has raised substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 30, 2017 and March 15, 2016 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports 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 the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

May 30, 2017
Raleigh, North Carolina

Madden & Carison, LLP

STATE BOARD OF REFRIGERATION EXAMINERS
STATEMENTS OF NET ASSETS
ENTERPRISE FUND

| | December 31 | |
|--------------------------------|-------------------|-------------------|
| | 2016 | 2015 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 55,795 | \$ 84,877 |
| Securities, available-for-sale | 102,307 | 162,487 |
| Prepaid expenses | 875 | 1,276 |
| Total current assets | <u>158,977</u> | <u>248,640</u> |
| Capital assets: | | |
| Furniture and equipment | 18,995 | 20,059 |
| Less accumulated depreciation | <u>(18,557)</u> | <u>(19,240)</u> |
| Total noncurrent assets | <u>438</u> | <u>819</u> |
| TOTAL ASSETS | <u>\$ 159,415</u> | <u>\$ 249,459</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 12,694 | \$ 8,520 |
| Payroll liabilities | 2,944 | 4,413 |
| Deferred revenues | 64,760 | 69,675 |
| Accrued vacation | <u>10,820</u> | <u>10,522</u> |
| Total current liabilities | <u>\$ 91,218</u> | <u>\$ 93,130</u> |
| NET ASSETS | | |
| Investment in capital assets | \$ 438 | \$ 819 |
| Unrestricted: | | |
| Board designated: | | |
| Directors' liability reserve | - | 50,000 |
| Litigation reserve | - | 50,000 |
| Scholarship fund | <u>58,225</u> | <u>59,725</u> |
| | 58,663 | 160,544 |
| Undesignated | <u>9,534</u> | <u>(4,215)</u> |
| TOTAL NET ASSETS | <u>\$ 68,197</u> | <u>\$ 156,329</u> |

See accompanying accountant's report.
See accompanying notes to financial statements.

STATE BOARD OF REFRIGERATION EXAMINERS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUND

| | Year Ended December 31 | |
|--------------------------------------|------------------------|----------------|
| | 2016 | 2015 |
| Operating revenues | | |
| Charges for services: | | |
| License renewal fees | \$ 68,520 | \$ 69,880 |
| License reinstatement fees | 9,375 | 8,950 |
| New license and exam fees | 3,185 | 3,440 |
| Miscellaneous income | 431 | 660 |
| Seminar income | 11,775 | 10,040 |
| CFC certification income | 37,410 | 32,205 |
| CFC manual income | 2,249 | 1,370 |
| Total operating revenues | <u>132,945</u> | <u>126,545</u> |
| Operating expenses | | |
| Salaries and contract labor | 110,831 | 119,329 |
| Payroll taxes | 8,254 | 9,002 |
| Pension plan | 10,780 | 11,709 |
| Hospital and medical benefits | 2,981 | 2,157 |
| Per diem, board members | 2,700 | 3,600 |
| Travel, board members and staff | 3,549 | 8,169 |
| Office supplies and expenses | 5,060 | 4,762 |
| CFC supplies | 547 | 561 |
| Office rent | 15,625 | 22,800 |
| Utilities | 4,647 | 4,078 |
| Postage and box rent | 6,652 | 6,866 |
| Insurance | 1,709 | 1,192 |
| Audit, legal fees, and investigative | 16,225 | 15,668 |
| Dues | 112 | 222 |
| Depreciation | 263 | 586 |
| Board meeting expense | 11,457 | 12,677 |
| Equipment rental/maintenance | 10,393 | 9,635 |
| Seminar expense | 13,232 | 13,152 |
| Scholarships | 1,500 | 4,378 |
| Newsletter | 1,603 | 630 |
| Credit card and bank fees | 1,906 | 1,625 |
| Miscellaneous | 758 | 608 |
| Total operating expenses | <u>230,784</u> | <u>253,406</u> |
| Operating loss | (97,839) | (126,861) |

See accompanying accountant's report.
See accompanying notes to financial statements.

