

NORTH CAROLINA BOARD OF
FUNERAL SERVICE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018

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, 2018. 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 2018, the Board collected \$26,300 in civil (compromise) penalties of which \$21,000 was forwarded to the State in 2018 and \$5,300 was forwarded to the State in 2019 and included in accounts payable at December 31, 2018. 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) decreased by \$52,669 or 3.4%, due primarily to an increase in the amount of preneed contract fees that are contributed to the preneed recovery fund, partially offset by increases in license and cremation fees. The Board agreed to increase the amount remitted to the preneed recovery fund from \$2 per contract to \$5 per contract effective 1/1/2018.

The operating expenses of the Board (Enterprise Fund) decreased by \$36,473 or 2.5%, attributed primarily to a decrease in salaries and related costs. Overall, non-salary operating expenses included an increase in contracted and temporary services as well as decreases in legal expenses, compromise penalties, and examination expenses.

Non-operating revenue of the Board (Enterprise Fund) consists of interest income, which increased by \$740, or 101.4% in the current year.

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The Recovery Fund experienced net operating income of \$91,927 in 2018, compared to a net operating loss of \$91,970 in 2017, 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), \$5 from each preneed contract registration fee collected by the Board is deposited into the Recovery Fund. This was increased from \$2 to \$5 effective January 1, 2018. These deposits totaled \$106,439 and \$42,269 for the fiscal years 2018 and 2017, respectively. A total of \$57,512 and \$244,239 in claims was approved and paid in 2018 and 2017, 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 \$77,000 as of December 31, 2018 based on an analysis of claims paid in 2019 and current pending and potential future 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 has filed subrogation lawsuits against individuals where appropriate, resulting in settlements that could result in future claim reimbursements.

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>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current assets	\$ 1,472,123	\$ 1,240,449	\$ 1,314,452
Noncurrent assets	-	147,367	-
Net capital assets	<u>748,940</u>	<u>751,507</u>	<u>761,047</u>
Total assets	<u>2,221,063</u>	<u>2,139,323</u>	<u>2,075,499</u>
Liabilities:			
Current liabilities	410,102	384,859	373,588
Noncurrent liabilities	<u>31,900</u>	<u>22,500</u>	<u>32,500</u>
Total liabilities	<u>442,002</u>	<u>407,359</u>	<u>406,088</u>
Net Position:			
Investment in capital assets	748,940	751,507	761,047
Unrestricted	<u>1,030,121</u>	<u>980,457</u>	<u>908,364</u>
Total net position	<u>\$ 1,779,061</u>	<u>\$ 1,731,964</u>	<u>\$ 1,669,411</u>
Operating revenues	\$ 1,500,312	\$ 1,552,981	\$ 1,494,640
Operating expenses	<u>1,454,685</u>	<u>1,491,158</u>	<u>1,563,470</u>
Operating income (loss)	<u>45,627</u>	<u>61,823</u>	<u>(68,830)</u>
Non-operating revenues	<u>1,470</u>	<u>730</u>	<u>523</u>
Changes in net position	<u>47,097</u>	<u>62,553</u>	<u>(68,307)</u>
Net position - beginning of year	<u>1,731,964</u>	<u>1,669,411</u>	<u>1,737,718</u>
Net position - end of year	<u>\$ 1,779,061</u>	<u>\$ 1,731,964</u>	<u>\$ 1,669,411</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>2018</u>	<u>2017</u>	<u>2016</u>
Current and total assets	\$ 237,933	\$ 185,567	\$ 384,500
Current liabilities	37,000	40,000	139,200
Noncurrent liabilities	<u>40,000</u>	<u>80,000</u>	<u>90,800</u>
Total liabilities	<u>77,000</u>	<u>120,000</u>	<u>230,000</u>
Total net position	<u>\$ 160,933</u>	<u>\$ 65,567</u>	<u>\$ 154,500</u>

