

NORTH CAROLINA BOARD OF  
FUNERAL SERVICE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

# NORTH CAROLINA BOARD OF FUNERAL SERVICE

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**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2015**

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**Introduction**

The following is a discussion and analysis of the North Carolina Board of Funeral Service's (the "Board") financial performance for the fiscal year ended December 31, 2015. The following financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and the previous year are presented in the analysis.

**Financial Highlights**

In addition to the Board's operating account and reserve investments (Enterprise Fund), the Board also administers the Pre-need Recovery Fund designated as "Expendable Trust" on the financial statements. The Recovery Fund was created by GS 90-210.66 for the purpose of reimbursing purchasers of pre-need contracts who have suffered financial loss as a result of misappropriation by a pre-need licensee. Use of the Recovery Fund is restricted to the provisions of 90-210.66 and is not used for Board operations.

In the fiscal year 2015, the Board collected and forwarded \$25,000 in civil (compromise) penalties. All funds assessed and collected by the Board for civil (compromise) penalties are forwarded to the respective counties. In annual budget preparations these penalties are not considered as revenues or as expenses. It is management's position for the purposes of this discussion and analysis the most accurate illustration of the operating revenues and expenses excludes the penalties.

The operating revenues of the Board (Enterprise Fund) increased by \$206,116 or 16.5%, due primarily to an increase in license fees, reflecting an increase in 2015 at-need renewal fees; and increases in receipts for pre-need contract fees and cremation fees.

The operating expenses of the Board (Enterprise Fund) increased by \$174,237 or 13.7%, due primarily to an increase in salary expense as several vacancies during the prior year were filled, including the addition of an investigator position, which also resulted in increased travel expenses.

Net non-operating expenses of the Board decreased by \$4,316 or 117% due primarily to the payoff of the mortgage in the prior year.

The Pre-need Recovery Fund or "Expendable Trust" experienced net operating income of \$59,823 in 2015 compared to an operating loss of \$223,456 in 2014 and reflects a decrease in management's estimate of potential losses related to future claims on pre-need contracts at year end, considering pending claims to date and the likelihood of additional claims on current cases. Pursuant to GS 90-210.66 (b), \$2 from each pre-need contract registration fee collected by the Board is deposited into the Recovery Fund. These deposits totaled \$38,764 and \$36,106 for the fiscal years 2015 and 2014, respectively. A total of \$57,491 and \$11,538 in claims was approved and paid in the fiscal years 2015 and 2014, respectively, because of misappropriation of pre-need funds by licensees. It is management's position that probable claims to the Recovery Fund amounted to approximately \$282,400 as of December 31, 2015 based on an analysis of current pending and potential claims. While the information and documents for these claims were received by the Board staff over the course of several years, confirming the information and verifying the documents has been difficult in some cases. The Recovery Fund is invested with the State Treasurer and interest earnings remain in the account. The Board approved an interest rate of .221768% for Recovery Fund claims filed and approved in 2015.

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**Overview of the Financial Statements**

This discussion and analysis is an introduction to the Board's basic financial statements, which are comprised of the following components: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements of Cash Flows, and 4) Notes to Financial Statements. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

**Basic Financial Statements**

The financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board.

The Statements of Net Position present current and non-current portions of assets, liabilities and net position of the Board. Current assets are those that are expected to be converted to cash within one year, and current liabilities are expected to be settled within one year.

The Statements of Revenues, Expenses and Changes in Net Position present information on how the Board's net position changed as a result of the year's operations.

The Statements of Cash Flows present information on how the Board's cash changed as a result of the year's activity.