STATE BOARD OF REFRIGERATION EXAMINERS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUND

| | Year Ended December 31 | |
|--------------------------------|------------------------|-------------------|
| | 2016 | 2015 |
| Nonoperating revenues | | |
| Interest and dividends | \$ 4,377 | \$ 10,436 |
| Loss on asset disposal | (117) | - |
| Unrealized loss on securities | (11,910) | (45,675) |
| Realized gain on securities | 17,357 | 37,828 |
| Total nonoperating revenues | <u>9,707</u> | <u>2,589</u> |
| Change in net assets | (88,132) | (124,272) |
| Net assets - beginning of year | <u>156,329</u> | <u>280,601</u> |
| Net assets - end of year | <u>\$ 68,197</u> | <u>\$ 156,329</u> |

See accompanying accountant's report.
See accompanying notes to financial statements.

STATE BOARD OF REFRIGERATION EXAMINERS
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND

| | Year Ended December 31 | |
|--|------------------------|---------------------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Cash received from licenses and applicants | \$ 77,090 | \$ 79,715 |
| Cash received from others | 52,440 | 45,775 |
| Cash paid to employees and professionals | (112,069) | (130,285) |
| Cash paid to suppliers | (116,548) | (117,669) |
| Net cash used by operating activities | (99,087) | (122,464) |
| Cash used by capital and related financing activities: | | |
| Acquisition of capital assets | (730) | (730) |
| Net cash used by financing activities | (730) | (730) |
| Cash flows from investing activities: | | |
| Purchase of securities, available-for-sale | (4,372) | (10,431) |
| Sale of securities, available-for-sale | 70,000 | 140,000 |
| Receipt of interest and dividend income | 4,377 | 10,436 |
| Net cash provided by investing activities | 70,005 | 140,005 |
| Net increase (decrease) in cash and cash equivalents | (29,082) | 16,811 |
| Cash and cash equivalents - beginning of year | 84,877 | 68,066 |
| Cash and cash equivalents - end of year | <u>\$ 55,795</u> | <u>\$ 84,877</u> |
| Reconciliation of operating income to net cash flows from operating activities | | |
| Operating loss | \$ (97,839) | \$ (126,861) |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | 263 | 586 |
| Changes in assets and liabilities | | |
| Decrease in prepaid expenses | 401 | 1,275 |
| Increase in accounts payable | 4,174 | 1,929 |
| Increase (decrease) in payroll liabilities | (1,469) | 909 |
| Increase in accrued vacation | 298 | 753 |
| Increase (decrease) in deferred revenues | (4,915) | (1,055) |
| Net cash used by operating activities | <u>\$ (99,087)</u> | <u>\$ (122,464)</u> |

See accompanying accountant's report.
See accompanying notes to financial statements.

STATE BOARD OF REFRIGERATION EXAMINERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Note 1 – Summary of Significant Accounting Policies

Description of Organization

The State Board of Refrigeration Examiners (the Board) is an occupational licensing board and is authorized under Chapter 87 of the North Carolina General Statutes. The Board is an independent state agency.

Reporting Entity

The Board is considered an agency of the State of North Carolina for financial reporting purposes. The Board members are appointed by the Governor. The Board, with other state licensing boards, is reported as an enterprise fund within the State of North Carolina's *Comprehensive Annual Financial Report* (CAFR).

Basis of Presentation

The statement of net assets reflects all assets including long-term assets, and all obligations including long-term obligations.

The statement of revenues, expenses and changes in fund net assets presents a comparison between direct expenses and program revenues of the Board. Primary revenues include fees and other charges paid by licensees.

Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, the Board's accounts are maintained during the year using the modified accrual basis of accounting. However, at year-end, financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash flows take place.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Revenues

Deferred revenues consist principally of license fees collected in advance and prepayments for the annual update.

STATE BOARD OF REFRIGERATION EXAMINERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Board as assets with an initial individual cost of \$200 or more and an estimated useful life of more than two years. Purchased assets are reported at cost. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend asset lives are expensed.

Capital assets are depreciated using the straight-line method over five years.

Accrued Vacation

The vacation leave policy of the Board provides for accumulation of earned vacation leave with such leave being fully vested when earned. Because vacation leave is payable to employees at termination, a liability for the outstanding balances has been recorded. That portion of accrued vacation that is estimated to be used in the next fiscal year has been designated as a current liability in the financial statements (first-in, first-out method of using accumulated time).

