

NORTH CAROLINA BOARD OF FUNERAL SERVICE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012



NORTH CAROLINA BOARD OF FUNERAL SERVICE

Table of Contents

	<u>Page</u>
Management's Discussion and Analysis	1
Independent Auditor's Report	5
<i>Financial Statements</i>	
Statements of Net Position.....	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2013

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, 2013. 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 2013 the Board collected and forwarded \$22,500 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 \$34,783 or 2.9%, primarily due to increases in receipts for cremation fees which reflect the ongoing trend in funeral service nationally. In addition, the Board experienced greater-than-anticipated examination fee revenues, as well as license fees which were slightly (2%) above budget.

The operating expenses of the Board (Enterprise Fund) increased by \$28,927 or 2.7%. This increase is primarily due to an increase in salary expense as a result of a three month vacancy in the Executive Director position in the prior year and a part time employee going to a full time position in the current year; and an increase in equipment lease and maintenance due to increased computer support services in connection with the pre-need annual report. These increases were offset by decreases in expenses associated with staff travel, printing costs and contracted services.

Net non-operating expenses of the Board decreased by \$2,210 or 24.4% in fiscal year 2013.

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2013

The Pre-need Recovery Fund or "Expendable Trust" experienced a net operating loss of \$6,159 which is \$33,018 less than in 2012. 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 \$40,277 for the fiscal year 2013. A total of \$48,356 in claims was approved and paid in the fiscal year 2013 because of misappropriation of pre-need funds by licensees. It is management's position that probable claims to the Recovery Fund amounted to approximately \$105,800 as of December 31, 2013. These claims resulted primarily from misappropriation by an individual whose license was revoked by the Board in an action a few years ago. This action also included revocation of the license issued to the establishment owned by the individual. While the information and documents for these claims were received by the Board staff over the course of fiscal years 2011, 2012, and 2013, 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 1/4 of one percent for Recovery Fund claims filed and approved in 2013.

Overview of Financial Statements

This discussion and analysis is an introduction to the Board's basic financial statements which are comprised of two components: 1) financial statements, and 2) notes to financial statements. This report also contains required supplementary information in addition to the basic financial statements.

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 (page 7), 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 (page 8) present the revenues collected and earned and expenses paid and incurred during the fiscal year.

The Statements of Cash Flows (page 9) present cash from operating activities, capital and related financing activities and, investing activities, and is presented using the direct method.

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2013

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:

	<u>2013</u>	<u>2012</u>
Assets:		
Current assets	\$ 948,646	\$ 793,335
Net capital assets	<u>789,460</u>	<u>822,911</u>
Total assets	<u>1,738,106</u>	<u>1,616,246</u>
Liabilities:		
Current liabilities	237,553	210,706
Long term liabilities	<u>108,792</u>	<u>152,002</u>
Total liabilities	<u>346,345</u>	<u>362,708</u>
Net Position:		
Net investment in capital assets	666,319	652,796
Unrestricted	<u>725,442</u>	<u>600,742</u>
Total net position	<u>\$ 1,391,761</u>	<u>\$ 1,253,538</u>
 Operating revenues	 \$ 1,249,472	 \$ 1,214,689
Operating expenses	<u>1,104,413</u>	<u>1,075,486</u>
Operating income	145,059	139,203
 Non-operating expenses	 <u>6,836</u>	 <u>9,046</u>
 Changes in net position	 138,223	 130,157
Net Position - beginning of year	<u>1,253,538</u>	<u>1,123,381</u>
Net Position - end of year	<u>\$ 1,391,761</u>	<u>\$ 1,253,538</u>

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

	<u>2013</u>	<u>2012</u>
Current and total assets	\$ 448,466	\$ 454,625
Current and total liabilities	<u>105,800</u>	<u>105,800</u>
Total net position	<u>\$ 342,666</u>	<u>\$ 348,825</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2013

Events Affecting Future Operations

In May 2011, the Board approved a recommendation by the Finance & Personnel Committee regarding the mortgage note with First Citizens Bank which was due to expire in July 2011. First Citizens Bank converted the note to a fixed rate of 4.85% for 5 years for a modest flat fee. Mortgage payments will continue at the same level allocating the additional funds to the principal balance. The Board is considering the addition of a fourth inspector position, and is reviewing possible financial and personnel considerations involved in order to do so. In addition, additional technology improvements are being discussed, including the institution of online license renewal processes in the near future, funding of which would be provided from operating reserves.

