

NORTH CAROLINA BOARD OF FUNERAL SERVICE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013



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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, 2014

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, 2014. 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 2014, the Board collected and forwarded \$17,000 in civil (compromise) penalties. All funds assessed and collected by the Board for civil (compromise) penalties are forwarded to the respective counties. In annual budget preparations these penalties are not considered as revenues or as expenses. It is management's position for the purposes of this discussion and analysis the most accurate illustration of the operating revenues and expenses excludes the penalties.

The operating revenues of the Board (Enterprise Fund) increased by \$3,424 or .3%, primarily due to increases in receipts for cremation fees which reflect the ongoing trend in funeral service nationally, which were partially offset by a decrease in pre-need contract fees.

The operating expenses of the Board (Enterprise Fund) decreased by \$10,077 or .9%, primarily due to a decrease in salaries as a result of several vacancies during the year due to staff turnover. This decrease was offset by increases in expenses associated with legal fees and equipment costs.

Net non-operating expenses of the Board decreased by \$3,157 or 46% in fiscal year 2014 due primarily to the early payoff of the mortgage.

The Pre-need Recovery Fund or "Expendable Trust" experienced a net operating loss of \$221,448 in 2014 compared to a loss of \$6,159 in 2013. 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 \$36,106 for the fiscal year 2014. A total of \$5,762 in claims was approved and paid in the fiscal year 2014 because of misappropriation of pre-need funds by licensees. It is management's position that probable claims to the Recovery Fund amounted to approximately \$359,600 as of December 31, 2014 based on an analysis of current pending and potential claims. While the information and documents for these claims were received by the Board staff over the course of fiscal years 2012, 2013, and 2014, 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 .219422% for Recovery Fund claims filed and approved in 2014.

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014

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 years' activity.

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

	2014	2013	2012
Assets:			
Current assets	\$ 1,085,809	\$ 948,646	\$ 793,335
Net capital assets	754,563	789,460	822,911
Total assets	1,840,372	1,738,106	1,616,246
Liabilities:			
Current liabilities	255,030	237,553	210,706
Long-term liabilities	38,700	108,792	152,002
Total liabilities	293,730	346,345	362,708
Net Position:			
Investment in capital assets	754,563	666,319	652,796
Unrestricted	792,079	725,442	600,742
Total net position	\$ 1,546,642	\$ 1,391,761	\$ 1,253,538
Operating revenues	\$ 1,252,896	\$ 1,249,472	\$ 1,214,689
Operating expenses	1,094,336	1,104,413	1,075,486
Operating income	158,560	145,059	139,203
Non-operating expenses	(3,679)	(6,836)	(9,046)
Changes in net position	154,881	138,223	130,157
Net position - beginning of year	1,391,761	1,253,538	1,123,381
Net position - end of year	\$ 1,546,642	\$ 1,391,761	\$ 1,253,538

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2014

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

	2014	2013	2012
Current and total assets	\$ 480,818	\$ 448,466	\$ 454,625
Current and total liabilities	359,600	105,800	105,800
Total net position	\$ 121,218	\$ 342,666	\$ 348,825

Events Affecting Future Operations

The Board's Pre-need Recovery Fund (Expendable Trust) is funded by contributions from each pre-need contract filed with the Board. Historically, \$2.00 from each contract filing fee is deposited with the Trust, with \$18.00 going to support pre-need staff operations (indirectly). At present, the analysis of possible claims against the fund presents a worst-case estimate of \$390,253. Would this become reality and made payable at once, it would create a current deficit in the Expendable Trust fund of approximately \$18,700. The likelihood of such a specific event is slim; however, there is cause for concern due to the uncertainty of what the actual claims could amount to. Of particular note: One ongoing investigation's worst-case estimate is almost 49% of the total (\$190,000). As discussed in the Financial Highlights sections, a reserve for losses on pre-need contracts of \$359,600 has been accrued in the Statement of Net Position which represents management's estimate of probable losses incurred as of year end. The Board now has four full-time inspectors on staff, which will allow pre-need audits to take place more frequently when new staff is up to speed. The Board will consider pursuing a change in legislation to increase the contribution to the Expendable Trust from pre-need contract fees up to a maximum of \$5.00 per contract. Such a change could generate up to \$58,700 additional per year (based on the 3-year average number of contracts filed). There would be no increase in the contract fee, so there would be no impact to consumers or licensees.