Net Assets

Net assets in the financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through state statute.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Board considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Definition of Operating Versus Non-Operating Revenues

Operating revenues are considered to be all revenues directly related to the provision of services. All other revenues are considered non-operating.

Note 2 – Deposits and Investments

The Board maintains cash balances and money market accounts in one financial institution and one brokerage house in Garner, North Carolina. Accounts have a book and market value of \$55,795 at December 31, 2016.

STATE BOARD OF REFRIGERATION EXAMINERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Note 2 – Deposits and Investments (continued)

Cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of December 31, 2016 the Board had no deposits in excess of the FDIC insured limits..

Note 3 – Operating Leases

The Board leases office space under a lease expiring May 31, 2017. The Board also leases a digital copier under a lease expiring July 10, 2018 (\$505 per month) and a postage meter under a lease expiring May 26, 2020 (\$420 per quarter). Future minimum lease commitments are as follows:

| | <u>Office</u> | <u>Equipment</u> | <u>Total</u> |
|------------------------------|-----------------|------------------|------------------|
| Year ended December 31, 2017 | \$ 4,375 | \$ 7,740 | \$12,115 |
| Year ended December 31, 2018 | - | 4,710 | 4,710 |
| Year ended December 31, 2019 | - | 1,680 | 1,680 |
| Year ended December 31, 2020 | - | 420 | 420 |
| | <u>\$ 4,375</u> | <u>\$ 14,550</u> | <u>\$ 18,925</u> |

Note 4 – Pension Plan

The Board has a Simplified Employee Pension Plan. Under sections of the federal tax law, the Board may contribute a percentage of the employees' compensation to the employees' IRA. The employees' rights to the contributions are 100% vested. Pension expense was \$10,780 and \$11,709 for the years ended December 31, 2016 and 2015, respectively.

Note 5 - CFC Certification Program

In 1994 the Board was approved to administer the technician certification program in the State of North Carolina under Section 608 of the Clean Air Act issued by the Environmental Protection Agency. A breakdown of revenue and expenses is as follows:

| | <u>2016</u> | <u>2015</u> |
|---------------------------|------------------|------------------|
| CFC certification revenue | \$ 39,659 | \$ 33,575 |
| CFC expenses: | | |
| Supplies | 547 | 561 |
| Postage | 500 | 500 |
| Telephone | 500 | 500 |
| Total expenses | <u>1,547</u> | <u>1,561</u> |
| Net CFC income | <u>\$ 38,112</u> | <u>\$ 32,014</u> |

STATE BOARD OF REFRIGERATION EXAMINERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Note 6 - Statutory Requirements

Chapter 87, Article 5, of the General Statutes of North Carolina provides that after the payment of all necessary expenditures from license fees earned, the Board retains 25% of any excess, and pays the remaining 75% to the State Treasurer. In 2016 and 2015 the Board experienced a net loss from operations excluding CFC income and expense; thus, there is no amount due the State Treasurer.

| | <u>2016</u> | <u>2015</u> |
|--|---------------------------|---------------------------|
| Excess (deficit) of revenues over expenditures | \$ (88,132) | \$(124,272) |
| Less - investment income | | |
| Interest and dividend income | (4,377) | (10,436) |
| Unrealized loss on marketable securities | 11,910 | 45,675 |
| Realized gain on marketable securities | <u>(17,357)</u> | <u>(37,828)</u> |
| Income before adjustment for CFC income | (97,956) | (126,861) |
| Less - CFC income | (39,659) | (33,575) |
| Plus - CFC expense | <u>1,547</u> | <u>1,561</u> |
| Loss from normal operations | <u><u>\$(136,068)</u></u> | <u><u>\$(158,875)</u></u> |

Note 7 – Capital Assets

Changes in capital assets for the years ended December 31, 2016 and 2015 were as follows:

| | <u>January 1, 2016</u> | <u>Additions</u> | <u>Disposals</u> | <u>December 31, 2016</u> |
|-------------------------|----------------------------|------------------|------------------|------------------------------|
| Furniture and equipment | \$20,059 | \$ - | \$ 1,064 | \$18,995 |
| | <u>January 1, 2015</u> | <u>Additions</u> | <u>Disposals</u> | <u>December 31, 2015</u> |
| Furniture and equipment | \$23,450 | \$ 730 | \$ 4,121 | \$20,059 |

