

**NORTH CAROLINA BOARD OF
FUNERAL SERVICE**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017

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, 2017. The following financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and the previous two years are presented in the analysis.

Financial Highlights

In addition to the Board's operating account (Enterprise Fund), the Board also administers the Preneed Recovery Fund (Recovery Fund). The Recovery Fund was created by GS 90-210.66 for the purpose of reimbursing purchasers of preneed contracts who have suffered financial loss as a result of misappropriation by a preneed licensee. Use of the Recovery Fund is restricted to the provisions of 90-210.66 and is not used for Board operations.

In the fiscal year 2017, the Board collected and forwarded \$43,050 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.

The operating revenues of the Board (Enterprise Fund) increased by \$58,341 or 3.9%, due primarily to increases in receipts for preneed contract and cremation fees.

The operating expenses of the Board (Enterprise Fund) decreased by \$72,312 or 4.6%, attributed primarily to a decrease in salaries and related costs. This decrease reflects an increase in 2016 salaries as a result of a severance payment. Overall, non-salary operating expenses included an increase in contracted services for an interim executive director as well as decreases in printing, travel, and hearing expenses.

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

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The Recovery Fund experienced a net operating loss of \$91,970 in 2017, compared to a net operating loss of \$33,075 in 2016, and reflects management's estimate of potential losses related to future claims on preneed contracts at year end, considering pending claims to date and the likelihood of additional claims on current cases. Pursuant to GS 90-210.66 (b), \$2 from each preneed contract registration fee collected by the Board is deposited into the Recovery Fund. These deposits totaled \$42,269 and \$40,186 for the fiscal years 2017 and 2016, respectively. A total of \$244,239 and \$125,661 in claims was approved and paid in 2017 and 2016, respectively, net of reimbursements, because of misappropriation of preneed funds by licensees. It is management's position that probable future claims to the Recovery Fund amounted to approximately \$120,000 as of December 31, 2017 based on an analysis of claims paid in 2018 and current pending and potential claims. While the information and documents for these claims were received by the Board staff over the course of several years, confirming the information and verifying the documents has been difficult in some cases. The Recovery Fund is invested with the State Treasurer and interest earnings remain in the account. The Board is evaluating its recourse to seek subrogation against individuals where appropriate.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current assets	\$ 1,243,033	\$ 1,314,452	\$ 1,272,487
Noncurrent assets	147,367	-	-
Net capital assets	751,507	761,047	720,362
Total assets	<u>2,141,907</u>	<u>2,075,499</u>	<u>1,992,849</u>
Liabilities:			
Current liabilities	387,443	373,588	237,231
Noncurrent liabilities	22,500	32,500	17,900
Total liabilities	<u>409,943</u>	<u>406,088</u>	<u>255,131</u>
Net Position:			
Investment in capital assets	751,507	761,047	720,362
Unrestricted	980,457	908,364	1,017,356
Total net position	<u>\$ 1,731,964</u>	<u>\$ 1,669,411</u>	<u>\$ 1,737,718</u>
Operating revenues	\$ 1,552,981	\$ 1,494,640	\$ 1,459,012
Operating expenses	1,491,158	1,563,470	1,268,573
Operating income (loss)	61,823	(68,830)	190,439
Non-operating revenues	730	523	637
Changes in net position	62,553	(68,307)	191,076
Net position - beginning of year	1,669,411	1,737,718	1,546,642
Net position - end of year	<u>\$ 1,731,964</u>	<u>\$ 1,669,411</u>	<u>\$ 1,737,718</u>

The following table summarizes the Board's Preneed Recovery Fund total assets and total liabilities and revenues and expenses as of and for the year ended December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current and total assets	\$ 185,567	\$ 384,500	\$ 466,228
Current liabilities	40,000	139,200	57,400
Noncurrent liabilities	80,000	90,800	225,000
Total liabilities	<u>120,000</u>	<u>230,000</u>	<u>282,400</u>
Total net position	<u>\$ 65,567</u>	<u>\$ 154,500</u>	<u>\$ 183,828</u>

