

**NORTH CAROLINA BOARD OF
FUNERAL SERVICE**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016

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, 2016. 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 two years 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 Preneed Recovery Fund (Recovery Fund). The Recovery Fund was created by GS 90-210.66 for the purpose of reimbursing purchasers of preneed contracts who have suffered financial loss as a result of misappropriation by a preneed 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 2016, the Board collected and forwarded \$37,250 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 \$35,628 or 2.4%, due primarily to an increase in receipts for compromise penalties and cremation fees.

The operating expenses of the Board (Enterprise Fund) increased by \$294,897 or 23.3%. The increase in operating expenses is mainly attributed to the transitional year where contracted services were utilized as the legal counsel also served as the interim executive director. A substantial portion of the operating expenses also included a one-time payout to the former executive director and adding a fourth inspector. Overall, non-salary operating expenses included a focus on the reduction of disciplinary backlog. Temporary service fees were previously paid from multiple line items, so it is difficult to meaningfully compare to previous years. Nonetheless, temporary services increased due predominantly to staff vacancies and a temporary worker retained during late 2016 as renewals began. Going into 2017, all positions are filled and there are no temporary workers. The two MBA temporary workers have retired and those duties are attempting to be absorbed utilizing existing staff.

Non-operating revenue of the Board consists of interest income and remained consistent with the prior year.

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The Recovery Fund experienced a net operating loss of \$33,075 in 2016 compared to operating income of \$59,823 in 2015 and reflects management's estimate of potential losses related to future claims on preneed 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 preneed contract registration fee collected by the Board is deposited into the Recovery Fund. These deposits totaled \$40,186 and \$38,764 for the fiscal years 2016 and 2015, respectively. A total of \$125,661 and \$56,141 in claims was approved and paid in the fiscal years 2016 and 2015, respectively, because of misappropriation of preneed funds by licensees. It is management's position that probable future claims to the Recovery Fund amounted to approximately \$230,000 as of December 31, 2016 based on an analysis of claims paid in 2017 and 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.

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.

NORTH CAROLINA BOARD OF FUNERAL SERVICE
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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>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Current assets	\$ 1,314,452	\$ 1,272,487	\$ 1,085,809
Net capital assets	<u>761,047</u>	<u>720,362</u>	<u>754,563</u>
Total assets	<u>2,075,499</u>	<u>1,992,849</u>	<u>1,840,372</u>
Liabilities:			
Current liabilities	373,588	237,231	255,030
Noncurrent liabilities	<u>32,500</u>	<u>17,900</u>	<u>38,700</u>
Total liabilities	<u>406,088</u>	<u>255,131</u>	<u>293,730</u>
Net Position:			
Investment in capital assets	761,047	720,362	754,563
Unrestricted	<u>908,364</u>	<u>1,017,356</u>	<u>792,079</u>
Total net position	<u>\$ 1,669,411</u>	<u>\$ 1,737,718</u>	<u>\$ 1,546,642</u>
Operating revenues	\$ 1,494,640	\$ 1,459,012	\$ 1,252,896
Operating expenses	<u>1,563,470</u>	<u>1,268,573</u>	<u>1,094,336</u>
Operating income (loss)	<u>(68,830)</u>	<u>190,439</u>	<u>158,560</u>
Non-operating revenues (expenses)	<u>523</u>	<u>637</u>	<u>(3,679)</u>
Changes in net position	<u>(68,307)</u>	<u>191,076</u>	<u>154,881</u>
Net position - beginning of year	<u>1,737,718</u>	<u>1,546,642</u>	<u>1,391,761</u>
Net position - end of year	<u>\$ 1,669,411</u>	<u>\$ 1,737,718</u>	<u>\$ 1,546,642</u>

The following table summarizes total assets and total liabilities of the Board for the Preneed Recovery Fund as of December 31:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current and total assets	\$ 384,500	\$ 466,228	\$ 480,818
Current liabilities	139,200	57,400	179,800
Noncurrent liabilities	<u>90,800</u>	<u>225,000</u>	<u>179,800</u>
Total liabilities	<u>230,000</u>	<u>282,400</u>	<u>359,600</u>
Total net position	<u>\$ 154,500</u>	<u>\$ 183,828</u>	<u>\$ 121,218</u>

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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2016

Events Affecting Future Operations

The following comments are intended to provide more context to the operational, economic and historical posture of the Board.

