

**STATE BOARD OF REFRIGERATION EXAMINERS**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 and 2016**

STATE BOARD OF REFRIGERATION EXAMINERS

Raleigh, North Carolina

FINANCIAL AUDIT REPORT

December 31, 2017

BOARD MEMBERS

E. M. Blanchard, Chairman

W. D. Frye, Secretary  
B. R. Cook, Treasurer  
G. G. Ramsay

C. L. Smith  
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 Roy A. Cooper III  
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, 2017 and 2016, 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. 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, 2017 and 2016, 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.

### ***Emphasis-of-Matter Regarding Going Concern***

The accompanying financial statements have been prepared assuming that the Board will continue as a going concern. As discussed in Note 10 to the financial statements, the Board has suffered recurring significant losses for the past few years that has raised substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### ***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 10, 2018 and May 30, 2017 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

April 10, 2018  
Raleigh, North Carolina

*Madden + Carson, LLP*

STATE BOARD OF REFRIGERATION EXAMINERS  
STATEMENTS OF NET ASSETS  
ENTERPRISE FUND

	December 31	
	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 57,992	\$ 55,795
Securities, available-for-sale	66,197	102,307
Prepaid expenses	-	875
Total current assets	124,189	158,977
Capital assets:		
Furniture and equipment	18,153	18,995
Less accumulated depreciation	(17,861)	(18,557)
Total noncurrent assets	292	438
<b>TOTAL ASSETS</b>	<b>\$ 124,481</b>	<b>\$ 159,415</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 11,421	\$ 12,694
Payroll liabilities	-	2,944
Deferred revenues	65,460	64,760
Accrued vacation	10,547	10,820
Total current liabilities	\$ 87,428	\$ 91,218
<b>NET ASSETS</b>		
Investment in capital assets	\$ 292	\$ 438
Unrestricted:		
Board designated:		
Directors' liability reserve	-	-
Litigation reserve	-	-
Scholarship fund	-	58,225
	292	58,663
Undesignated	36,761	9,534
<b>TOTAL NET ASSETS</b>	<b>\$ 37,053</b>	<b>\$ 68,197</b>

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 2017	2016
Operating revenues		
Charges for services:		
License renewal fees	\$ 67,560	\$ 68,520
License reinstatement fees	10,425	9,375
New license and exam fees	2,605	3,185
Miscellaneous income	36	431
Seminar income	-	11,775
CFC certification income	43,415	37,410
CFC manual income	2,200	2,249
Total operating revenues	126,241	132,945
Operating expenses		
Salaries and contract labor	100,229	110,831
Payroll taxes	7,226	8,254
Pension plan	9,446	10,780
Hospital and medical benefits	2,111	2,981
Per diem, board members	1,100	2,700
Travel, board members and staff	2,924	3,549
Office supplies and expenses	2,022	5,060
CFC supplies	325	547
Office rent	10,125	15,625
Utilities	2,946	4,647
Postage and box rent	4,034	6,652
Insurance	1,510	1,709
Audit, legal fees, and investigative	9,175	16,225
Dues	-	112
Depreciation	146	263
Board meeting expense	5,761	11,457
Equipment rental/maintenance	9,432	10,393
Seminar expense	-	13,232
Scholarships	-	1,500
Newsletter	865	1,603
Credit card and bank fees	1,787	1,906
Miscellaneous	172	758
Total operating expenses	171,336	230,784
Operating loss	(45,095)	(97,839)

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	
	2017	2016
Nonoperating revenues		
Interest and dividends	\$ 4,038	\$ 4,377
Loss on asset disposal	-	(117)
Unrealized loss on securities	(2,991)	(11,910)
Realized gain on securities	12,904	17,357
Total nonoperating revenues	13,951	9,707
Change in net assets	(31,144)	(88,132)
Net assets - beginning of year	68,197	156,329
Net assets - end of year	\$ 37,053	\$ 68,197

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 2017	2016
Cash flows from operating activities:		
Cash received from licenses and applicants	81,195	77,090
Cash received from others	45,746	52,440
Cash paid to employees and professionals	(103,446)	(112,069)
Cash paid to suppliers	<u>(71,312)</u>	<u>(116,548)</u>
Net cash used by operating activities	(47,817)	(99,087)
Cash flows from investing activities:		
Purchase of securities, available-for-sale	(4,024)	(4,372)
Sale of securities, available-for-sale	50,000	70,000
Receipt of interest and dividend income	<u>4,038</u>	<u>4,377</u>
Net cash provided by investing activities	50,014	70,005
Net increase (decrease) in cash and cash equivalents	2,197	(29,082)
Cash and cash equivalents - beginning of year	<u>55,795</u>	<u>84,877</u>
Cash and cash equivalents - end of year	<u>\$ 57,992</u>	<u>\$ 55,795</u>
Reconciliation of operating income to net cash flows from operating activities		
Operating loss	\$ (45,095)	\$ (97,839)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	146	263
Changes in assets and liabilities		
Decrease in prepaid expenses	875	401
Increase (decrease) in accounts payable	(1,273)	4,174
Decrease in payroll liabilities	(2,944)	(1,469)
Increase (decrease) in accrued vacation	(273)	298
Increase (decrease) in deferred revenues	<u>700</u>	<u>(4,915)</u>
Net cash used by operating activities	<u>\$ (47,864)</u>	<u>\$ (99,087)</u>

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

STATE BOARD OF REFRIGERATION EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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, 2017 and 2016

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 \$300 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 \$57,992 at December 31, 2017.