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Management's Discussion and Analysis
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	2017	2016	2015
Revenues - Preneed contract fees	\$ 42,269	\$ 40,186	\$ 38,764
Claims paid, net of reimbursements	244,239	125,661	56,141
Change in reserve for losses	(110,000)	(52,400)	(77,200)
Operating loss	(91,970)	(33,075)	59,823
Interest income	3,037	3,747	2,787
Changes in net position	(88,933)	(29,328)	62,610
Net position - beginning of year	154,500	183,828	121,218
Net position - end of year	\$ 65,567	\$ 154,500	\$ 183,828

Events Affecting Future Operations

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

IT Enhancement

At the Board's request, staff contracted in 2017 with an information technology firm, *iGovSolutions*, a nationally recognized firm that specializes in the development, implementation and management of on-line applications for regulatory and occupational licensing agencies. These applications are designed to facilitate the following components:

- Intake and processing of licensure application,
- Tracking consumer complaints,
- Intake and analysis of field inspection data,
- Document management and analysis,
- Integrated payment processing for fees and penalties, and,
- Customizable reports.

Work on the migration of data from an obsolete Legacy-based system to the new integrated system representing pre-need, at-need, trainee certification, and examinations tracking programs began in 2017 as the Board directed. Staff have assessed each component of the new system throughout early 2018 through real-time testing and user interface, and plans are in place to bring the system on-line in April 2018.

Compliance Examinations

The Board further directed in 2017 that the field inspection team reduce an existing backlog of conducting site-based compliance examinations of licensed establishments and pre-need contract files. Inspections staff also review mutual burial association records and crematories in determining compliance with consent orders and other Board-ordered sanctions against licensees or licensed establishments. In accordance with the Board's direction, the Inspections team have reduced the number of outstanding site inspections in an attempt to assure all licensed establishments and crematories are examined on a three-year cycle. The Board anticipates that any backlog of compliance examinations and inspections will be eliminated at the end of 2018.

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Human Resources Management

In response to human resources issues occurring in 2017, the Board has expressed an expectation in 2018 for strengthening the HR function and the management of the Board's investment in its human capital. Key elements associated with this effort include an emphasis on the following:

- Succession planning and cross-training in key functional areas,
- Heightened management of positions to assure proper alignment of roles and functions with employee knowledge, skill and ability levels,
- Strategic planning in market-based compensation strategies to assure that total compensation [salaries plus benefits] is equitable and at parity for the Raleigh-Durham market as well as cost-efficient,
- Analysis of benefit programs and costs to determine opportunities for achieving cost-savings by negotiating lower premium costs for workers compensation and other insurance products offered to employees,
- Introduction of consistent methods and controls for employee leave to assure compliance with the Fair Labor Standards Act and to strengthen management of compensatory time, leave accrual, and leave documentation using the on-line payroll system as a primary tool.

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, nor the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 1-5, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
April 11, 2018

NORTH CAROLINA BOARD OF FUNERAL SERVICE**Statement of Net Position****December 31, 2017**

	2017		
	Enterprise Fund	Preneed Recovery Fund	Total
ASSETS:			
Current assets:			
Cash	\$ 1,193,970	\$ -	\$ 1,193,970
Cash held by state treasurer	-	182,983	182,983
Due from Enterprise Fund	-	2,584	2,584
Cremation fees receivable	40,015	-	40,015
Prepaid expenses	9,048	-	9,048
Total current assets	<u>1,243,033</u>	<u>185,567</u>	<u>1,428,600</u>
Noncurrent assets:			
Investments	<u>147,367</u>	<u>-</u>	<u>147,367</u>
Capital assets - net of depreciation:			
Building and improvements	661,708	-	661,708
Furniture, equipment, and software	89,799	-	89,799
Total capital assets - net of depreciation	<u>751,507</u>	<u>-</u>	<u>751,507</u>
Total assets	<u>2,141,907</u>	<u>185,567</u>	<u>2,327,474</u>
LIABILITIES:			
Current liabilities:			
Due to Preneed Recovery Fund	2,584	-	2,584
Accounts payable	20,589	-	20,589
Unearned revenue	364,270	-	364,270
Reserve for losses on preneed contracts	-	40,000	40,000
Accrued vacation	-	-	-
Total current liabilities	<u>387,443</u>	<u>40,000</u>	<u>427,443</u>
Noncurrent liabilities:			
Reserve for losses on preneed contracts	-	80,000	80,000
Accrued vacation	22,500	-	22,500
Total noncurrent liabilities	<u>22,500</u>	<u>80,000</u>	<u>102,500</u>
Total liabilities	<u>409,943</u>	<u>120,000</u>	<u>529,943</u>
NET POSITION:			
Investment in capital assets	751,507	-	751,507
Unrestricted	980,457	-	980,457
Restricted	-	65,567	65,567
Total net position	<u>\$ 1,731,964</u>	<u>\$ 65,567</u>	<u>\$ 1,797,531</u>