The following table summarizes the Board's assets, liabilities and net position as of December 31, and its operating and non-operating revenues and expenses for the years then ended for the Enterprise Fund:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Current assets	\$ 1,272,487	\$ 1,085,809	\$ 948,646
Net capital assets	<u>720,362</u>	<u>754,563</u>	<u>789,460</u>
Total assets	<u>1,992,849</u>	<u>1,840,372</u>	<u>1,738,106</u>
Liabilities:			
Current liabilities	237,231	255,030	237,553
Long-term liabilities	<u>17,900</u>	<u>38,700</u>	<u>108,792</u>
Total liabilities	<u>255,131</u>	<u>293,730</u>	<u>346,345</u>
Net Position:			
Investment in capital assets	720,362	754,563	666,319
Unrestricted	<u>1,017,356</u>	<u>792,079</u>	<u>725,442</u>
Total net position	<u>\$ 1,737,718</u>	<u>\$ 1,546,642</u>	<u>\$ 1,391,761</u>
Operating revenues	\$ 1,459,012	\$ 1,252,896	\$ 1,249,472
Operating expenses	<u>1,268,573</u>	<u>1,094,336</u>	<u>1,104,413</u>
Operating income	<u>190,439</u>	<u>158,560</u>	<u>145,059</u>
Non-operating revenues (expenses)	<u>637</u>	<u>(3,679)</u>	<u>(6,836)</u>
Changes in net position	<u>191,076</u>	<u>154,881</u>	<u>138,223</u>
Net position - beginning of year	<u>1,546,642</u>	<u>1,391,761</u>	<u>1,253,538</u>
Net position - end of year	<u>\$ 1,737,718</u>	<u>\$ 1,546,642</u>	<u>\$ 1,391,761</u>

**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2015**

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The following table summarizes total assets and total liabilities of the Board for the Expendable Trust as of December 31:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current and total assets	\$ <b>466,228</b>	\$ 480,818	\$ 448,466
Current and total liabilities	<b>282,400</b>	359,600	105,800
Total net position	<u>\$ <b>183,828</b></u>	<u>\$ 121,218</u>	<u>\$ 342,666</u>

**Events Affecting Future Operations**

The Board's Pre-need Recovery Fund (Expendable Trust) is funded by contributions from each pre-need contract filed with the Board. Historically, \$2.00 from each contract filing fee is deposited with the Trust, with \$18.00 going to support pre-need staff operations (indirectly). At December 31, 2015, management's estimate of the reserve for losses on pre-need contracts is based on an analysis of total pending claims at year end of approximately \$138,400 plus an estimated general reserve for potential future claims related to those cases, based upon the most recent information to date. As discussed in the Financial Highlights sections, a reserve for losses on pre-need contracts of \$282,400 has been accrued in the Statement of Net Position at December 31, 2015 which represents management's estimate of probable losses incurred as of year end. The Board now has four full-time inspectors on staff, which will allow pre-need audits to take place more frequently when new staff is up to speed.

The Board began implementing a phased-in online license renewal process in 2015. Online renewal options were available for 2016 at-need individual licenses with facility and pre-need licenses expected to follow in 2017.

**Contacting the Board's Management**

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives and expends. If you have any questions about this report or need additional information, contact: North Carolina Board of Funeral Service, 1033 Wade Avenue, Suite 108, Raleigh, NC 27605.

## **Independent Auditor's Report**

Members of the Board  
North Carolina Board of Funeral Service  
Raleigh, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the North Carolina Board of Funeral Service (the "Board") which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic 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 audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the basic 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 Board'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 basic 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 North Carolina Board of Funeral Service as of December 31, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, these financial statements are presented only for the North Carolina Board of Funeral Service and do not purport to and do not present fairly the financial position of the State of North Carolina as of December 31, 2015 and 2014, nor the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 1-3, 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.