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 statement of net position as of December 31, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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 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 audit. We conducted our audit 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 from 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 North Carolina Board of Funeral Service as of December 31, 2013, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 6 to the financial statements, the Board changed its method of reporting cremation fees, which resulted in a restatement of prior year amounts. In our opinion, such adjustments are appropriate and have been properly applied.

Prior Period Financial Statements

The financial statements of the North Carolina Board of Funeral Service as of December 31, 2012, were audited by other auditors whose report dated May 23, 2013, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 1-4, 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 10, 2014

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statements of Net Position
As of December 31, 2013 and 2012

	2013		
	Enterprise Fund	Expendable Trust	Total
ASSETS			
Current assets:			
Cash	\$ 796,531	\$ -	\$ 796,531
Cash held by state treasurer	109,378	431,020	540,398
Due from enterprise fund	-	17,446	17,446
Cremation fees receivable	32,180	-	32,180
Prepaid expenses	10,557	-	10,557
Total current assets	<u>948,646</u>	<u>448,466</u>	<u>1,397,112</u>
Capital assets, net of depreciation:			
Building	763,103	-	763,103
Furniture and equipment	26,357	-	26,357
Total capital assets, net of depreciation	<u>789,460</u>	<u>-</u>	<u>789,460</u>
TOTAL ASSETS	<u>1,738,106</u>	<u>448,466</u>	<u>2,186,572</u>
LIABILITIES			
Current liabilities:			
Due to expendable trust fund	17,446	-	17,446
Accounts payable	18,038	105,800	123,838
Unearned revenue	152,620	-	152,620
Current portion of note payable	49,449	-	49,449
Total current liabilities	<u>237,553</u>	<u>105,800</u>	<u>343,353</u>
Long-term liabilities			
Note payable	73,692	-	73,692
Accrued vacation	35,100	-	35,100
Total long-term liabilities	<u>108,792</u>	<u>-</u>	<u>108,792</u>
TOTAL LIABILITIES	<u>346,345</u>	<u>105,800</u>	<u>452,145</u>
NET POSITION			
Net investment in capital assets	666,319	-	666,319
Unrestricted	725,442	-	725,442
Reserved - expendable trust	-	342,666	342,666
TOTAL NET POSITION	<u>\$ 1,391,761</u>	<u>\$ 342,666</u>	<u>\$ 1,734,427</u>

2012		
Enterprise Fund	Expendable Trust	Total
\$ 650,698	\$ -	\$ 650,698
108,899	452,307	561,206
-	2,318	2,318
22,680	-	22,680
11,058	-	11,058
<u>793,335</u>	<u>454,625</u>	<u>1,247,960</u>
789,148	-	789,148
33,763	-	33,763
<u>822,911</u>	<u>-</u>	<u>822,911</u>
<u>1,616,246</u>	<u>454,625</u>	<u>2,070,871</u>
2,318	-	2,318
5,055	105,800	110,855
156,220	-	156,220
47,113	-	47,113
<u>210,706</u>	<u>105,800</u>	<u>316,506</u>
123,002	-	123,002
29,000	-	29,000
<u>152,002</u>	<u>-</u>	<u>152,002</u>
<u>362,708</u>	<u>105,800</u>	<u>468,508</u>
652,796	-	652,796
600,742	-	600,742
-	348,825	348,825
<u>\$ 1,253,538</u>	<u>\$ 348,825</u>	<u>\$ 1,602,363</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statements of Revenues, Expenses and Changes in Net Position
Years Ending December 31, 2013 and 2012