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	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues - Preneed contract fees	\$ 106,439	\$ 42,269	\$ 40,186
Claims paid, net of reimbursements	57,512	244,239	125,661
Change in reserve for losses	<u>(43,000)</u>	<u>(110,000)</u>	<u>(52,400)</u>
Operating loss	91,927	(91,970)	(33,075)
Interest income	<u>3,439</u>	<u>3,037</u>	<u>3,747</u>
Changes in net position	95,366	(88,933)	(29,328)
Net position - beginning of year	<u>65,567</u>	<u>154,500</u>	<u>183,828</u>
Net position - end of year	<u>\$ 160,933</u>	<u>\$ 65,567</u>	<u>\$ 154,500</u>

Events Affecting Future Operations

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

Digital Transition Initiative

Earlier in the year, the 2019 President of the North Carolina Board of Funeral Service stated that a major objective for 2019 would be to study, research, and evaluate the feasibility of utilizing existing technology or importing innovative digital-based methods to govern the Board's business operations.

The objectives include the following:

- Installation of projectors, monitors, and similar technology in the Board Room to enable a transition from paper-based hard copy Board notebooks to digital formats which may include iPads or tablets for Board members to use in the business session of each Board meeting. This technology would also allow Board staff to abandon the production of voluminous hard-copy information packets for visitors and guests.
- Scan more than 180,000 preneed contracts and supporting documents so that these records can be uploaded to the Board's digital licensing management system which was implemented in April 2018. This objective would allow immediate access to vital preneed records by the field-based inspections and compliance agents responsible for conducting examinations and audits of licensed establishments including funeral homes and crematories.
- In consultation with iGov, the vendor responsible for the construction and maintenance of the digital licensing management system, create and implement a system portal to enable the upload and electronic submission of monthly cremation reports which are currently dependent upon hard-copy preparation and flat-mail submission.
- Expand the Board's on-line payment options to include the capability for licensees and applicants for licensure to submit fees and payments by electronic personal check.

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- Pursue and consider an engagement with Digital Information Systems, Inc., the Board's vendor for outsourced information technology services, for server monitoring and administration; workstation services; and IT support services. The primary objective for such an agreement would be economy in the budgeted amounts for IT services and a set monthly rate for such services rather than monthly rates that fluctuate during the fiscal year. An agreement would focus on computer security, performance including off-site storage and backup; and continuous monitoring of hardware, software and peripheral equipment. An agreement would further support sound fiscal planning by knowing a set monthly rate for all IT services.

Program Evaluation Initiative

The funeral industry in the United States is increasingly under scrutiny by state and federal governing entities to determine the scope and extent of licensure and regulatory requirements imposed by statute and administrative rule. Twelve states have to date introduced and/or enacted legislation that would impose new requirements on occupational licensing boards to justify the licensure and regulation of the professions under their jurisdiction. Such legislation includes those Boards that license and regulate the practice of professional funeral service.

In North Carolina, the Joint Legislative Administrative Procedure Committee in the NC General Assembly has recently discussed the imposition of standardized fiscal years and Charts of Accounts for NC occupational licensing boards to assure uniformity in identifying and reporting revenue and expenditures. This Committee has also debated the merits of sunseting boards with annual budgets less than a certain threshold or where regulation has been determined unnecessary and/or antagonistic to market-based competition. Further proposals include an elevation in audit standards, introduction of a centralized authority for providing "active supervision" of all occupational licensing boards in the state, and further evaluation of licensing boards based on whether or not their services and programs in licensure and regulation are necessary.

Evaluation of occupational licensing boards will likely focus on the identification of organizational goals and objectives which are subject to continuous qualitative and quantitative measurement and evaluation. In anticipation of prospective legislative action which may include proposals for occupational licensing boards to justify their existence as has occurred in other states, the NC Board of Funeral Services seeks a proactive approach to this emerging trend. The Board proposes a Program Evaluation Initiative which should include the following primary components:

- Identify key goals and objectives as well as activity and outcome measures [qualitative and quantitative] to evaluate how well or how poorly Board programs are providing mandated and voluntary services to licensees, permit-holders and other stakeholders.
- Assure the implementation of appropriate internal controls for the management and administration of Board programs and services to assure that business operations are consistent with financial statements and are cost-effective.
- Consider a short-term contractual arrangement with a skilled and knowledgeable consultant with experience in fiscal and human resources administration as well as program planning and evaluation to oversee the initiative and develop recommendations for the Board's consideration.