The Board will begin implementing a phased-in online license renewal process in 2015. The total cost of what is projected to be a two-year implementation is \$33,495. Current plans are for individual licenses to be ready for 2016 renewals, with facility and pre-need licenses to follow in 2017.

Contacting the Board's Management

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Board of Funeral Service (the "Board") which comprise the statements of net position as of December 31, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, nor the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 1-3, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
April 14, 2015

NORTH CAROLINA BOARD OF FUNERAL SERVICE**Statements of Net Position****December 31, 2014 and 2013**

	2014		
	Enterprise Fund	Expendable Trust	Total
ASSETS:			
Current assets:			
Cash	\$ 931,186	\$ -	\$ 931,186
Cash held by state treasurer	109,864	475,588	585,452
Due from enterprise fund	-	5,230	5,230
Cremation fees receivable	34,060	-	34,060
Prepaid expenses	10,699	-	10,699
Total current assets	<u>1,085,809</u>	<u>480,818</u>	<u>1,566,627</u>
Capital assets - net of depreciation:			
Building	737,059	-	737,059
Furniture and equipment	17,504	-	17,504
Total capital assets - net of depreciation	<u>754,563</u>	<u>-</u>	<u>754,563</u>
Total assets	<u>1,840,372</u>	<u>480,818</u>	<u>2,321,190</u>
LIABILITIES:			
Current liabilities:			
Due to Expendable Trust	5,230	-	5,230
Accounts payable	10,790	-	10,790
Unearned revenue	239,010	-	239,010
Reserve for losses on pre-need contracts	-	179,800	179,800
Current portion of note payable	-	-	-
Total current liabilities	<u>255,030</u>	<u>179,800</u>	<u>434,830</u>
Long-term liabilities:			
Note payable	-	-	-
Reserve for losses on pre-need contracts	-	179,800	179,800
Accrued vacation	38,700	-	38,700
Total noncurrent liabilities	<u>38,700</u>	<u>179,800</u>	<u>218,500</u>
Total liabilities	<u>293,730</u>	<u>359,600</u>	<u>653,330</u>
NET POSITION:			
Investment in capital assets	754,563	-	754,563
Unrestricted	792,079	-	792,079
Reserved - expendable trust	-	121,218	121,218
Total net position	<u>\$ 1,546,642</u>	<u>\$ 121,218</u>	<u>\$ 1,667,860</u>

2013		
Enterprise Fund	Expendable Trust	Total
\$ 796,531	\$ -	\$ 796,531
109,378	431,020	540,398
-	17,446	17,446
32,180	-	32,180
10,557	-	10,557
<u>948,646</u>	<u>448,466</u>	<u>1,397,112</u>
763,103	-	763,103
26,357	-	26,357
<u>789,460</u>	<u>-</u>	<u>789,460</u>
<u>1,738,106</u>	<u>448,466</u>	<u>2,186,572</u>
17,446	-	17,446
18,038	-	18,038
152,620	-	152,620
-	105,800	105,800
49,449	-	49,449
<u>237,553</u>	<u>105,800</u>	<u>343,353</u>
73,692	-	73,692
-	-	-
35,100	-	35,100
<u>108,792</u>	<u>-</u>	<u>108,792</u>
<u>346,345</u>	<u>105,800</u>	<u>452,145</u>
666,319	-	666,319
725,442	-	725,442
-	342,666	342,666
<u>\$ 1,391,761</u>	<u>\$ 342,666</u>	<u>\$ 1,734,427</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2014 and 2013