See Notes to Financial Statements

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

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

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2017

	2017		
	Enterprise Fund	Preneed Recovery Fund	Total
Operating revenues:			
Preneed contract fees	\$ 387,023	\$ 42,269	\$ 429,292
License fees	576,010	-	576,010
Cremation fees	446,380	-	446,380
Burial Association income	15,433	-	15,433
Late fees	30,905	-	30,905
Examinations	21,100	-	21,100
Traineeship	13,239	-	13,239
Board continuing education fees	1,400	-	1,400
Compromise penalties collected	43,050	-	43,050
Other income	18,441	-	18,441
Total operating revenues	<u>1,552,981</u>	<u>42,269</u>	<u>1,595,250</u>
Operating expenses:			
Salaries, payroll taxes and benefits	876,791	-	876,791
Professional fees	69,357	-	69,357
Occupancy and utilities	52,533	-	52,533
Travel	67,131	-	67,131
Board expenses	41,154	-	41,154
Conferences	5,949	-	5,949
Printing and postage	34,177	-	34,177
Contracted services	97,105	-	97,105
Temporary services fees	21,162	-	21,162
Office supplies and expense	18,777	-	18,777
Miscellaneous	23,355	-	23,355
Compromise penalties remitted	43,050	-	43,050
Equipment, lease and maintenance	56,316	-	56,316
Depreciation	49,067	-	49,067
Examination expense	10,857	-	10,857
SBI fingerprinting	3,586	-	3,586
Insurance and bonding	12,229	-	12,229
Hearing expense	8,562	-	8,562
Claims paid, net of reimbursements	-	244,239	244,239
Decrease in reserve for losses on preneed contracts	-	(110,000)	(110,000)
Total operating expenses	<u>1,491,158</u>	<u>134,239</u>	<u>1,625,397</u>
Operating income (loss)	61,823	(91,970)	(30,147)
Nonoperating revenues:			
Interest income	<u>730</u>	<u>3,037</u>	<u>3,767</u>
Changes in net position	62,553	(88,933)	(26,380)
Net position - beginning of year	<u>1,669,411</u>	<u>154,500</u>	<u>1,823,911</u>
Net position - end of year	<u>\$ 1,731,964</u>	<u>\$ 65,567</u>	<u>\$ 1,797,531</u>

See Notes to Financial Statements

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

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

See Notes to Financial Statements

NORTH CAROLINA BOARD OF FUNERAL SERVICE**Statement of Cash Flows****Year Ended December 31, 2017**

	2017		
	Enterprise Fund	Preneed Recovery Fund	Total
Cash flows from operating activities:			
Cash received from fees	\$ 1,570,016	\$ 45,789	\$ 1,615,805
Cash payments to employees for services	(892,991)	-	(892,991)
Cash payments to suppliers of goods and services	(413,136)	-	(413,136)
Cash payments for other operating expenses	(157,284)	(244,239)	(401,523)
Net cash provided by (used in) operating activities	106,605	(198,450)	(91,845)
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(39,527)	-	(39,527)
Net cash used in capital and related financing activities	(39,527)	-	(39,527)
Cash flows from investing activities:			
Purchase of certificates of deposit	(147,000)	-	(147,000)
Interest on investments	363	3,037	3,400
Net cash provided by (used in) investing activities	(146,637)	3,037	(143,600)
Net decrease in cash	(79,559)	(195,413)	(274,972)
Cash - beginning of year	1,273,529	378,396	1,651,925
Cash - end of year	<u>\$ 1,193,970</u>	<u>\$ 182,983</u>	<u>\$ 1,376,953</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	<u>\$ 61,823</u>	<u>\$ (91,970)</u>	<u>\$ (30,147)</u>
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	49,067	-	49,067
Changes in assets and liabilities:			
Due to/from funds	(3,520)	3,520	-
Cremation fees receivable	(2,275)	-	(2,275)
Prepaid expenses	(5,865)	-	(5,865)
Accounts payable	4,265	-	4,265
Unearned revenue	19,310	-	19,310
Reserve for losses on preneed contracts	-	(110,000)	(110,000)
Accrued vacation	(16,200)	-	(16,200)
Total adjustments	44,782	(106,480)	(61,698)
Net cash provided by (used in) operating activities	<u>\$ 106,605</u>	<u>\$ (198,450)</u>	<u>\$ (91,845)</u>