*Bernard Robinson & Company, L.L.P.*

Raleigh, North Carolina  
April 21, 2016

**NORTH CAROLINA BOARD OF FUNERAL SERVICE****Statements of Net Position****December 31, 2015 and 2014**

	2015		
	Enterprise Fund	Expendable Trust	Total
<b>ASSETS:</b>			
Current assets:			
Cash	\$ 1,116,127	\$ -	\$ 1,116,127
Cash held by state treasurer	110,500	463,544	574,044
Due from enterprise fund	-	2,684	2,684
Cremation fees receivable	35,370	-	35,370
Prepaid expenses	10,490	-	10,490
Total current assets	<u>1,272,487</u>	<u>466,228</u>	<u>1,738,715</u>
Capital assets - net of depreciation:			
Building	711,015	-	711,015
Furniture and equipment	9,347	-	9,347
Total capital assets - net of depreciation	<u>720,362</u>	<u>-</u>	<u>720,362</u>
Total assets	<u>1,992,849</u>	<u>466,228</u>	<u>2,459,077</u>
<b>LIABILITIES:</b>			
Current liabilities:			
Due to Expendable Trust	2,684	-	2,684
Accounts payable	6,997	-	6,997
Unearned revenue	217,050	-	217,050
Reserve for losses on pre-need contracts	-	57,400	57,400
Current portion of accrued vacation	10,500	-	10,500
Total current liabilities	<u>237,231</u>	<u>57,400</u>	<u>294,631</u>
Long-term liabilities:			
Reserve for losses on pre-need contracts	-	225,000	225,000
Accrued vacation	17,900	-	17,900
Total noncurrent liabilities	<u>17,900</u>	<u>225,000</u>	<u>242,900</u>
Total liabilities	<u>255,131</u>	<u>282,400</u>	<u>537,531</u>
<b>NET POSITION:</b>			
Investment in capital assets	720,362	-	720,362
Unrestricted	1,017,356	-	1,017,356
Reserved - expendable trust	-	183,828	183,828
Total net position	<u>\$ 1,737,718</u>	<u>\$ 183,828</u>	<u>\$ 1,921,546</u>



2014		
Enterprise Fund	Expendable Trust	Total
\$ 931,186	\$ -	\$ 931,186
109,864	475,588	585,452
-	5,230	5,230
34,060	-	34,060
10,699	-	10,699
<u>1,085,809</u>	<u>480,818</u>	<u>1,566,627</u>
737,059	-	737,059
17,504	-	17,504
<u>754,563</u>	<u>-</u>	<u>754,563</u>
<u>1,840,372</u>	<u>480,818</u>	<u>2,321,190</u>
5,230	-	5,230
10,790	-	10,790
239,010	-	239,010
-	179,800	179,800
<u>-</u>	<u>-</u>	<u>-</u>
<u>255,030</u>	<u>179,800</u>	<u>434,830</u>
-	179,800	179,800
38,700	-	38,700
<u>38,700</u>	<u>179,800</u>	<u>218,500</u>
<u>293,730</u>	<u>359,600</u>	<u>653,330</u>
754,563	-	754,563
792,079	-	792,079
<u>-</u>	<u>121,218</u>	<u>121,218</u>
<u>\$ 1,546,642</u>	<u>\$ 121,218</u>	<u>\$ 1,667,860</u>

