

STATE BOARD OF REFRIGERATION EXAMINERS
FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

STATE BOARD OF REFRIGERATION EXAMINERS

Raleigh, North Carolina

FINANCIAL AUDIT REPORT

December 31, 2015

BOARD MEMBERS

T. E. Street, Chairman

C. L. Smith, Jr., Secretary
K. G. Sexton, Treasurer
B. R. Cook

W. D. Frye
L. Lynch
T. F. Welch

Executive Director

Barbara H. Hines

STATE BOARD OF REFRIGERATION EXAMINERS
Raleigh, North Carolina

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

Independent Auditor's Report

The Honorable Patrick L. McCrory
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, 2015 and 2014, 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 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 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, 2015 and 2014, 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.

March 15, 2016
Raleigh, North Carolina

Maddison & Cousin, LLP

STATE BOARD OF REFRIGERATION EXAMINERS
STATEMENTS OF NET ASSETS
ENTERPRISE FUND

	December 31	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 84,877	\$ 68,066
Securities, available-for-sale	162,487	299,904
Prepaid expenses	1,276	2,551
Total current assets	<u>248,640</u>	<u>370,521</u>
Capital assets:		
Furniture and equipment	20,059	23,450
Less accumulated depreciation	(19,240)	(22,776)
Total noncurrent assets	<u>819</u>	<u>674</u>
TOTAL ASSETS	<u>\$ 249,459</u>	<u>\$ 371,195</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 8,520	\$ 6,591
Payroll liabilities	4,413	3,504
Deferred revenues	69,675	70,730
Accrued vacation	10,522	9,769
Total current liabilities	<u>\$ 93,130</u>	<u>\$ 90,594</u>
NET ASSETS		
Investment in capital assets	\$ 819	\$ 674
Unrestricted:		
Board designated:		
Directors' liability reserve	50,000	125,000
Litigation reserve	50,000	125,000
Scholarship fund	59,725	64,103
	<u>160,544</u>	<u>314,777</u>
Undesignated	(4,215)	(34,176)
TOTAL NET ASSETS	<u>\$ 156,329</u>	<u>\$ 280,601</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	
	2015	2014
Operating revenues		
Charges for services:		
License renewal fees	\$ 69,880	\$ 69,000
License reinstatement fees	8,950	11,400
New license and exam fees	3,440	2,720
Miscellaneous income	660	566
Seminar income	10,040	-
CFC certification income	32,205	36,650
CFC manual income	1,370	1,070
Total operating revenues	<u>126,545</u>	<u>121,406</u>
Operating expenses		
Salaries and contract labor	119,329	105,853
Payroll taxes	9,002	8,294
Pension plan	11,709	12,700
Hospital and medical benefits	2,157	2,485
Per diem, board members	3,600	2,000
Travel, board members and staff	8,169	6,619
Office supplies and expenses	4,762	6,916
CFC supplies	561	434
Office rent	22,800	22,800
Utilities	4,078	4,759
Postage and box rent	6,866	5,000
Insurance	1,192	1,188
Audit, legal fees, and investigative	15,668	14,489
Dues	222	222
Depreciation	586	599
Board meeting expense	12,677	14,022
Equipment rental/maintenance	9,635	10,080
Seminar expense	13,152	-
Scholarships	4,378	8,963
Newsletter	630	-
Credit card and bank fees	1,625	1,307
Miscellaneous	608	520
Total operating expenses	<u>253,406</u>	<u>229,250</u>
Operating loss	(126,861)	(107,844)

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	
	2015	2014
Nonoperating revenues		
Interest and dividends	\$ 10,436	\$ 17,867
Unrealized loss on securities	(45,675)	(31,118)
Realized gain on securities	37,828	39,906
Total nonoperating revenues	<u>2,589</u>	<u>26,655</u>
Change in net assets	(124,272)	(81,189)
Net assets - beginning of year	<u>280,601</u>	<u>361,790</u>
Net assets - end of year	<u>\$ 156,329</u>	<u>\$ 280,601</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	
	2015	2014
Cash flows from operating activities:		
Cash received from licenses and applicants	\$ 79,715	\$ 86,130
Cash received from others	45,775	38,286
Cash paid to employees and professionals	(130,285)	(117,960)
Cash paid to suppliers	(117,669)	(112,796)
Net cash used by operating activities	(122,464)	(106,340)
Cash used by capital and related financing activities:		
Acquisition of capital assets	(730)	-
Net cash used by financing activities	(730)	-
Cash flows from investing activities:		
Purchase of securities, available-for-sale	(10,431)	(17,861)
Sale of securities, available-for-sale	140,000	140,000
Receipt of interest and dividend income	10,436	17,867
Net cash provided by investing activities	140,005	140,006
Net increase in cash and cash equivalents	16,811	33,666
Cash and cash equivalents - beginning of year	68,066	34,400
Cash and cash equivalents - end of year	<u>\$ 84,877</u>	<u>\$ 68,066</u>
Reconciliation of operating income to net cash flows from operating activities		
Operating loss	\$ (126,861)	\$ (107,844)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	586	599
Changes in assets and liabilities		
Decrease (increase) in prepaid expenses	1,275	(2,551)
Increase (decrease) in accounts payable	1,929	(104)
Increase (decrease) in payroll liabilities	909	(43)
Increase in accrued vacation	753	593
Increase (decrease) in deferred revenues	(1,055)	3,010
Net cash used by operating activities	<u>\$ (122,464)</u>	<u>\$ (106,340)</u>