Note 8 - Investments

Investment income consists of the following:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|------------------------|------------------------|
| Interest and dividends | \$ 4,377 | \$ 10,436 |
| Unrealized gain (loss) on securities | (11,910) | (45,675) |
| Realized gain on securities | <u>17,357</u> | <u>37,828</u> |
| Total investment income | <u><u>\$ 9,824</u></u> | <u><u>\$ 2,589</u></u> |

STATE BOARD OF REFRIGERATION EXAMINERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Note 8 – Investments (continued)

Investments are comprised of the following available-for-sale securities:

December 31, 2016

| | <u>Cost</u> | Unrealized <u>Gains</u> | <u>Market</u> |
|------------------------------|------------------|----------------------------|-------------------|
| American Balanced Fund, Inc. | \$ 17,509 | \$ 4,209 | \$ 21,718 |
| Bond Fund of America, Inc. | 12,017 | (453) | 11,564 |
| Europacific Growth Fund | 8,551 | 2,599 | 11,150 |
| Growth Fund of America, Inc. | 14,391 | 2,392 | 16,783 |
| Income Fund of America, Inc. | 20,387 | 3,381 | 23,768 |
| Investment Co. of America | <u>16,639</u> | <u>685</u> | <u>17,324</u> |
| | <u>\$ 89,494</u> | <u>\$ 12,813</u> | <u>\$ 102,307</u> |

December 31, 2015

| | <u>Cost</u> | Unrealized <u>Gains</u> | <u>Market</u> |
|------------------------------|-------------------|----------------------------|-------------------|
| American Balanced Fund, Inc. | \$ 26,343 | \$ 8,023 | \$ 34,366 |
| Bond Fund of America, Inc. | 20,390 | (1,074) | 19,316 |
| Europacific Growth Fund | 13,964 | 5,093 | 19,057 |
| Growth Fund of America, Inc. | 19,373 | 7,266 | 26,639 |
| Income Fund of America, Inc. | 32,722 | 4,285 | 37,007 |
| Investment Co. of America | <u>24,969</u> | <u>1,133</u> | <u>26,102</u> |
| | <u>\$ 137,761</u> | <u>\$ 24,726</u> | <u>\$ 162,487</u> |

The Financial Accounting Standards Board has issued an accounting standard related to fair value measurements. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy regarding the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. It defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

STATE BOARD OF REFRIGERATION EXAMINERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

Note 8 – Investments (continued)

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant, unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

All assets reflected on the Statement of Net Assets are Level 1 assets.

Note 9 – Net Assets Designated

The reserved fund balance of \$58,225 at December 31, 2016 consists of monies reserved for a scholarship fund in refrigeration study. Scholarships funds were awarded in the amounts of \$1,500 in 2016 and \$4,378 in 2015.

Note 10 – Going Concern

The Board has been incurring significant losses for the last several years. We believe that the Board may have a going concern issue within the next year if revenue is not increased by a significant amount. Senate Bill 131 was passed by the General Assembly of North Carolina on May 4, 2017 that allows the Board to increase the price of renewal licenses from \$40 to \$80 and reinstatement licenses from \$75 to \$160 effective January 1, 2018. In addition, two new license classes were created for persons engaged in the business of industrial refrigeration contracting and refrigeration service contracting. In addition, Management has made changes during 2017 to reduce expenses and has created a proforma budget for calendar year 2018 to mitigate the going concern issue.

MADDISON & CAISON, LLP
CERTIFIED PUBLIC ACCOUNTANTS
RALEIGH, NORTH CAROLINA

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*

State Board of Refrigeration Examiners
Garner, 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 State Board of Refrigeration Examiners (the Board) as of and for the years ended December 31, 2016 and 2015 and the related notes to the financial statements and have issued our report thereon dated May 30, 2017 and March 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Board's internal control over financial reporting 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 opinions on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operating of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material* weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all the deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 Board's financial statements are free of 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 entity's internal control or on compliance. This report is an integral part of an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 30, 2017
Raleigh, North Carolina

Madison & Caion, LLP