STATE BOARD OF REFRIGERATION EXAMINERS  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017 and 2016

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, 2017, the Board had no deposits in excess of the FDIC insured limits.

Note 3 – Operating Leases

The Board leases office space under a lease that expired May 31, 2017 which continued on a month-to-month basis. 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, 2018	\$ -	\$ 4,710	\$ 4,710
Year ended December 31, 2019	-	1,680	1,680
Year ended December 31, 2020	-	420	420
	<u>\$ -</u>	<u>\$ 6,810</u>	<u>\$ 6,810</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's. The employees' rights to the contributions are 100% vested. Pension expense was \$9,446 and \$10,780 for the years ended December 31, 2017 and 2016, 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>2017</u>	<u>2016</u>
CFC certification revenue	\$ 45,615	\$ 39,659
CFC expenses:		
Supplies	325	547
Postage	500	500
Telephone	500	500
Total expenses	<u>1,325</u>	<u>1,547</u>
Net CFC income	<u>\$ 44,290</u>	<u>\$ 38,112</u>

STATE BOARD OF REFRIGERATION EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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 2017 and 2016 the Board experienced a net loss from operations excluding CFC income and expense; thus, there is no amount due the State Treasurer.

	<u>2017</u>	<u>2016</u>
Deficit of revenues over expenditures	\$ ( 31,144)	\$( 88,132)
Less - investment income		
Interest and dividend income	( 4,038)	( 4,377)
Unrealized loss on marketable securities	2,992	11,910
Realized gain on marketable securities	<u>( 12,903)</u>	<u>( 17,357)</u>
Income before adjustment for CFC income	( 45,093)	( 97,956)
Less - CFC income	( 45,615)	( 39,659)
Plus - CFC expense	1,325	1,547
Loss from normal operations	<u><u>\$( 89,383)</u></u>	<u><u>\$(136,068)</u></u>

Note 7 – Capital Assets

Changes in capital assets for the years ended December 31, 2017 and 2016 were as follows:

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2017</u>
Furniture and equipment	\$18,995	\$ -	\$ 842	\$18,153
	<u>January 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2016</u>
Furniture and equipment	\$20,059	\$ -	\$ 1,064	\$18,995

Note 8 - Investments

Investment income consists of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 4,038	\$ 4,377
Unrealized loss on securities	( 2,992)	( 11,910)
Realized gain on securities	<u>12,903</u>	<u>17,357</u>
Total investment income	<u><u>\$ 13,949</u></u>	<u><u>\$ 9,824</u></u>

STATE BOARD OF REFRIGERATION EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

Note 8 – Investments (continued)

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

December 31, 2017

	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>	<u>Market</u>
American Balanced Fund, Inc.	\$ 11,872	\$ 1,897	\$ 13,769
Bond Fund of America, Inc.	6,676	( 97)	6,579
Europacific Growth Fund	5,446	2,565	8,011
Growth Fund of America, Inc.	9,801	1,769	11,570
Income Fund of America, Inc.	12,551	2,285	14,836
Investment Co. of America	<u>10,029</u>	<u>1,403</u>	<u>11,432</u>
	<u>\$ 56,375</u>	<u>\$ 9,822</u>	<u>\$ 66,197</u>

December 31, 2016

	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>	<u>Market</u>
American Balanced Fund, Inc.	\$ 17,509	\$ 4,209	\$ 21,718
Bond Fund of America, Inc.	12,017	( 453)	11,564
Europacific Growth Fund	8,551	2,599	11,150
Growth Fund of America, Inc.	14,391	2,392	16,783
Income Fund of America, Inc.	20,387	3,381	23,768
Investment Co. of America	<u>16,639</u>	<u>685</u>	<u>17,324</u>
	<u>\$ 89,494</u>	<u>\$ 12,813</u>	<u>\$ 102,307</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, 2017 and 2016

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 \$58,225 at December 31, 2016 consists of monies reserved for a scholarship fund in refrigeration study, Scholarships funds were awarded individually in the amount of \$1,500 in 2016. The fund balance for the scholarship fund was transferred to unrestricted net assets during 2017.

Note 10 – Going Concern

Management identified conditions as of December 31, 2017 that raised substantial doubt about the Board's ability to continue as a going concern. The Board has been incurring significant losses for the last several years as a result of operating income not being sufficient to support the increasing costs of operational activities. Management subsequently evaluated that these conditions were significant and would impede the Board's ability to meet its future obligations within the coming year. As a result of this identification and evaluation of the going concern problem, Management enacted the following plans to alleviate the concern. Management's request to increase the price of renewal licenses from \$40 to \$80 and reinstatement licenses from \$75 to \$160 effective January 1, 2018 was enacted with the passage of Senate Bill 131 which was passed by the General Assembly of North Carolina on May 4, 2017. In addition, two new license classes were created for persons engaged in the business of industrial refrigeration contracting and refrigeration service contracting. Management has also made changes during 2018 to reduce expenses and has created a proforma budget for calendar year 2018 to mitigate the going concern issue.

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

State Board of Refrigeration Examiners  
Garner, North Carolina

We have audited in accordance with the 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, the financial statements of the State Board of Refrigeration Examiners (the Board) as of and for the years ended December 31, 2017 and 2016 and the related notes to the financial statements and have issued our report thereon dated April 10, 2018 and May 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing opinions on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operating of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all the deficiencies in internal control that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and other matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 10, 2018  
Raleigh, North Carolina

Maddison + Caison, LLP