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- Work deliberately with Thomas, Judy & Tucker, the accounting firm that the Board engaged to manage its primary fiscal functions [accounts payables, accounts receivables, reconciliations, and payroll], to shift the Board's fiscal year from a calendar year to a July 1 – June 30 cycle.

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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 1-6, 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 29, 2019

NORTH CAROLINA BOARD OF FUNERAL SERVICE**Statement of Net Position****December 31, 2018**

	2018		
	Enterprise Fund	Preneed Recovery Fund	Total
ASSETS:			
Current assets:			
Cash	\$ 1,317,074	\$ -	\$ 1,317,074
Cash held by state treasurer	-	198,599	198,599
Due from (to) other funds	(39,334)	39,334	-
Cremation fees receivable	40,040	-	40,040
Prepaid expenses	5,506	-	5,506
Investments, current	148,837	-	148,837
Total current assets	<u>1,472,123</u>	<u>237,933</u>	<u>1,710,056</u>
Noncurrent assets:			
Capital assets - net of depreciation:			
Building and improvements	643,301	-	643,301
Furniture, equipment, and software	105,639	-	105,639
Total capital assets - net of depreciation	<u>748,940</u>	<u>-</u>	<u>748,940</u>
Total assets	<u>2,221,063</u>	<u>237,933</u>	<u>2,458,996</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	41,637	-	41,637
Unearned revenue	368,465	-	368,465
Reserve for losses on preneed contracts	-	37,000	37,000
Total current liabilities	<u>410,102</u>	<u>37,000</u>	<u>447,102</u>
Noncurrent liabilities:			
Reserve for losses on preneed contracts	-	40,000	40,000
Accrued vacation	31,900	-	31,900
Total noncurrent liabilities	<u>31,900</u>	<u>40,000</u>	<u>71,900</u>
Total liabilities	<u>442,002</u>	<u>77,000</u>	<u>519,002</u>
NET POSITION:			
Investment in capital assets	748,940	-	748,940
Unrestricted	1,030,121	-	1,030,121
Restricted	-	160,933	160,933
Total net position	<u>\$ 1,779,061</u>	<u>\$ 160,933</u>	<u>\$ 1,939,994</u>

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 (to) other funds	(2,584)	2,584	-
Cremation fees receivable	40,015	-	40,015
Prepaid expenses	9,048	-	9,048
Total current assets	<u>1,240,449</u>	<u>185,567</u>	<u>1,426,016</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>2,139,323</u>	<u>185,567</u>	<u>2,324,890</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	20,589	-	20,589
Unearned revenue	364,270	-	364,270
Reserve for losses on preneed contracts	-	40,000	40,000
Total current liabilities	<u>384,859</u>	<u>40,000</u>	<u>424,859</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>407,359</u>	<u>120,000</u>	<u>527,359</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>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2018

	2018		
	Enterprise Fund	Preneed Recovery Fund	Total
Operating revenues:			
Preneed contract fees	\$ 319,274	\$ 106,439	\$ 425,713
License fees	586,518	-	586,518
Cremation fees	464,935	-	464,935
Burial Association income	13,441	-	13,441
Late fees	49,805	-	49,805
Examinations	200	-	200
Traineeship	13,154	-	13,154
Board continuing education fees	4,025	-	4,025
Compromise penalties collected	26,300	-	26,300
Other income	22,660	-	22,660
Total operating revenues	<u>1,500,312</u>	<u>106,439</u>	<u>1,606,751</u>
Operating expenses:			
Salaries, payroll taxes and benefits	800,966	-	800,966
Professional fees	58,065	-	58,065
Occupancy and utilities	46,668	-	46,668
Travel	66,105	-	66,105
Board expenses	34,703	-	34,703
Conferences	4,758	-	4,758
Printing and postage	36,944	-	36,944
Contracted services	147,205	-	147,205
Temporary services fees	41,547	-	41,547
Office supplies and expense	15,238	-	15,238
Miscellaneous	16,156	-	16,156
Compromise penalties remitted	26,300	-	26,300
Equipment, lease and maintenance	71,870	-	71,870
Depreciation	59,835	-	59,835
Examination expense	1,589	-	1,589
SBI fingerprinting	570	-	570
Insurance and bonding	12,477	-	12,477
Hearing expense	13,689	-	13,689
Claims paid, net of reimbursements	-	57,512	57,512
Decrease in reserve for losses on preneed contracts	-	(43,000)	(43,000)
Total operating expenses	<u>1,454,685</u>	<u>14,512</u>	<u>1,469,197</u>
Operating income	45,627	91,927	137,554
Nonoperating revenues:			
Interest income	1,470	3,439	4,909
Changes in net position	47,097	95,366	142,463
Net position - beginning of year	<u>1,731,964</u>	<u>65,567</u>	<u>1,797,531</u>
Net position - end of year	<u>\$ 1,779,061</u>	<u>\$ 160,933</u>	<u>\$ 1,939,994</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, 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	730	3,037	3,767
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 Cash Flows
Year Ended December 31, 2018