**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2015 and 2014**

	2015		
	Enterprise Fund	Expendable Trust	Total
Operating revenues:			
Pre-need contract fees	\$ 363,718	\$ 38,764	\$ 402,482
License fees	574,865	-	574,865
Cremation fees	387,750	-	387,750
Burial Association income	17,888	-	17,888
Late fees	33,065	-	33,065
Examinations	24,500	-	24,500
Traineeship	14,573	-	14,573
Board continuing education fees	1,300	-	1,300
Compromise penalties	25,000	-	25,000
Other income	16,353	-	16,353
Total operating revenues	<u>1,459,012</u>	<u>38,764</u>	<u>1,497,776</u>
Operating expenses:			
Salaries, payroll taxes and benefits	817,534	-	817,534
Professional fees	47,851	-	47,851
Occupancy and utilities	43,272	-	43,272
Travel	61,947	-	61,947
Board expenses	37,965	-	37,965
Conferences	6,457	-	6,457
Printing and postage	32,542	-	32,542
Contracted services	17,878	-	17,878
Office supplies and expense	20,569	-	20,569
Miscellaneous	18,323	-	18,323
Compromise penalties	25,000	-	25,000
Equipment, lease and maintenance	57,273	-	57,273
Depreciation	37,852	-	37,852
Examination expense	14,240	-	14,240
SBI fingerprinting	7,638	-	7,638
Insurance and bonding	8,557	-	8,557
Hearing expense	13,675	-	13,675
Claims paid, net of reimbursements	-	56,141	56,141
Increase (decrease) in reserve for losses on pre-need contracts	-	(77,200)	(77,200)
Total operating expenses	<u>1,268,573</u>	<u>(21,059)</u>	<u>1,247,514</u>
Operating income (loss)	<u>190,439</u>	<u>59,823</u>	<u>250,262</u>
Non-operating revenues (expenses):			
Interest expense	-	-	-
Interest income	637	2,787	3,424
Total non-operating revenues (expenses)	<u>637</u>	<u>2,787</u>	<u>3,424</u>
Changes in net position	191,076	62,610	253,686
Net position - beginning of year	<u>1,546,642</u>	<u>121,218</u>	<u>1,667,860</u>
Net position - end of year	<u>\$ 1,737,718</u>	<u>\$ 183,828</u>	<u>\$ 1,921,546</u>

*See Notes to Financial Statements*

2014		
Enterprise Fund	Expendable Trust	Total
\$ 342,114	\$ 36,106	\$ 378,220
438,580	-	438,580
359,250	-	359,250
19,139	-	19,139
23,685	-	23,685
21,650	-	21,650
15,203	-	15,203
1,425	-	1,425
17,000	-	17,000
14,850	-	14,850
<u>1,252,896</u>	<u>36,106</u>	<u>1,289,002</u>
674,664	-	674,664
43,854	-	43,854
44,350	-	44,350
50,746	-	50,746
33,439	-	33,439
2,485	-	2,485
30,226	-	30,226
21,147	-	21,147
13,727	-	13,727
14,164	-	14,164
17,000	-	17,000
69,832	-	69,832
36,603	-	36,603
10,560	-	10,560
7,600	-	7,600
5,794	-	5,794
18,145	-	18,145
-	5,762	5,762
-	253,800	253,800
<u>1,094,336</u>	<u>259,562</u>	<u>1,353,898</u>
<u>158,560</u>	<u>(223,456)</u>	<u>(64,896)</u>
(4,165)	-	(4,165)
486	2,008	2,494
<u>(3,679)</u>	<u>2,008</u>	<u>(1,671)</u>
154,881	(221,448)	(66,567)
<u>1,391,761</u>	<u>342,666</u>	<u>1,734,427</u>
<u>\$ 1,546,642</u>	<u>\$ 121,218</u>	<u>\$ 1,667,860</u>

**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
**Statements of Cash Flows**  
**Years Ended December 31, 2015 and 2014**

	<b>2015</b>		
	Enterprise Fund	Expendable Trust	Total
Cash flows from operating activities:			
Cash received from fees	\$ 1,435,742	\$ 41,310	\$ 1,477,052
Cash payments to employees for services	(827,834)	-	(827,834)
Cash payments to suppliers of goods and services	(287,948)	-	(287,948)
Cash payments for other operating expenses	(131,369)	(56,141)	(187,510)
Net cash provided by (used in) operating activities	<u>188,591</u>	<u>(14,831)</u>	<u>173,760</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(3,651)	-	(3,651)
Principal payments on note	-	-	-
Interest payments on note	-	-	-
Net cash used in capital and related financing activities	<u>(3,651)</u>	<u>-</u>	<u>(3,651)</u>
Cash flows from investing activities:			
Interest on investments	637	2,787	3,424
Net cash provided by investing activities	<u>637</u>	<u>2,787</u>	<u>3,424</u>
Net increase (decrease) in cash	185,577	(12,044)	173,533
Cash - beginning of year	<u>1,041,050</u>	<u>475,588</u>	<u>1,516,638</u>
Cash - end of year	<u>\$ 1,226,627</u>	<u>\$ 463,544</u>	<u>\$ 1,690,171</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	<u>\$ 190,439</u>	<u>\$ 59,823</u>	<u>\$ 250,262</u>
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	37,852	-	37,852
Changes in assets and liabilities:			
Due to/from funds	(2,546)	2,546	-
Cremation fees receivable	(1,310)	-	(1,310)
Prepaid expenses	209	-	209
Accounts payable	(3,793)	-	(3,793)
Unearned revenue	(21,960)	-	(21,960)
Reserve for losses on pre-need contracts	-	(77,200)	(77,200)
Accrued vacation	(10,300)	-	(10,300)
Total adjustments	<u>(1,848)</u>	<u>(74,654)</u>	<u>(76,502)</u>
Net cash provided by (used in) operating activities	<u>\$ 188,591</u>	<u>\$ (14,831)</u>	<u>\$ 173,760</u>