In February 2017, the Board endorsed a proposed draft Bill affecting the Preneed Recovery Fund disbursement and administrative formula. Historically, the \$20.00 contract filing fee is distributed with \$2.00 going to the recovery fund and the remaining \$18.00 supporting operational needs. The proposed draft legislation adjusts the amount to "at least \$2.00 but not more than \$10.00". This change, if approved will allow more opportunity to adjust reserve balances but also will adversely impact administrative budgetary operations making forecasting more challenging especially if adjustments are made during different intervals.

The online license renewal portals are operational for individual licensees and funeral establishments. There is a service fee assessed by the credit card merchant to the Board for each online payment renewal transaction which totaled approximately \$3,500 for 2016 renewals (approximately 500 individual and establishments renewed online). This fee may need to be managed closely in future budget preparations as online renewals are anticipated to increase. There may be discounts available for larger volume but regardless, the fee should be anticipated as part of the streamlining and efficiency improvements utilizing the online renewal payment option. Overall, the online electronic payment appears to be the correct path for the Board.

The Board has a goal of adding a fifth inspector to continue efforts of improving the completion of inspections every three years. The increase of an inspector is intended to reduce the backlog and add a licensee to the Board's office. Staffing up to meet the three year cycle and increasing the volume to eliminate the backlog are related but separate objectives. There is an approved action plan and job description, although it will increase pressure on the Board to remain within the approved operational budget through a variety of increased expenditures.

The IT Overhaul initiative is anticipated to continue with the recent onset of a new IT manager. Activities are being prioritized and funding is set aside for this endeavor. In addition to the many advantages of better utilizing technology, the postage and mailing expenses which were over budget in 2016 should decrease as technology is phased in and proposed legislation passed that allows more electronic communication.

The Board continues their strong posture on disciplinary cases. The heavy volume of activity in 2016 is anticipated to carry forward into 2017 which may in turn increase expenditures.

It is recommended that the Board approve the following:

- Establish a specific reserve account for IT Enhancement of \$100K
- Replenish the existing reserve account for Litigation Fund to \$100K and add an additional \$25K bringing the total \$125K.

Funding for both of these reserves should be identified within the unrestricted net position. The designation of these funds will better enable tracking and planning for expenditures. Additional enhancements to operating expenses include adding a Temporary Services line item and removing the outmoded Director's Car Allowance line item that is no longer in use.

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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2016

In the coming months, staff intend to consider out-sourcing our payroll to a vendor which may allow for better controls and reduce the chance for errors.

The Board has approved changing the 401(k) services provider which will occur during the first half of 2017. Other than a one-time transition fee, there are no additional costs to the Board. Operational aspects should improve along with the plan's advisor, employee services and fund selection availability.

The Board's Goals for 2017 are:

- Hire an IT Manager
- Add a 5th Inspector position
- Pursue changes in Legislation
- Pursue an expedited Mandatory Periodic Review of the Board's Rules
- Initiate the Rule-making Process near the end of the year
- IT Overhaul including the database and website

The 2017 Budget Executive Summary presented to the Board in December 2016, is provided below as a supplemental document.

For 2017, the revenue is budgeted at \$1,446,635 which is a 4.75% increase over 2016. Expenses are projected at \$1,402,213 which are \$44,422 under the revenue budgeted amount. There were extraordinary expenses during 2016 which in many ways is recognized as a transitional year considering Board staff changes and many of the now 15 total staff positions being recent hires. There was also an extraordinary expense by which the miscellaneous At Need Contingency Fund was utilized. The 2017 budget is aimed at being revenue neutral with a focus on reducing expenses. There is currently one Board member vacancy and one staff vacancy which both occurred during the fourth quarter of 2016. The IT Manager (staff position) was created in 2016, filled, subsequently vacated in the fourth quarter and is actively in the interviewing phase. Overall salaries increased by 2% which includes the addition of the IT position and various separations and re-hires. Our longest tenured employee is anticipating retirement in the third quarter of 2017. A transition spreadsheet has been developed to ensure a smooth transfer of duties. During this latter part of 2016, progress was made on strengthening the IT infrastructure. The next phase of the IT overhaul includes replacing the outmoded database and website as priorities for 2017. The Board continues their strong support for reducing the backlog of pending legal actions. Substantial progress was made during 2016; however, activities are anticipated to carry over into 2017. This initiative has shown to consist of additional expenses to multiple budget line items and is projected to continue through at least the first quarter of 2017. The NCGA long session begins during the first quarter of 2017 which will require close monitoring and quick interaction toward fostering draft legislation as may be appropriate.

