

Beth A. Wood, CPA
State Auditor

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August 5, 2014

Mr. Earl W. Willis, Jr., Chair, Roanoke Island Commission
One Festival Park
Manteo, North Carolina 27954

Mr. Tod B. Clissold, Chair, Friends of Elizabeth II, Inc.
PO Box 324
Manteo, North Carolina, 27954

Dear Messrs. Willis and Clissold:

This letter and the attached schedules present the results of our analysis of state appropriations transferred from the Roanoke Island Commission (Commission) to the Friends of Elizabeth II, Inc. (Friends). The analysis was performed in response to your requests and pursuant to North Carolina General Statute §147-64.6(c)(16).

The objective of our analysis was to determine the residual balance of funds held by the Friends attributable to state funding. Our analysis of the Friends' audited financial statements from 1999 to 2012 indicates that the residual balance of funds attributable to state funding is \$5,479,802. The residual balance consists of operating and capital improvement fund transfers from the Commission to the Friends as well as interest and investment income attributable to state funding.

Residual Balance of Operating Transfers Attributable to State Funding (Schedule 1)

Our analysis of the Friends' audited financial statements and accompanying schedules of program service revenues and expenditures from 1999 to 2012 indicates the residual balance of funds attributable to state funding is \$3,675,707.^A

The matching of state appropriations and associated expenditures resulted in a balance of \$4,143,850^B attributable to state funding at the end of 2005. The Friends' audited financial statements from 1999 to 2005 included disclosures that detailed the amount of state funding received and expended during this period.

From 2006 to 2008, the Commission transferred \$947,240^C of state appropriations to the Friends. There were no transfers of state appropriations from the Commission to the Friends from 2009 to 2012.

The audited financial statements for the entire seven-year period from 2006 to 2012 did not include disclosures that matched transfers of state appropriations with associated expenditures. However, the audited financial statements from 2006 to 2012 included schedules of program service revenues and associated expenditures that revealed a cumulative deficit of \$1,415,383.^D

The combination of \$4,143,850 attributable to state funding at the end of 2005 with the Commission transfers of \$947,240 from 2006 to 2008 less the program services deficit of \$1,415,383 results in a residual balance of \$3,675,707 attributable to state funding.¹

Interest and Investment Income Attributable to State Funding (Schedule 2)

Our analysis of the Friends' audited financial statements from 1999 to 2012 indicates the amount of interest and investment income attributable to state funding is \$1,506,239.^E

We determined the amount of interest and investment income attributable to state funding by applying the percentage of cash and investments attributable to state funding at the end of each year to the interest and investment income earned each year.

The audited financial statements indicate that between 1999 and 2012, the Friends earned \$2,908,633^F in investment and interest income. As noted in our Special Review issued in March 2013, this income was derived from investing funds from various sources, including transfers of state appropriations from the Commission.²

Balance of Capital Improvement Funds Attributable to State Funding (Schedule 3)

Our analysis of the Friends' audited financial statements and accompanying schedules of program service revenues and expenditures from 1999 to 2012 indicates the balance of capital improvement funds attributable to state funding is \$297,856.^G

The matching of capital improvement appropriations and associated expenditures resulted in a balance of \$610,665^H attributable to state funding at the end of 2005.

The audited financial statements from 2006 to 2012 indicate that capital improvement expenditures during this period totaled \$312,809.^I

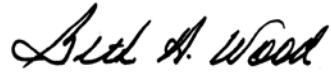
The balance of \$610,665 in capital improvement funds at the end of 2005 less the capital improvement expenditures of \$312,809 from 2006 to 2012 results in a balance of \$297,856 attributable to state funding.

¹ The analysis presented in Schedule 1 includes a cash flow assumption whereby program service revenues are expended *before* appropriated funds. The analysis and cash flow assumption are consistent with the requirements for program receipts and expenditures set forth in Article 6 of the State Budget Act – North Carolina General Statute § 143C-6-1.

² <http://www.ncauditor.net/EPSSWeb/Reports/Investigative/INV-2013-0384.pdf> (page 11)

If you have any questions regarding the attached analyses, please do not hesitate to contact my office.