2014		
Enterprise Fund	Expendable Trust	Total
\$ 1,337,406	\$ 48,322	\$ 1,385,728
(671,064)	-	(671,064)
(299,005)	-	(299,005)
(103,670)	(5,762)	(109,432)
<u>263,667</u>	<u>42,560</u>	<u>306,227</u>
(1,706)	-	(1,706)
(123,141)	-	(123,141)
(4,165)	-	(4,165)
<u>(129,012)</u>	<u>-</u>	<u>(129,012)</u>
486	2,008	2,494
<u>486</u>	<u>2,008</u>	<u>2,494</u>
135,141	44,568	179,709
<u>905,909</u>	<u>431,020</u>	<u>1,336,929</u>
<u>\$ 1,041,050</u>	<u>\$ 475,588</u>	<u>\$ 1,516,638</u>
<u>\$ 158,560</u>	<u>\$ (223,456)</u>	<u>\$ (64,896)</u>
36,603	-	36,603
(12,216)	12,216	-
(1,880)	-	(1,880)
(142)	-	(142)
(7,248)	-	(7,248)
86,390	-	86,390
-	253,800	253,800
3,600	-	3,600
<u>105,107</u>	<u>266,016</u>	<u>371,123</u>
<u>\$ 263,667</u>	<u>\$ 42,560</u>	<u>\$ 306,227</u>

# **NORTH CAROLINA BOARD OF FUNERAL SERVICE**

## **Notes to Financial Statements**

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### **NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

#### **Description of Organization**

The North Carolina Board of Funeral Service is an independent State agency. It is an occupational licensing board and is authorized by Chapter 90, Article 13A of the North Carolina General Statutes. The Board is composed of nine members. The Governor appoints seven licensees to the Board; four from nominees recommended by the North Carolina Funeral Directors Association, two from nominees recommended by the Funeral Directors and Morticians Association of North Carolina, and one licensee who is not affiliated with any funeral service trade association. The General Assembly upon the recommendation of the President Pro Tempore of the Senate, and the General Assembly upon the recommendation of the Speaker of the House of Representatives each appoint one public member to the Board who is not a licensee of the Board or employed by a licensee of the Board.

The Board's primary responsibilities are to administer examinations, to grant licenses to qualified persons, to register certified funeral establishments, to register certified crematories, to administer mutual burial associations, to regulate pre-need funeral contracts, and to enforce all statutes and rules of Chapter 90, Articles 13A, 13D, 13E, and 13F of the North Carolina General Statutes.

The Board's operations are financed with self-generated revenues from contract, license, and examination fees.

#### **Financial Reporting Entity**

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (U.S. GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The accompanying financial statements present all funds and activities for which the Board is responsible.

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and may be reported as such in the State's Comprehensive Annual Financial Report (CAFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

The accompanying financial statements present all funds and activities for which the Board is responsible.

#### **Basis of Presentation**

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board ("GASB").