	2013		
	Enterprise Fund	Expendable Trust	Total
OPERATING REVENUES			
Pre-need contract fees	\$ 361,818	\$ 40,227	\$ 402,045
License fees	435,740	-	435,740
Cremation fees	333,650	-	333,650
Burial association income	21,982	-	21,982
Late fees	23,645	-	23,645
Examinations	20,900	-	20,900
Traineeship	12,318	-	12,318
Board continuing education fees	1,625	-	1,625
Compromise penalties	23,500	-	23,500
Other income	14,294	-	14,294
TOTAL OPERATING REVENUES	1,249,472	40,227	1,289,699
OPERATING EXPENSES			
Salaries and benefits	719,349	-	719,349
Professional fees	17,016	-	17,016
Occupancy and utilities	38,370	-	38,370
Travel	48,744	-	48,744
Board expenses	40,364	-	40,364
Conferences	8,315	-	8,315
Printing and postage	26,540	-	26,540
Contracted services	25,624	-	25,624
Office supplies and expense	16,298	-	16,298
Miscellaneous	11,389	-	11,389
Claims paid and penalties	-	48,356	48,356
Compromise penalties	22,500	-	22,500
Equipment lease and maintenance	51,130	-	51,130
Depreciation	39,284	-	39,284
Examination expense	10,815	-	10,815
SBI fingerprinting	6,232	-	6,232
Insurance and bonding	7,327	-	7,327
Hearing expense	15,116	-	15,116
TOTAL OPERATING EXPENSES	1,104,413	48,356	1,152,769
OPERATING INCOME (LOSS)	145,059	(8,129)	136,930
NON-OPERATING REVENUES (EXPENSES)			
Interest expense	(7,314)	-	(7,314)
Interest income	478	1,970	2,448
TOTAL NON-OPERATING REVENUE (EXPENSE)	(6,836)	1,970	(4,866)
CHANGE IN NET POSITION	138,223	(6,159)	132,064
NET POSITION - BEGINNING, AS PREVIOUSLY STATED	1,253,538	348,825	1,602,363
RESTATEMENT	-	-	-
NET POSITION - BEGINNING, AS RESTATED	1,253,538	348,825	1,602,363
NET POSITION - END OF YEAR	\$ 1,391,761	\$ 342,666	\$ 1,734,427

See Notes to Financial Statements

2012		
Enterprise Fund	Expendable Trust	Total
\$ 355,038	\$ 39,625	\$ 394,663
434,550	-	434,550
301,065	-	301,065
23,055	-	23,055
23,290	-	23,290
24,350	-	24,350
12,554	-	12,554
625	-	625
27,000	-	27,000
13,162	-	13,162
<u>1,214,689</u>	<u>39,625</u>	<u>1,254,314</u>
640,758	-	640,758
14,478	-	14,478
41,446	-	41,446
57,661	-	57,661
39,659	-	39,659
6,325	-	6,325
50,821	-	50,821
59,266	-	59,266
14,134	-	14,134
13,517	-	13,517
-	81,268	81,268
27,000	-	27,000
36,312	-	36,312
34,473	-	34,473
13,465	-	13,465
7,144	-	7,144
4,678	-	4,678
14,349	-	14,349
<u>1,075,486</u>	<u>81,268</u>	<u>1,156,754</u>
<u>139,203</u>	<u>(41,643)</u>	<u>97,560</u>
(9,591)	-	(9,591)
545	2,466	3,011
<u>(9,046)</u>	<u>2,466</u>	<u>(6,580)</u>
<u>130,157</u>	<u>(39,177)</u>	<u>90,980</u>
1,096,806	388,002	1,484,808
26,575	-	26,575
<u>1,123,381</u>	<u>388,002</u>	<u>1,511,383</u>
<u>\$ 1,253,538</u>	<u>\$ 348,825</u>	<u>\$ 1,602,363</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statements of Cash Flows
Years Ending December 31, 2013 and 2012