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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015, 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 1-5, 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
March 6, 2017

NORTH CAROLINA BOARD OF FUNERAL SERVICE**Statement of Net Position****December 31, 2016**

	2016		
	Enterprise Fund	Preneed Recovery Fund	Total
ASSETS:			
Current assets:			
Cash	\$ 1,226,107	\$ -	\$ 1,226,107
Cash held by state treasurer	47,422	378,396	425,818
Due from Enterprise Fund	-	6,104	6,104
Cremation fees receivable	37,740	-	37,740
Prepaid expenses	3,183	-	3,183
Total current assets	<u>1,314,452</u>	<u>384,500</u>	<u>1,698,952</u>
Capital assets - net of depreciation:			
Building and improvements	688,282	-	688,282
Furniture, equipment, and software	72,765	-	72,765
Total capital assets - net of depreciation	<u>761,047</u>	<u>-</u>	<u>761,047</u>
Total assets	<u>2,075,499</u>	<u>384,500</u>	<u>2,459,999</u>
LIABILITIES:			
Current liabilities:			
Due to Preneed Recovery Fund	6,104	-	6,104
Accounts payable	16,324	-	16,324
Unearned revenue	344,960	-	344,960
Reserve for losses on preneed contracts	-	139,200	139,200
Accrued vacation	6,200	-	6,200
Total current liabilities	<u>373,588</u>	<u>139,200</u>	<u>512,788</u>
Noncurrent liabilities:			
Reserve for losses on preneed contracts	-	90,800	90,800
Accrued vacation	32,500	-	32,500
Total noncurrent liabilities	<u>32,500</u>	<u>90,800</u>	<u>123,300</u>
Total liabilities	<u>406,088</u>	<u>230,000</u>	<u>636,088</u>
NET POSITION:			
Investment in capital assets	761,047	-	761,047
Unrestricted	908,364	-	908,364
Restricted	-	154,500	154,500
Total net position	<u>\$ 1,669,411</u>	<u>\$ 154,500</u>	<u>\$ 1,823,911</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statement of Net Position
December 31, 2015

	2015		
	Enterprise Fund	Preneed Recovery Fund	Total
ASSETS:			
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 and improvements	711,015	-	711,015
Furniture, equipment, and software	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>
LIABILITIES:			
Current liabilities:			
Due to Preneed Recovery Fund	2,684	-	2,684
Accounts payable	6,997	-	6,997
Unearned revenue	217,050	-	217,050
Reserve for losses on preneed contracts	-	57,400	57,400
Accrued vacation	10,500	-	10,500
Total current liabilities	<u>237,231</u>	<u>57,400</u>	<u>294,631</u>
Noncurrent liabilities:			
Reserve for losses on preneed 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>
NET POSITION:			
Investment in capital assets	720,362	-	720,362
Unrestricted	1,017,356	-	1,017,356
Restricted	-	183,828	183,828
Total net position	<u>\$ 1,737,718</u>	<u>\$ 183,828</u>	<u>\$ 1,921,546</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2016