	2014		
	Enterprise Fund	Expendable Trust	Total
Operating revenues:			
Pre-need contract fees	\$ 342,114	\$ 36,106	\$ 378,220
License fees	438,580	-	438,580
Cremation fees	359,250	-	359,250
Burial Association income	19,139	-	19,139
Late fees	23,685	-	23,685
Examinations	21,650	-	21,650
Traineeship	15,203	-	15,203
Board continuing education fees	1,425	-	1,425
Compromise penalties	17,000	-	17,000
Other income	14,850	-	14,850
Total operating revenues	1,252,896	36,106	1,289,002
Operating expenses:			
Salaries, payroll taxes and benefits	674,664	-	674,664
Professional fees	43,854	-	43,854
Occupancy and utilities	44,350	-	44,350
Travel	50,746	-	50,746
Board expenses	33,439	-	33,439
Conferences	2,485	-	2,485
Printing and postage	30,226	-	30,226
Contracted services	21,147	-	21,147
Office supplies and expense	13,727	-	13,727
Miscellaneous	14,164	-	14,164
Compromise penalties	17,000	-	17,000
Equipment, lease and maintenance	69,832	-	69,832
Depreciation	36,603	-	36,603
Examination expense	10,560	-	10,560
SBI fingerprinting	7,600	-	7,600
Insurance and bonding	5,794	-	5,794
Hearing expense	18,145	-	18,145
Claims paid	-	5,762	5,762
Increase in reserve for losses on pre-need contracts	-	253,800	253,800
Total operating expenses	1,094,336	259,562	1,353,898
Operating income (loss)	158,560	(223,456)	(64,896)
Non-operating revenues (expenses):			
Interest expense	(4,165)	-	(4,165)
Interest income	486	2,008	2,494
Total non-operating revenues (expenses)	(3,679)	2,008	(1,671)
Changes in net position	154,881	(221,448)	(66,567)
Net position - beginning of year	1,391,761	342,666	1,734,427
Net position - end of year	\$ 1,546,642	\$ 121,218	\$ 1,667,860