	2013		
	Enterprise Fund	Expendable Trust	Total
Cash flows from operating activities:			
Cash received from fees	\$ 1,236,372	\$ 25,099	\$1,261,471
Cash payments to employees for services	(713,249)	-	(713,249)
Cash payments for operating expenses	(317,168)	(48,356)	(365,524)
Net cash provided by (used in) operating activities	<u>205,955</u>	<u>(23,257)</u>	<u>182,698</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(5,833)	-	(5,833)
Principal payments on note	(46,974)	-	(46,974)
Interest payments on note	(7,314)	-	(7,314)
Net cash used in capital and related financing activities	<u>(60,121)</u>	<u>-</u>	<u>(60,121)</u>
Cash flows from investing activities:			
Interest on investments	478	1,970	2,448
Net cash provided by investing activities	<u>478</u>	<u>1,970</u>	<u>2,448</u>
Net increase (decrease) in cash	146,312	(21,287)	125,025
Cash - beginning of year	759,597	452,307	1,211,904
Cash - end of year	<u>\$ 905,909</u>	<u>\$ 431,020</u>	<u>\$1,336,929</u>
Reconciliation of operating income to net cash provided by (used in) operating activities			
Operating income	\$ 145,059	\$ (8,129)	\$ 136,930
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities:			
Depreciation	39,284	-	39,284
Changes in assets and liabilities:			
Due to/from funds	15,128	(15,128)	-
Cremation fees receivable	(9,500)	-	(9,500)
Prepaid expenses	501	-	501
Accounts payable	12,983	-	12,983
Unearned revenue	(3,600)	-	(3,600)
Accrued vacation	6,100	-	6,100
Total adjustments	<u>60,896</u>	<u>(15,128)</u>	<u>45,768</u>
Net cash provided by (used in) operating activities	<u>\$ 205,955</u>	<u>\$ (23,257)</u>	<u>\$ 182,698</u>

2012		
Enterprise Fund	Expendable Trust	Total
\$ 1,166,254	\$ 42,471	\$ 1,208,725
(641,258)	-	(641,258)
(412,557)	(135,468)	(548,025)
<u>112,439</u>	<u>(92,997)</u>	<u>19,442</u>
(42,469)	-	(42,469)
(44,696)	-	(44,696)
(9,591)	-	(9,591)
<u>(96,756)</u>	<u>-</u>	<u>(96,756)</u>
545	2,466	3,011
<u>545</u>	<u>2,466</u>	<u>3,011</u>
16,228	(90,531)	(74,303)
<u>743,369</u>	<u>542,838</u>	<u>1,286,207</u>
<u>\$ 759,597</u>	<u>\$ 452,307</u>	<u>\$ 1,211,904</u>
<u>\$ 139,203</u>	<u>\$ (41,643)</u>	<u>\$ 97,560</u>
34,473	-	34,473
(2,846)	2,846	-
3,895	-	3,895
(3,454)	-	(3,454)
(6,002)	(54,200)	(60,202)
(52,330)	-	(52,330)
(500)	-	(500)
<u>(26,764)</u>	<u>(51,354)</u>	<u>(78,118)</u>
<u>\$ 112,439</u>	<u>\$ (92,997)</u>	<u>\$ 19,442</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 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.

Basis of Presentation

The accompanying 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").

The operating activities of the Board are accounted for within a single proprietary (enterprise) fund. 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 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.

Reporting Entity

The Board is a component unit of the State of North Carolina. GASB codification Section 2100 has defined the governmental reporting entity to be the State of North Carolina because the State exercises oversight responsibility in that the Governor appoints the Board members. The accompanying financial statements present only the activity of the North Carolina Board of Funeral Service.

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. Revenues are recognized in the accounting period in which they are earned and expenses are recognized when incurred, regardless of the timing of the cash flows.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of contract, license and examination fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing types of activities and are classified as non-operating in the financial statements.

Cash

Cash consists of money on deposit with banks.

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 or fair market value at the date of the donation in the case of gifts. The Board capitalizes assets if their life is expected to be greater than one year and their cost is \$1,000 or greater. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	39
Furniture and equipment	3-7

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 – 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, constructions, or improvement of those assets.

Unrestricted – 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 reserved \$100,000 of the unrestricted net assets to cover potential litigation costs and \$50,000 to cover costs related to business continuity. The Board may change such reserved amounts based on perceived operating conditions and situations.

Reserved – expendable trust – Consists of 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.

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 \$568,358 at December 31, 2013.

The Board also has cash held by the State Treasurer. At December 31, 2013, the cash deposits held by the State Treasurer exceeded the FDIC limits by \$191,735.