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

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

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

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

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

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

Financial Reporting Entity

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

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

Basis of Presentation

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

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

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

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

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

Basis of Accounting

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

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

Cash

This classification consists of cash on deposit with a financial institution and the State Treasurer.

Accounts Receivable

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

Investments

Investments consist of non-negotiable certificates of deposit with original maturities of more than three months. Certificates of deposit maturing within one year are shown as current. The certificates of deposit are reported at fair market value, which is cost plus accrued interest to date.

Capital Assets

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

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

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

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 investment in capital assets, net of accumulated depreciation.

Unrestricted – This represents net assets that are not subject to externally imposed stipulations pertaining to their use. Unrestricted net assets may be used for any purpose at the discretion of the governing board. The Board has designated \$125,000, \$100,000, and \$50,000 of the unrestricted net assets to cover potential litigation costs, costs related to IT enhancements, and costs related to business continuity, respectively. The Board may change such reserved amounts based on perceived operating conditions and situations.

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

Income Taxes

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

Use of Estimates

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

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 2 - DEPOSITS, INVESTMENTS, AND CONCENTRATIONS OF CREDIT RISK

Custodial credit risk is the risk that the Board's deposits may not be returned in the event of a bank failure. 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 \$822,059 at December 31, 2017.

The Board also has cash held by the State Treasurer totaling \$194,901 at December 31, 2017. These funds are part of the Short Term Investment Fund and are invested in U.S. Treasuries and other low-risk investments specifically authorized by statute.

The Board is subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the Board may face should interest rate variances affect the fair value of investments. In accordance with its investment policy, the Board manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments are limited to certificates of deposit.

The following table presents the fair value of investments by type and investments subject to interest rate risk and credit risk at December 31, 2017, for the Board's investments.

Investment Type	Fair Value	Weighted Average Maturities	Ratings
Certificates of deposit	<u>\$ 147,367</u>	<u>17.35 months</u>	N/A

Certificates of deposit reported as investments are also a component of the bank deposit totals reported in the deposits section of this note.

A reconciliation of deposits and investments for the Board to the basic financial statements at December 31, is as follows:

	<u>2017</u>	<u>2016</u>
Carrying amount of deposits with private financial institutions:		
Cash	\$1,193,970	\$1,226,107
Cash held by state treasurer	182,983	425,818
Investments in certificates of deposits	<u>147,367</u>	<u>-</u>
Total deposits and investments	<u>\$1,524,320</u>	<u>\$1,651,925</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 2 - DEPOSITS, INVESTMENTS, AND CONCENTRATIONS OF CREDIT RISK (Continued)

	2017	2016
Current:		
Cash	\$1,193,970	\$1,226,107
Cash held by State Treasurer	182,983	425,818
Total current	<u>1,376,953</u>	<u>1,651,925</u>
Noncurrent:		
Investments	147,367	-
Total deposits and investments	<u><u>\$1,524,320</u></u>	<u><u>\$1,651,925</u></u>