See Notes to Financial Statements

2013		
Enterprise Fund	Expendable Trust	Total
\$ 361,818	\$ 40,227	\$ 402,045
435,740	-	435,740
333,650	-	333,650
21,982	-	21,982
23,645	-	23,645
20,900	-	20,900
12,318	-	12,318
1,625	-	1,625
23,500	-	23,500
14,294	-	14,294
<u>1,249,472</u>	<u>40,227</u>	<u>1,289,699</u>
719,349	-	719,349
17,016	-	17,016
38,370	-	38,370
48,744	-	48,744
40,364	-	40,364
8,315	-	8,315
26,540	-	26,540
25,624	-	25,624
16,298	-	16,298
11,389	-	11,389
22,500	-	22,500
51,130	-	51,130
39,284	-	39,284
10,815	-	10,815
6,232	-	6,232
7,327	-	7,327
15,116	-	15,116
-	48,356	48,356
-	-	-
<u>1,104,413</u>	<u>48,356</u>	<u>1,152,769</u>
<u>145,059</u>	<u>(8,129)</u>	<u>136,930</u>
(7,314)	-	(7,314)
478	1,970	2,448
<u>(6,836)</u>	<u>1,970</u>	<u>(4,866)</u>
138,223	(6,159)	132,064
<u>1,253,538</u>	<u>348,825</u>	<u>1,602,363</u>
<u>\$ 1,391,761</u>	<u>\$ 342,666</u>	<u>\$ 1,734,427</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014		
	Enterprise Fund	Expendable Trust	Total
Cash flows from operating activities:			
Cash received from fees	\$ 1,337,406	\$ 48,322	\$ 1,385,728
Cash payments to employees for services	(671,064)	-	(671,064)
Cash payments to suppliers of goods and services	(299,005)	-	(299,005)
Cash payments for other operating expenses	(103,670)	(5,762)	(109,432)
Net cash provided by (used in) operating activities	<u>263,667</u>	<u>42,560</u>	<u>306,227</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(1,706)	-	(1,706)
Principal payments on note	(123,141)	-	(123,141)
Interest payments on note	(4,165)	-	(4,165)
Net cash used in capital and related financing activities	<u>(129,012)</u>	<u>-</u>	<u>(129,012)</u>
Cash flows from investing activities:			
Interest on investments	<u>486</u>	<u>2,008</u>	<u>2,494</u>
Net cash provided from investing activities	<u>486</u>	<u>2,008</u>	<u>2,494</u>
Net increase (decrease) in cash	135,141	44,568	179,709
Cash - beginning of year	<u>905,909</u>	<u>431,020</u>	<u>1,336,929</u>
Cash - end of year	<u>\$ 1,041,050</u>	<u>\$ 475,588</u>	<u>\$ 1,516,638</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	<u>\$ 158,560</u>	<u>\$ (223,456)</u>	<u>\$ (64,896)</u>
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	36,603	-	36,603
Changes in assets and liabilities:			
Due to/from funds	(12,216)	12,216	-
Cremation fees receivable	(1,880)	-	(1,880)
Prepaid expenses	(142)	-	(142)
Accounts payable	(7,248)	-	(7,248)
Unearned revenue	86,390	-	86,390
Reserve for losses on pre-need contracts	-	253,800	253,800
Accrued vacation	3,600	-	3,600
Total adjustments	<u>105,107</u>	<u>266,016</u>	<u>371,123</u>
Net cash provided by (used in) operating activities	<u>\$ 263,667</u>	<u>\$ 42,560</u>	<u>\$ 306,227</u>

2013		
Enterprise Fund	Expendable Trust	Total
\$ 1,236,372	\$ 25,099	\$ 1,261,471
(713,249)	-	(713,249)
(197,245)	-	(197,245)
(119,923)	(48,356)	(168,279)
<u>205,955</u>	<u>(23,257)</u>	<u>182,698</u>
(5,833)	-	(5,833)
(46,974)	-	(46,974)
<u>(7,314)</u>	<u>-</u>	<u>(7,314)</u>
<u>(60,121)</u>	<u>-</u>	<u>(60,121)</u>
478	1,970	2,448
<u>478</u>	<u>1,970</u>	<u>2,448</u>
146,312	(21,287)	125,025
<u>759,597</u>	<u>452,307</u>	<u>1,211,904</u>
<u>\$ 905,909</u>	<u>\$ 431,020</u>	<u>\$ 1,336,929</u>
<u>\$ 145,059</u>	<u>\$ (8,129)</u>	<u>\$ 136,930</u>
39,284	-	39,284
15,128	(15,128)	-
(9,500)	-	(9,500)
501	-	501
12,983	-	12,983
(3,600)	-	(3,600)
-	-	-
<u>6,100</u>	<u>-</u>	<u>6,100</u>
<u>60,896</u>	<u>(15,128)</u>	<u>45,768</u>
<u>\$ 205,955</u>	<u>\$ (23,257)</u>	<u>\$ 182,698</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.

Financial Reporting Entity

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

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

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

Basis of Presentation

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

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

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

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

Basis of Presentation (Continued)

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

Basis of Accounting

The basic financial statements of the Board are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when a liability has been incurred, regardless of the timing of the cash flows.

The Board classifies its revenues as operating or non-operating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the Board's ongoing principal operations. Operating revenues consist primarily of contract, license and examination fees. Operating expenses are all expense transactions incurred other than those related to capital and non-capital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. Non-operating revenues and expenses consist primarily of investing type activities.

Cash

This classification consists of cash on deposit with financial institutions.