Sincerely,

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA
State Auditor

cc: Secretary Susan W. Kluttz, North Carolina Department of Cultural Resources
Representative George G. Cleveland
Senator Bill Cook
Senator Tommy Tucker

Roanoke Island Commission / Friends of Elizabeth II, Inc.
Residual Balance of Operating Transfers Attributable to State Funding

Schedule of State Awards¹	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	TOTAL
Transfers of State Appropriations	832,400	881,180	799,926	446,541	420,122	520,234	500,543	4,400,946
Less: Appropriation Expenditures	<u>34,633</u>	<u>38,593</u>	<u>45,408</u>	<u>55,610</u>	<u>17,851</u>	<u>48,301</u>	<u>16,700</u>	<u>257,096</u>
State Funds Balance (Audited)	797,767	842,587	754,518	390,931	402,271	471,933	483,843	4,143,850 ^B
Accumulated Balance	797,767	1,640,354	2,394,872	2,785,803	3,188,074	3,660,007	4,143,850	

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	TOTAL
Transfers of State Appropriations	416,000	238,918	292,322	-	-	-	-	947,240 ^C
Program Services:								
Revenues ²								
Elizabeth II Voyages	13,437	-	-	-	-	-	-	13,437
Housing-Rental	49,499	34,979	38,029	19,685	17,906	58,670	63,747	282,515
Events	18,338	27,158	45,704	20,713	12,590	1,050	-	125,553
Museum Store ³	301,057	290,485	284,611	243,741	226,126	102,115	139,400	1,587,535
Roanoke Island Festival Park	-	-	-	-	-	-	-	-
Total Revenues	<u>382,331</u>	<u>352,622</u>	<u>368,344</u>	<u>284,139</u>	<u>256,622</u>	<u>161,835</u>	<u>203,147</u>	<u>2,009,040</u>
Expenditures ²								
Elizabeth II Voyages	18,083	5,872	3,310	10,773	-	-	-	38,038
Housing	57,740	56,209	62,633	54,080	68,525	113,914	107,088	520,189
Events	62,018	93,079	109,110	105,602	-	-	-	369,809
Museum Store ³	286,233	307,995	307,415	229,409	255,429	147,280	146,430	1,680,191
Roanoke Island Festival Park	<u>108,037</u>	<u>56,710</u>	<u>101,255</u>	<u>341,590</u>	<u>89,066</u>	<u>20,423</u>	<u>99,115</u>	<u>816,196</u>
Total Expenditures	532,111	519,865	583,723	741,454	413,020	281,617	352,633	3,424,423
Net Surpluses (Deficits)								
Elizabeth II Voyages	(4,646)	(5,872)	(3,310)	(10,773)	-	-	-	(24,601)
Housing-Rental	(8,241)	(21,230)	(24,604)	(34,395)	(50,619)	(55,244)	(43,341)	(237,674)
Events	(43,680)	(65,921)	(63,406)	(84,889)	12,590	1,050	-	(244,256)
Museum Store ³	14,824	(17,510)	(22,804)	14,332	(29,303)	(45,165)	(7,030)	(92,656)
Roanoke Island Festival Park	<u>(108,037)</u>	<u>(56,710)</u>	<u>(101,255)</u>	<u>(341,590)</u>	<u>(89,066)</u>	<u>(20,423)</u>	<u>(99,115)</u>	<u>(816,196)</u>
Net Deficits	(149,780)	(167,243)	(215,379)	(457,315)	(156,398)	(119,782)	(149,486)	(1,415,383) ^D
Residual Balance Attributable to State Funding (FY 2006 - 2012)	266,220	71,675	76,943	(457,315)	(156,398)	(119,782)	(149,486)	(468,143)
Residual Balance Attributable to State Funding (FY 1999 - 2012)	4,410,070	4,481,745	4,558,688	4,101,373	3,944,975	3,825,193	3,675,707	

RESIDUAL BALANCE ATTRIBUTABLE TO STATE FUNDING

\$ 3,675,707 ^A

NOTES:

¹ Friends of Elizabeth II, Inc. Audited Financial Statements for fiscal years 1998 to 2005

² Friends of Elizabeth II, Inc. Audited Financial Statements for fiscal years 2006 to 2012

³ Museum store revenues and expenditures include a \$30,000 per year non-cash transaction for the fair value of rental income and expenditures

Roanoke Island Commission / Friends of Elizabeth II, Inc.
Interest and Investment Income Attributable to State Funding