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

# NORTH CAROLINA BOARD OF FUNERAL SERVICE

## Notes to Financial Statements

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### NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Basis of Presentation (Continued)**

As mandated by Article 13D, Section 90-210.66 of the North Carolina General Statutes, there was established the Pre-need Recovery Fund (the "Recovery Fund"), an Expendable Trust fund. The North Carolina Board of Funeral Service is responsible for the administration and maintenance of the fund. The purpose of the fund is to reimburse purchasers of pre-need funeral contracts who have suffered financial loss as a result of malfeasance, default, failure or insolvency of any licensee under this Article.

#### **Basis of Accounting**

The basic financial statements of the Board are 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 recognized when a liability has been incurred, regardless of the timing of the cash flows.

The Board classifies its revenues as operating or non-operating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the Board's ongoing principal operations. Operating revenues consist primarily of contract, license and examination fees. Operating expenses are all expense transactions incurred other than those related to capital and non-capital 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*. Non-operating revenues and expenses consist primarily of investing type activities.

#### **Cash**

This classification consists of cash on deposit with financial institutions.

#### **Accounts Receivable**

The Board records receivables for cremation fees which are earned in one month and received in the following month. The Board considers the cremation fees to be fully collectible and no allowance for doubtful accounts is recorded.

#### **Capital Assets**

Capital assets are recorded at cost at the date of acquisition. The Board capitalizes assets that have a cost of \$1,000 or greater at the date of acquisition and an expected useful life in excess of one year. Depreciation is computed using the straight-line method over the following estimated useful lives:

Building and improvements	39 years
Furniture and equipment	3-7 years

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the financial records and any gain or loss on the disposition is reflected as a non-operating activity for the year.

## NORTH CAROLINA BOARD OF FUNERAL SERVICE

### Notes to Financial Statements

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#### NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **Vacation and Sick Leave**

Board employees may accumulate a maximum of 240 hours of earned vacation which is fully vested when earned.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. Unused sick leave is not paid upon termination of employment or retirement; therefore, no accrual for sick leave has been made.

##### **Unearned Revenue**

License and exam fees collected in advance are recorded as unearned revenue at year-end and recognized as revenue when the license period begins or the exam is held in the next fiscal year.

##### **Net Position**

*Investment in capital assets* – This represents the Board's total investment in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Unrestricted* – This represents net assets that are not subject to externally imposed stipulations pertaining to their use. Unrestricted net assets may be used for any purpose at the discretion of the governing board. The Board has designated \$100,000 and \$50,000 of the unrestricted net assets to cover potential litigation costs and costs related to business continuity, respectively. The Board may change such reserved amounts based on perceived operating conditions and situations.

*Reserved – expendable trust* – This represents funds that can only be used to reimburse purchasers of pre-need funeral contracts who have suffered financial loss as a result of malfeasance, default, failure or insolvency of any licensee or to pay the expenses of the Board for administering the fund, including employment of legal counsel to prosecute subrogation claims.

##### **Income Taxes**

The Board is a component of the State of North Carolina and is consequently exempt from federal and state income taxes.

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.



# NORTH CAROLINA BOARD OF FUNERAL SERVICE

## Notes to Financial Statements

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### NOTE 2 - DEPOSITS AND CONCENTRATIONS OF CREDIT RISK

The Board had cash deposits in a non-interest bearing account with a bank that exceeded the Federal Depository Insurance Corporation's (FDIC) limits of \$250,000 by \$843,503 at December 31, 2015.

The Board also has cash held by the State Treasurer totaling \$574,044 at December 31, 2015. These funds are part of the Short Term Investment Fund and are invested in U.S. Treasuries and other low-risk investments specifically authorized by statute.