NORTH CAROLINA BOARD OF FUNERAL SERVICE**Notes to Financial Statements**

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the Board for the year ended December 31, 2013 was as follows:

	Cost 1/1/2013	Additions	Disposals	Cost 12/31/2013	Accumulated Depreciation	Net Amount
Capital Assets						
Building	\$1,018,230	\$ -	\$ -	\$1,018,230	\$ 255,127	\$ 763,103
Furniture and equipment	176,616	5,833	410	182,039	155,682	26,357
Totals	<u>\$1,194,846</u>	<u>\$ 5,833</u>	<u>\$ 410</u>	<u>\$1,200,269</u>	<u>\$ 410,809</u>	<u>\$ 789,460</u>

Capital asset activity for the Board for the year ended December 31, 2012 was as follows:

	Cost 1/1/2012	Additions	Disposals	Cost 12/31/2012	Accumulated Depreciation	Net Amount
Capital Assets						
Building	\$ 996,667	\$ 21,563	\$ -	\$1,018,230	\$ 229,082	\$ 789,148
Furniture and equipment	166,483	24,781	14,648	176,616	142,853	33,763
Construction in progress	3,875	-	3,875	-	-	-
Totals	<u>\$1,167,025</u>	<u>\$ 46,344</u>	<u>\$ 18,523</u>	<u>\$1,194,846</u>	<u>\$ 371,935</u>	<u>\$ 822,911</u>

NOTE 4 - NOTE PAYABLE

The Board refinanced its mortgage on the building in May 2011 at a fixed rate of 4.85% with 60 monthly payments of \$4,524, expiring in May 2016. Interest expense for the years ending December 31, 2013 and 2012 was \$7,314 and \$9,591, respectively.

Principal and interest payments are due as follows for the years ending December 31:

	Principal	Interest	Total
2014	\$ 49,449	\$ 4,839	\$ 54,288
2015	51,902	2,386	54,288
2016	21,790	242	22,032
Total	<u>\$123,141</u>	<u>\$ 7,467</u>	<u>\$ 130,608</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 5 - CHANGES IN LONG-TERM LIABILITIES

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

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 170,115	\$ 214,811
Increases	-	-
Decreases	46,974	44,696
Ending balance	<u>\$ 123,141</u>	<u>\$ 170,115</u>
Current portion of balance	<u>\$ 49,449</u>	<u>\$ 47,113</u>

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

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 29,000	\$ 29,500
Increases	31,308	27,255
Decreases	25,208	27,755
Ending balance	<u>\$ 35,100</u>	<u>\$ 29,000</u>
Current portion of balance	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 – RESTATEMENT

As of December 31, 2013, management recorded accounts receivable for cremation fees earned in December 2013 and received in January 2014 amounting to \$32,180. In prior years, these fees were recognized when received as they were not material to the financial statements as a whole. This change resulted in a restatement to net assets as of December 31, 2012 and 2011 as follows:

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Cremation fees, 2012	\$ 304,960	\$ 301,065	\$ (3,895)
Cremation fees receivable, December 31, 2012	\$ -	\$ 22,680	\$ 22,680
Total net assets, December 31, 2012	\$ 1,579,683	\$ 1,602,363	\$ 22,680
Total net assets, December 31, 2011	\$ 1,484,808	\$ 1,511,383	\$ 26,575

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 7 - OPERATING LEASES

The Board leases office equipment under operating leases. The lease expenses for the years ended December 31, 2013 and 2012, totaled \$7,247 and \$9,489, respectively.

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

<u>Years Ending December 31:</u>	
2014	\$ 6,242
2015	<u>4,836</u>
	<u>\$ 11,078</u>

NOTE 8 - RETIREMENT PLANS

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, 2013 and 2012, totaled \$33,248 and \$29,791, respectively. Contributions are immediately 100% vested. Employee retirement contributions totaled \$45,481 and \$40,309, for the years ended December 31, 2013 and 2012, respectively.

NOTE 9 - 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 up to \$1,000,000 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 10 - LOSS CONTINGENCY

The Board believes it is probable that losses related to the Expendable Trust Fund were incurred prior to December 31, 2013. Estimated losses of \$105,800 have been accrued in that fund at December 31, 2013 and 2012, to account for current claims in process.

NOTE 11 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through March 10, 2014, which is the date the financial statements were available to be issued, and has discovered no events which should be disclosed.

The audit was conducted in approximately 55 hours at a cost of \$6,700.