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
Cash Balance ¹	\$ 1,200,982	\$ 1,792,919	\$ 1,628,007	\$ 1,801,801	\$ 839,657	\$ 869,906	\$ 790,669	\$ 1,145,762	\$ 1,287,441	\$ 776,655	\$ 368,501	\$ 326,059	\$ 194,798	\$ 88,784	
Investments Balance ¹	-	-	1,491,566	1,578,253	3,354,410	4,305,392	5,068,358	5,639,616	6,343,107	5,198,260	6,250,420	6,850,630	6,840,585	7,262,673	
Total Cash & Investments Balance	1,200,982	1,792,919	3,119,573	3,380,054	4,194,067	5,175,298	5,859,027	6,785,378	7,630,548	5,974,915	6,618,921	7,176,689	7,035,383	7,351,457	
% Cash Balance	100%	100%	52%	53%	20%	17%	13%	17%	17%	13%	6%	5%	3%	1.21%	
% Investments Balance	0%	0%	48%	47%	80%	83%	87%	83%	83%	87%	94%	95%	97%	99%	
Residual Balance Attributable to State Funding	797,767	1,640,354	2,394,872	2,785,803	3,188,074	3,660,007	4,143,850	4,410,070	4,481,745	4,558,688	4,101,373	3,944,975	3,825,193	3,675,707	
Cash Balance Attributable to State Funding	797,767	1,640,354	1,249,808	1,485,024	638,256	615,204	559,208	744,673	756,169	592,565	228,339	179,232	105,913	44,392	
Investments Balance Attributable to State Funding	-	-	1,145,064	1,300,779	2,549,818	3,044,803	3,584,642	3,665,397	3,725,576	3,966,123	3,873,034	3,765,743	3,719,280	3,631,315	
% Cash Balance Attributable to State Funding	66%	91%	77%	82%	76%	71%	71%	65%	59%	76%	62%	55%	54%	50%	
% Investments Balance Attributable to State Funding	0%	0%	77%	82%	76%	71%	71%	65%	59%	76%	62%	55%	54%	50%	
Interest Income ¹	42,522	39,297	34,314	24,731	14,436	6,072	12,722	29,189	44,981	10,976	5,033	2,042	-	-	\$ 266,315
Investment Income ¹	-	-	(8,435)	(188,937)	365,947	369,960	262,423	571,258	703,491	(1,799,765)	1,052,160	600,210	(8,492)	722,498	<u>2,642,318</u>
															<u>\$ 2,908,633</u> ^F
Interest Income Attributable to State Funding	28,246	35,953	26,343	20,383	10,973	4,294	8,998	18,971	26,419	8,374	3,119	1,122.47	-	-	\$ 193,196
Investment Income Attributable to State Funding	\$ -	\$ -	\$ (6,475)	\$ (155,720)	\$ 278,171	\$ 261,638	\$ 185,601	\$ 371,282	\$ 413,190	\$ (1,373,169)	\$ 651,964	\$ 329,931	\$ (4,617)	\$ 361,247	<u>1,313,043</u>
															<u>\$ 1,506,239</u> ^E

¹ Friends of Elizabeth II, Inc. Audited Financial Statements for fiscal years 1999 to 2012

**Roanoke Island Commission / Friends of Elizabeth II, Inc.
Balance of Capital Improvement Funds Attributable to State Funding**

Schedule of State Awards¹	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	TOTAL
Capital Improvement Appropriations	1,550,000	400,000	-	494,060	-	-	318,969	-	2,763,029
Expenditures:									
Capital Improvement	50,000	164,484	231,241	1,198	610	-	81,808	87,843	617,184
Dorm Construction	503,331	1,014,609	17,240	-	-	-	-	-	1,535,180
Total Capital Improvement Expenditures	553,331	1,179,093	248,481	1,198	610	-	81,808	87,843	2,152,364
CI Funds Balance (Audited)	996,669	(779,093)	(248,481)	492,862	(610)	-	237,161	(87,843)	610,665 ^H
Accumulated Balance	996,669	217,576	(30,905)	461,957	461,347	461,347	698,508	610,665	

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	TOTAL
Capital Improvement Appropriations	-	-	-	-	-	-	-	-
Less: Capital Improvement Expenditures ²	87,315	38,507	38,779	95,157	18,166	-	34,885	312,809 ^I
Capital Improvement Funds Balance	(87,315)	(38,507)	(38,779)	(95,157)	(18,166)	-	(34,885)	(312,809)
Accumulated Balance	523,350	484,843	446,064	350,907	332,741	332,741	297,856	
Balance of Capital Improvement Funds								\$ 297,856^G

NOTES:

¹ Friends of Elizabeth II, Inc. Audited Financial Statements for fiscal years 1998 to 2005

² Friends of Elizabeth II, Inc. Audited Financial Statements for fiscal years 2006 to 2012