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

STATE BOARD OF REFRIGERATION EXAMINERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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, 2015 and 2014

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 \$84,877 at December 31, 2015.

STATE BOARD OF REFRIGERATION EXAMINERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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, 2015 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 January 1, 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, 2016	\$ 22,800	\$ 7,740	\$ 30,540
Year ended December 31, 2017	-	7,740	7,740
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>\$ 22,800</u>	<u>\$ 22,290</u>	<u>\$ 45,090</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 \$11,709 and \$12,700 for the years ended December 31, 2015 and 2014, 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>2015</u>	<u>2014</u>
CFC certification revenue	\$ 33,575	\$ 37,720
CFC expenses:		
Supplies	561	434
Postage	500	500
Telephone	500	500
Total expenses	<u>1,561</u>	<u>1,434</u>
Net CFC income	<u>\$ 32,014</u>	<u>\$ 36,286</u>

STATE BOARD OF REFRIGERATION EXAMINERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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 2015 and 2014 the Board experienced a net loss from operations excluding CFC income and expense; thus, there is no amount due the State Treasurer.

	<u>2015</u>	<u>2014</u>
Excess (deficit) of revenues over expenditures	\$ (124,272)	\$ (81,189)
Less - investment income		
Interest and dividend income	(10,436)	(16,876)
Unrealized loss on marketable securities	45,675	31,118
Realized gain on marketable securities	<u>(37,828)</u>	<u>(39,906)</u>
Income before adjustment for CFC income	(126,861)	(106,853)
Less - CFC income	(33,575)	(37,720)
Plus - CFC expense	<u>1,561</u>	<u>1,434</u>
Loss from normal operations	<u><u>\$ (158,875)</u></u>	<u><u>\$ (143,139)</u></u>

Note 7 – Capital Assets

Changes in capital assets for the years ended December 31, 2015 and 2014 were as follows:

	<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
	<u>January 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2014</u>
Furniture and equipment	\$26,724	\$ -	\$ 3,274	\$23,450

Note 8 - Investments

Investment income consists of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 10,436	\$ 17,867
Unrealized gain (loss) on securities	(45,675)	(31,118)
Realized gain on securities	<u>37,828</u>	<u>39,906</u>
Total investment income	<u><u>\$ 2,589</u></u>	<u><u>\$ 26,655</u></u>

STATE BOARD OF REFRIGERATION EXAMINERS
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

Note 8 – Investments (continued)

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

December 31, 2015

	<u>Cost</u>	<u>Unrealized 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>

December 31, 2014

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Market</u>
American Balanced Fund, Inc.	\$ 43,297	\$ 19,388	\$ 62,685
Bond Fund of America, Inc.	37,308	(1,472)	35,836
Europacific Growth Fund	24,444	11,269	35,713
Growth Fund of America, Inc.	28,483	18,410	46,893
Income Fund of America, Inc.	56,198	13,466	69,664
Investment Co. of America	<u>39,774</u>	<u>9,339</u>	<u>49,113</u>
	<u>\$ 229,504</u>	<u>\$ 70,400</u>	<u>\$ 299,904</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, 2015 and 2014

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 \$159,725 at December 31, 2015 consists of \$59,725 reserved for a scholarship fund in refrigeration study, \$50,000 reserved for directors' and officers' liability, and \$50,000 reserved for litigation. Scholarships funds were awarded in the amounts of \$4,378 in 2015 and \$8,963 in 2014.

Note 10 – Going Concern

The Board has been incurring significant losses for the last several years. We believe that the Board will be a going concern within the next year if revenue is not increased and operating expenses are not reduced immediately by a significant amount. Management has been apprised of the situation during the past two years, and legislation has been introduced to raise the annual dues amounts for the first time since 1980. In addition, Management is making changes during 2016 and has created a proforma budget for calendar year 2017 to mitigate the going concern issue.