### NOTE 3 - CAPITAL ASSETS

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

	<u>Cost</u> <u>1/1/2015</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Cost</u> <u>12/31/2015</u>	<u>Accum.</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Capital Assets:						
Building	\$ 1,018,230	\$ -	\$ -	\$ 1,018,230	\$ 307,215	\$ 711,015
Furniture/ equipment	<u>169,776</u>	<u>3,651</u>	<u>3,165</u>	<u>170,262</u>	<u>160,915</u>	<u>9,347</u>
	<u>\$ 1,188,006</u>	<u>\$ 3,651</u>	<u>\$ 3,165</u>	<u>\$ 1,188,492</u>	<u>\$ 468,130</u>	<u>\$ 720,362</u>
	<u>Cost</u> <u>1/1/2014</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Cost</u> <u>12/31/2014</u>	<u>Accum.</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Capital Assets:						
Building	\$ 1,018,230	\$ -	\$ -	\$ 1,018,230	\$ 281,171	\$ 737,059
Furniture/ equipment	<u>182,039</u>	<u>1,706</u>	<u>13,969</u>	<u>169,776</u>	<u>152,272</u>	<u>17,504</u>
	<u>\$ 1,200,269</u>	<u>\$ 1,706</u>	<u>\$ 13,969</u>	<u>\$ 1,188,006</u>	<u>\$ 433,443</u>	<u>\$ 754,563</u>

### NOTE 4 - NOTE PAYABLE

The Board paid off its mortgage on the building during the year ended December 31, 2014. Interest expense for the year ending December 31, 2014 was \$4,165.

### NOTE 5 - CHANGES IN LONG-TERM LIABILITIES

Notes payable activity for the year ended December 31, was as follows:

	<u>2014</u>
Beginning balance	\$ 123,141
Increases	-
Decreases	<u>123,141</u>
Ending balance	<u>\$ -</u>

## NORTH CAROLINA BOARD OF FUNERAL SERVICE

### Notes to Financial Statements

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#### NOTE 5 - CHANGES IN LONG-TERM LIABILITIES (Continued)

Accrued vacation activity for the years ended December 31, was as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 38,700	\$ 35,100
Increases	26,242	29,452
Decreases	36,542	25,852
Ending balance	<u>\$ 28,400</u>	<u>\$ 38,700</u>
Current portion of balance	<u>\$ 10,500</u>	<u>\$ -</u>

#### NOTE 6 - OPERATING LEASES

The Board leases office equipment under operating leases. The lease expense for the years ended December 31, 2015 and 2014, totaled approximately \$10,600 and \$6,900, respectively.

Future minimum lease payments for years ending December 31 are as follows:

2016	\$ 4,756
2017	5,753
2018	5,459
2019	3,988
2020	997
	<u>\$ 20,953</u>

#### NOTE 7 - RETIREMENT PLAN

The Board established a defined contribution plan and trust during the fiscal year ended December 31, 1993. The 401(k) plan was amended and restated effective January 1, 2001. Participating employees may contribute up to the maximum allowable by law. Additionally, the Board makes a contribution of 6% of each participant's salary to the plan. The Board's contributions for the years ended December 31, 2015 and 2014, totaled \$37,096 and \$30,317, respectively. Contributions are immediately 100% vested. Employee retirement contributions totaled \$41,270 and \$38,050, for the years ended December 31, 2015 and 2014, respectively.

#### NOTE 8 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. Tort claims of board members are self-insured by the State under the authority of the State Tort Claims Act. Additional coverage is provided to the Board through the purchase of excess public officers' and employees' liability insurance with a private insurance company.

## **NORTH CAROLINA BOARD OF FUNERAL SERVICE**

### **Notes to Financial Statements**

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#### NOTE 9 - LOSS CONTINGENCY - EXPENDABLE TRUST

The Board believes it is probable that losses related to the Expendable Trust Fund were incurred prior to December 31, 2015. A reserve has been established for \$282,400 and \$359,600 at December 31, 2015 and 2014, respectively, to provide for management's estimate of such losses based on current pending and potential claims.

#### NOTE 10 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through April 21, 2016, which is the date the financial statements were available to be issued. In March 2016, the Board's Executive Director resigned, resulting in severance and accrued vacation payouts. Management discovered no other subsequent events that should be disclosed.

The audit was conducted in approximately 90 hours at a cost of \$9,725.