	2016		
	Enterprise Fund	Preneed Recovery Fund	Total
Operating revenues:			
Preneed contract fees	\$ 365,976	\$ 40,186	\$ 406,162
License fees	574,670	-	574,670
Cremation fees	417,360	-	417,360
Burial Association income	16,227	-	16,227
Late fees	28,980	-	28,980
Examinations	22,600	-	22,600
Traineeship	12,645	-	12,645
Board continuing education fees	1,650	-	1,650
Compromise penalties collected	37,250	-	37,250
Other income	17,282	-	17,282
Total operating revenues	<u>1,494,640</u>	<u>40,186</u>	<u>1,534,826</u>
Operating expenses:			
Salaries, payroll taxes and benefits	942,699	-	942,699
Professional fees	85,847	-	85,847
Occupancy and utilities	49,249	-	49,249
Travel	81,072	-	81,072
Board expenses	36,051	-	36,051
Conferences	6,901	-	6,901
Printing and postage	49,594	-	49,594
Contracted services	47,957	-	47,957
Temporary services fees	14,740	-	14,740
Office supplies and expense	23,009	-	23,009
Miscellaneous	28,279	-	28,279
Compromise penalties remitted	37,250	-	37,250
Equipment, lease and maintenance	59,905	-	59,905
Depreciation	31,823	-	31,823
Examination expense	14,996	-	14,996
SBI fingerprinting	6,346	-	6,346
Insurance and bonding	8,783	-	8,783
Hearing expense	38,969	-	38,969
Claims paid, net of reimbursements	-	125,661	125,661
Decrease in reserve for losses on preneed contracts	-	(52,400)	(52,400)
Total operating expenses	<u>1,563,470</u>	<u>73,261</u>	<u>1,636,731</u>
Operating loss	(68,830)	(33,075)	(101,905)
Nonoperating revenues:			
Interest income	523	3,747	4,270
Changes in net position	(68,307)	(29,328)	(97,635)
Net position - beginning of year	<u>1,737,718</u>	<u>183,828</u>	<u>1,921,546</u>
Net position - end of year	<u>\$ 1,669,411</u>	<u>\$ 154,500</u>	<u>\$ 1,823,911</u>

See Notes to Financial Statements

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2015

	2015		
	Enterprise Fund	Preneed Recovery Fund	Total
Operating revenues:			
Preneed 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 collected	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
Temporary services fees	-	-	-
Office supplies and expense	20,569	-	20,569
Miscellaneous	18,323	-	18,323
Compromise penalties remitted	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
Decrease in reserve for losses on preneed contracts	-	(77,200)	(77,200)
Total operating expenses	<u>1,268,573</u>	<u>(21,059)</u>	<u>1,247,514</u>
Operating income	190,439	59,823	250,262
Nonoperating revenues:			
Interest income	637	2,787	3,424
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

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statement of Cash Flows
Year Ended December 31, 2016

	2016		
	Enterprise Fund	Preneed Recovery Fund	Total
Cash flows from operating activities:			
Cash received from fees	\$ 1,620,180	\$ 36,766	\$ 1,656,946
Cash payments to employees for services	(932,399)	-	(932,399)
Cash payments to suppliers of goods and services	(407,620)	-	(407,620)
Cash payments for other operating expenses	(161,274)	(125,661)	(286,935)
Net cash provided by (used in) operating activities	<u>118,887</u>	<u>(88,895)</u>	<u>29,992</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(72,508)	-	(72,508)
Net cash used in capital and related financing activities	<u>(72,508)</u>	<u>-</u>	<u>(72,508)</u>
Cash flows from investing activities:			
Interest on investments	523	3,747	4,270
Net cash provided by investing activities	<u>523</u>	<u>3,747</u>	<u>4,270</u>
Net increase (decrease) in cash	46,902	(85,148)	(38,246)
Cash - beginning of year	<u>1,226,627</u>	<u>463,544</u>	<u>1,690,171</u>
Cash - end of year	<u>\$ 1,273,529</u>	<u>\$ 378,396</u>	<u>\$ 1,651,925</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	<u>\$ (68,830)</u>	<u>\$ (33,075)</u>	<u>\$ (101,905)</u>
Adjustment to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	31,823	-	31,823
Changes in assets and liabilities:			
Due to/from funds	3,420	(3,420)	-
Cremation fees receivable	(2,370)	-	(2,370)
Prepaid expenses	7,307	-	7,307
Accounts payable	9,327	-	9,327
Unearned revenue	127,910	-	127,910
Reserve for losses on preneed contracts	-	(52,400)	(52,400)
Accrued vacation	10,300	-	10,300
Total adjustments	<u>187,717</u>	<u>(55,820)</u>	<u>131,897</u>
Net cash provided by (used in) operating activities	<u>\$ 118,887</u>	<u>\$ (88,895)</u>	<u>\$ 29,992</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statement of Cash Flows
Year Ended December 31, 2015

	2015		
	Enterprise Fund	Preneed Recovery Fund	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)
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 to net cash provided by (used in) operating activities:			
Operating income	\$ 190,439	\$ 59,823	\$ 250,262
Adjustment to reconcile operating income 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 preneed 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>

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

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 preneed 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

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.

