

Board of Directors
North Carolina Agricultural Finance Authority
Raleigh, North Carolina

We have audited the statements of the net position of the North Carolina Agricultural Finance Authority (the "Authority") as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and have issued our report on September 25, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government 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 April 10, 2018. 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 Authority are described in the notes to the financial statements. As described in Note 12 to the financial statements, the Authority adopted and implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ended June 30, 2018. This statement required the reporting of the net OPEB liability and the related deferred outflows and inflows of resources. We have included an Emphasis of Matter paragraph in our report of independent auditor concerning this matter. We noted no transactions entered into by Authority 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 estimates affecting the Authority's financial statements were:

Management's estimate of the loan loss reserve is based on a percent of unguaranteed loans receivable. We discussed the process used to determine these reserves with management and evaluated the key factors and assumptions used and determined that they seemed reasonable in relation to the financial statements of the Authority for the year ended June 30, 2018. While the procedures used by management and the amount recorded as an allowance for loan loss reserve seem reasonable at this time, there will usually be differences between the allowance and actual results, and these differences may be material.

Management's estimate of depreciation expense is based on the estimated useful lives of property and equipment using the straight-line method of depreciation. While the procedures used by management and the amount recorded as depreciation seem reasonable at this time, there will usually be differences between the actual useful lives and the estimates used, and these differences may be material.

Management's estimate of various balances related to the retirement benefits are based on an analysis performed by an actuary. We evaluated the key factors and assumptions used to develop the estimates for these amounts in determining that they are reasonable in relation to the basic financial statements of the Authority for the year ended June 30, 2018, taken as a whole. While the procedures used by management to estimate these amounts appear reasonable, there may be differences between the Authority's estimates and the actual results, and these differences may be material.

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 known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The only entries proposed by us and posted by management were entries related to adjusting the pension and other postemployment benefits liabilities and deferrals for current year activity. Management provided us with all of the required information that was needed to prepare these entries and, therefore, the posting of these entries was deemed a service requested by management.

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 25, 2018.

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 Authority'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 Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the management's discussion and analysis and the other required supplementary information, we applied certain limited procedures to this 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 did not express an opinion or provide any assurance on the information because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance.

Restriction on Use

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

Chemy Bekaert LLP