NOTE 3 - CAPITAL ASSETS

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

	Cost 1/1/2017	Additions	Disposals/ Retirements	Cost 12/31/2017	Accum. Depreciation	Net Amount
Capital Assets:						
Building	\$1,021,939	\$ -	\$ -	\$1,021,939	\$ 360,231	\$ 661,708
Furniture, equipment, software	202,232	39,527	6,355	235,404	145,605	89,799
	<u>\$1,224,171</u>	<u>\$ 39,527</u>	<u>\$ 6,355</u>	<u>\$1,257,343</u>	<u>\$ 505,836</u>	<u>\$ 751,507</u>
	Cost 1/1/2016	Additions	Disposals/ Retirements	Cost 12/31/2016	Accum. Depreciation	Net Amount
Capital Assets:						
Building	\$1,018,230	\$ 3,709	\$ -	\$1,021,939	\$ 333,657	\$ 688,282
Furniture/ equipment	170,262	68,799	36,829	202,232	129,467	72,765
	<u>\$1,188,492</u>	<u>\$ 72,508</u>	<u>\$ 36,829</u>	<u>\$1,224,171</u>	<u>\$ 463,124</u>	<u>\$ 761,047</u>

NOTE 4 - CHANGES IN LONG-TERM LIABILITIES

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

	2017	2016
Beginning balance	\$ 38,700	\$ 28,400
Increases	24,760	20,710
Decreases	40,960	10,410
Ending balance	<u>\$ 22,500</u>	<u>\$ 38,700</u>
Current portion of balance	<u>\$ -</u>	<u>\$ 6,200</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 5 - OPERATING LEASES

The Board leases office equipment under operating leases. The lease expense for the years ended December 31, 2017 and 2016, totaled approximately \$6,200 for both years.

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

2018	\$ 6,244
2019	6,244
2020	3,252
2021	2,255
2022	1,973
	<u>\$ 19,968</u>

NOTE 6 - RETIREMENT PLAN

The Board established a defined contribution plan and trust during the fiscal year ended December 31, 1993. The 401(k) plan was amended and restated effective January 1, 2006. Participating employees may contribute up to the maximum allowable by law. Additionally, the Board makes a contribution of 3% plus a match of up to 3% of each participant's salary. The Board's contributions for the years ended December 31, 2017 and 2016, totaled \$37,769 and \$36,213, respectively. Contributions are immediately 100% vested. Employee retirement contributions totaled \$28,874 and \$26,720, for the years ended December 31, 2017 and 2016, respectively.

NOTE 7 - RISK MANAGEMENT

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

NOTE 8 - LOSS CONTINGENCY - PRENEED RECOVERY FUND

Management of the Board believes it is probable that losses related to the Preneed Recovery Fund were incurred and not yet paid as of December 31, 2017. A reserve has been established for \$120,000 and \$230,000 at December 31, 2017 and 2016, respectively, to provide for management's estimate of such losses based on claims paid subsequent to year end, current pending claims and potential future claims based on relevant information related to specific preneed establishments that have resulted in claims. The Board has filed several lawsuits seeking subrogation against individuals in an effort to recoup funds paid out by the Board's Preneed Recovery Fund. One such case was resolved whereby the defendant was ordered to reimburse the Board approximately \$38,000 which is secured by a deed of trust. The Board received \$5,000 subsequent to year end and the remaining payments are due over the next two years. The remaining cases are still pending and the outcome is currently uncertain.

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 8 - LOSS CONTINGENCY - PRENEED RECOVERY FUND (Continued)

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

	<u>2017</u>	<u>2016</u>
Reserve for losses, beginning of year	<u>\$ 230,000</u>	<u>\$ 282,400</u>
Claim payments, net of reimbursements	<u>(244,239)</u>	<u>(125,661)</u>
Claims incurred and unpaid	<u>21,312</u>	<u>139,235</u>
Change in general reserve for probable future claims	<u>112,927</u>	<u>(65,974)</u>
Reserve for losses, end of year	<u><u>\$ 120,000</u></u>	<u><u>\$ 230,000</u></u>

NOTE 9 - COMMITMENT

In November 2017, the Board entered into an agreement for software customization and support and hosting services. The initial terms of the agreement end on October 31, 2018 and will automatically renew for successive one-year terms unless a 60-day written notice of termination is given by either party. The cost under the agreement includes a one time project build cost of \$25,000, of which \$10,000 was paid and capitalized in 2017. The remaining \$15,000 is expected to be paid in 2018 upon the project's completion. The agreement also provides for an ongoing monthly fee of \$2,500 for hosting and support after the go-live date.

NOTE 10 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through April 11, 2018, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed other than the reimbursement discussed in Note 8.

The audit was conducted in approximately 101 hours at a cost of \$12,500.