As mandated by Article 13D, Section 90-210.66 of the North Carolina General Statutes, there was established the Preneed 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 preneed funeral contracts who have suffered financial loss as a result of malfeasance, default, failure or insolvency of any licensee under this Article.

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

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

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 a financial institution and the State Treasurer.

Accounts Receivable

The Board records receivables for cremation fees which are earned in December and received the following January. 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	7 - 39 years
Furniture, equipment and software	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.

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.

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

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

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 investment in capital assets, net of accumulated depreciation.

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.

Restricted – This represents funds that can only be used to reimburse purchasers of preneed 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.

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 \$939,554 and an uninsured Paypal account with a balance of \$52,969 at December 31, 2016.

The Board also has cash held by the State Treasurer totaling \$434,535 at December 31, 2016. 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.

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 3 - CAPITAL ASSETS

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

	<u>Cost</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Cost</u> <u>12/31/2016</u>	<u>Accum.</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Capital Assets:						
Building	\$ 1,018,230	\$ 3,709	\$ -	\$ 1,021,939	\$ 333,657	\$ 688,282
Furniture, equipment, software	<u>170,262</u>	<u>68,799</u>	<u>36,829</u>	<u>202,232</u>	<u>129,467</u>	<u>72,765</u>
	<u>\$ 1,188,492</u>	<u>\$ 72,508</u>	<u>\$ 36,829</u>	<u>\$ 1,224,171</u>	<u>\$ 463,124</u>	<u>\$ 761,047</u>
	<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>

NOTE 4 - CHANGES IN LONG-TERM LIABILITIES

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

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 28,400	\$ 38,700
Increases	20,710	26,242
Decreases	<u>10,410</u>	<u>36,542</u>
Ending balance	<u>\$ 38,700</u>	<u>\$ 28,400</u>
Current portion of balance	<u>\$ 6,200</u>	<u>\$ 10,500</u>

NOTE 5 - OPERATING LEASES

The Board leases office equipment under operating leases. The lease expense for the years ended December 31, 2016 and 2015, totaled approximately \$6,200 and \$6,800, respectively.

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

2017	\$ 5,459
2018	3,988
2019	3,988
2020	<u>997</u>
	<u>\$ 14,432</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 6 - 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, 2006. Participating employees may contribute up to the maximum allowable by law. Additionally, the Board makes a contribution of 3% plus a match of up to 3% of each participant's salary. The Board's contributions for the years ended December 31, 2016 and 2015, totaled \$36,213 and \$37,096, respectively. Contributions are immediately 100% vested. Employee retirement contributions totaled \$26,720 and \$41,270, for the years ended December 31, 2016 and 2015, respectively.

NOTE 7 - 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.

NOTE 8 - LOSS CONTINGENCY - PRENEED RECOVERY FUND

The Board believes it is probable that losses related to the Preneed Recovery Fund were incurred and not yet paid as of December 31, 2016. A reserve has been established for \$230,000 and \$282,400 at December 31, 2016 and 2015, respectively, to provide for management's estimate of such losses based on claims paid subsequent to year end, current pending claims and potential future claims based on relevant information related to specific preneed establishments that have resulted in claims. Subsequent to year end, the Board was reimbursed approximately \$18,500 from the bonding company of a preneed establishment.

Following is a reconciliation of the changes in the reserve for losses on preneed contracts for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Reserve for losses, beginning of year	\$ 282,400	\$ 359,600
Claims incurred and unpaid	139,235	138,329
Claim payments	(125,661)	(56,141)
Change in general reserve for probable future claims	<u>(65,974)</u>	<u>(159,388)</u>
Reserve for losses, end of year	<u>\$ 230,000</u>	<u>\$ 282,400</u>

NOTE 9 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through March 6, 2017, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed other than the reimbursement discussed in Note 8.

The audit was conducted in approximately 90 hours at a cost of \$10,050.