Accounts Receivable

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

Capital Assets

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

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

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

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

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

Vacation and Sick Leave

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

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

Unearned Revenue

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

Net Position

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

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

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

Income Taxes

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

Use of Estimates

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

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

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 \$691,862 at December 31, 2014.

The Board also has cash held by the State Treasurer. At December 31, 2014, the cash deposits held by the State Treasurer exceeded the FDIC limits by \$335,452.

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for the years ended December 31, 2014 and 2013 are as follows:

	<u>Cost</u> <u>1/1/2014</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Cost</u> <u>12/31/2014</u>	<u>Accum.</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Capital Assets:						
Building	\$ 1,018,230	\$ -	\$ -	\$ 1,018,230	\$ 281,171	\$ 737,059
Furniture/ equipment	<u>182,039</u>	<u>1,706</u>	<u>13,969</u>	<u>169,776</u>	<u>152,272</u>	<u>17,504</u>
	<u>\$ 1,200,269</u>	<u>\$ 1,706</u>	<u>\$ 13,969</u>	<u>\$ 1,188,006</u>	<u>\$ 433,443</u>	<u>\$ 754,563</u>

	<u>Cost</u> <u>1/1/2013</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Cost</u> <u>12/31/2013</u>	<u>Accum.</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Capital Assets:						
Building	\$ 1,018,230	\$ -	\$ -	\$ 1,018,230	\$ 255,127	\$ 763,103
Furniture/ equipment	<u>176,616</u>	<u>5,833</u>	<u>410</u>	<u>182,039</u>	<u>155,682</u>	<u>26,357</u>
	<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>

NOTE 4 - NOTE PAYABLE

The Board paid off its mortgage on the building during the year ended December 31, 2014. Interest expense for the years ending December 31, 2014 and 2013 was \$4,165 and \$7,314, respectively.

NOTE 5 - CHANGES IN LONG-TERM LIABILITIES

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

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 123,141	\$ 170,115
Increases	-	-
Decreases	<u>123,141</u>	<u>46,974</u>
Ending balance	<u>\$ -</u>	<u>\$ 123,141</u>
Current portion of balance	<u>\$ -</u>	<u>\$ 49,449</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

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

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

	2014	2013
Beginning balance	\$ 35,100	\$ 29,000
Increases	29,452	31,308
Decreases	25,852	25,208
Ending balance	<u>\$ 38,700</u>	<u>\$ 35,100</u>
Current portion of balance	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 - OPERATING LEASES

The Board leases office equipment under operating leases. The lease expense for the years ended December 31, 2014 and 2013, totaled approximately \$6,900 and \$7,200, respectively.

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

Years Ending December 31,	
2015	\$ 5,571
2016	1,765
2017	1,765
2018	1,471
	<u>\$ 10,572</u>

NOTE 7 - RETIREMENT PLAN

The Board established a defined contribution plan and trust during the fiscal year ended December 31, 1993. The 401(k) plan was amended and restated effective January 1, 2001. Participating employees may contribute up to the maximum allowable by law. Additionally, the Board makes a contribution of 6% of each participant's salary to the plan. The Board's contributions for the years ended December 31, 2014 and 2013, totaled \$30,317 and \$33,248, respectively. Contributions are immediately 100% vested. Employee retirement contributions totaled \$38,050 and \$45,481, for the years ended December 31, 2014 and 2013, respectively.

NOTE 8 - RISK MANAGEMENT

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

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

NOTE 9 - LOSS CONTINGENCY - EXPENDABLE TRUST

The Board believes it is probable that losses related to the Expendable Trust Fund were incurred prior to December 31, 2014. A reserve has been established for \$359,600 and \$105,800 at December 31, 2014 and 2013, respectively, to provide for management's estimate of such losses based on current pending and potential claims.

NOTE 10 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through April 14, 2015, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed.

The audit was conducted in approximately 80 hours at a cost of \$9,400.