	2018		
	Enterprise Fund	Prenneed Recovery Fund	Total
Cash flows from operating activities:			
Cash received from fees	\$ 1,504,482	\$ 69,689	\$ 1,574,171
Cash payments to employees for services	(791,566)	-	(791,566)
Cash payments to suppliers of goods and services	(400,678)	-	(400,678)
Cash payments for other operating expenses	(131,866)	(57,512)	(189,378)
Net cash provided by operating activities	<u>180,372</u>	<u>12,177</u>	<u>192,549</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(57,268)	-	(57,268)
Net cash used in capital and related financing activities	<u>(57,268)</u>	<u>-</u>	<u>(57,268)</u>
Cash flows from investing activities:			
Interest on investments	-	3,439	3,439
Net cash provided by investing activities	<u>-</u>	<u>3,439</u>	<u>3,439</u>
Net increase in cash	123,104	15,616	138,720
Cash - beginning of year	<u>1,193,970</u>	<u>182,983</u>	<u>1,376,953</u>
Cash - end of year	<u>\$ 1,317,074</u>	<u>\$ 198,599</u>	<u>\$ 1,515,673</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 45,627</u>	<u>\$ 91,927</u>	<u>\$ 137,554</u>
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	59,835	-	59,835
Changes in assets and liabilities:			
Due to/from funds	36,750	(36,750)	-
Cremation fees receivable	(25)	-	(25)
Prepaid expenses	3,542	-	3,542
Accounts payable	21,048	-	21,048
Unearned revenue	4,195	-	4,195
Reserve for losses on preneed contracts	-	(43,000)	(43,000)
Accrued vacation	9,400	-	9,400
Total adjustments	<u>134,745</u>	<u>(79,750)</u>	<u>54,995</u>
Net cash provided by operating activities	<u>\$ 180,372</u>	<u>\$ 12,177</u>	<u>\$ 192,549</u>

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	<u>106,605</u>	<u>(198,450)</u>	<u>(91,845)</u>
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	<u>(39,527)</u>	<u>-</u>	<u>(39,527)</u>
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	<u>(146,637)</u>	<u>3,037</u>	<u>(143,600)</u>
Net decrease in cash	(79,559)	(195,413)	(274,972)
Cash - beginning of year	<u>1,273,529</u>	<u>378,396</u>	<u>1,651,925</u>
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)	\$ 61,823	\$ (91,970)	\$ (30,147)
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	<u>44,782</u>	<u>(106,480)</u>	<u>(61,698)</u>
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

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 approximates 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 in the accompanying financial statements.

Unearned Revenue

License fees collected in advance are recorded as unearned revenue at year-end and recognized as revenue when the license period begins.

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 \$985,571 at December 31, 2018.

The Board also has cash held by the State Treasurer totaling \$205,705 at December 31, 2018. 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, 2018, for the Board's investments.

Investment Type	Fair Value	Weighted Average Maturities	Ratings
Certificates of deposit	<u>\$ 148,837</u>	<u>5.18 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:

	2018	2017
Carrying amount of deposits with private financial institutions:		
Cash	\$1,317,074	\$1,193,970
Cash held by state treasurer	198,599	182,983
Investments in certificates of deposits	148,837	147,367
Total deposits and investments	<u>\$1,664,510</u>	<u>\$1,524,320</u>
Current:		
Cash	\$1,317,074	\$1,193,970
Cash held by State Treasurer	198,599	182,983
Investments in certificates of deposits	148,837	-
Total current	<u>1,664,510</u>	<u>1,376,953</u>
Noncurrent:		
Investments in certificates of deposits	-	147,367
Total deposits and investments	<u>\$1,664,510</u>	<u>\$1,524,320</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 3 - CAPITAL ASSETS

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

	<u>Cost</u> <u>1/1/2018</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Cost</u> <u>12/31/2018</u>	<u>Accum.</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Capital Assets:						
Building	\$1,021,939	\$ 9,246	\$ -	\$1,031,185	\$ 387,884	\$ 643,301
Furniture, equipment, software	235,404	48,022	2,420	281,006	175,367	105,639
	<u>\$1,257,343</u>	<u>\$ 57,268</u>	<u>\$ 2,420</u>	<u>\$1,312,191</u>	<u>\$ 563,251</u>	<u>\$ 748,940</u>
	<u>Cost</u> <u>1/1/2017</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Cost</u> <u>12/31/2017</u>	<u>Accum.</u> <u>Depreciation</u>	<u>Net</u> <u>Amount</u>
Capital Assets:						
Building	\$1,021,939	\$ -	\$ -	\$1,021,939	\$ 360,231	\$ 661,708
Furniture/ equipment	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>

NOTE 4 - CHANGES IN LONG-TERM LIABILITIES

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

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 22,500	\$ 38,700
Increases	28,861	24,760
Decreases	19,461	40,960
Ending balance	<u>\$ 31,900</u>	<u>\$ 22,500</u>
Current portion of balance	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 - OPERATING LEASES

The Board leases office equipment under operating leases. The lease expense for the years ended December 31, 2018 and 2017, totaled approximately \$7,600 and \$6,200, respectively.

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

2019	\$ 6,244
2020	3,252
2021	2,255
2022	1,973
	<u>\$ 13,724</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 6 - RETIREMENT PLAN

The Board established a defined contribution plan and trust during the fiscal year ended December 31, 1993. The 401(k) plan was amended and restated effective January 1, 2006. Participating employees may contribute up to the maximum allowable by law. Additionally, the Board makes a contribution of 3% plus a match of up to 3% of each participant's salary. The Board's contributions for the years ended December 31, 2018 and 2017, totaled \$28,210 and \$37,769, respectively. Contributions are immediately 100% vested. Employee retirement contributions totaled \$21,074 and \$28,874, for the years ended December 31, 2018 and 2017, 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 CONTINGENCIES

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, 2018. A reserve has been established for \$77,000 and \$120,000 at December 31, 2018 and 2017, 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 filed several lawsuits in 2017 seeking subrogation against individuals in an effort to recoup funds paid out by the Board's Preneed Recovery Fund. One such case was resolved in 2018 whereby the defendant was ordered to reimburse the Board approximately \$38,000 which is secured by a deed of trust payable over a two year period. The Board has received \$5,000 to date related to this settlement. Another case was settled in 2019 to allow for reimbursement of certain claims paid in previous years by the Board. A receivable for such reimbursements under these settlements has not been recorded in the accompanying financial statements as the amounts recoverable are not estimable by management and likelihood of collection is uncertain. Such reimbursements are netted against claims paid when received, as reported in the pre-need recovery fund in the accompanying financial statements.

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

	<u>2018</u>	<u>2017</u>
Reserve for losses, beginning of year	\$ 120,000	\$ 230,000
Claim payments, net of reimbursements	(57,512)	(244,239)
Claims incurred and unpaid	21,646	21,312
Change in general reserve for probable future claims	(7,134)	112,927
Reserve for losses, end of year	<u>\$ 77,000</u>	<u>\$ 120,000</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

NOTE 8 - LOSS CONTINGENCIES (Continued)

Other Contingencies

As of the financial statement issuance date, there are two open employment cases, one of which is scheduled for mediation in June 2019. There are no accruals for potential losses related to these cases in the accompanying financial statements as the outcomes of these cases are uncertain and the amounts are not estimable as of the financial statement issuance date.

NOTE 9 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through April 29, 2019, which is the date the financial statements were available to be issued. Management discovered no subsequent events that should be disclosed other than the other contingencies discussed in Note 8.

The audit was conducted in approximately 127 hours at a cost of \$16,450.