

NORTH CAROLINA BOARD OF  
FUNERAL SERVICE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019



# **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, 2020**

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**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, 2020. 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.

**Board Overview**

As an Occupational Licensing Board [OLB] created by North Carolina General Statute, the NC Board of Funeral Service regulates the licensure of funeral practitioners and establishments; assures compliance by licensees with the Board's governing statutes and administrative rules; and protects consumers through oversight and fiscally responsible administration of the state's Preneed Recovery Trust Fund. Further, the Board assures compliance with applicable federal code requirements set forth in the Federal Trade Commission's Funeral Rule and administers a complaint resolution program for consumers.

The Board issues licenses to approximately 2,700 active practitioners engaged in the practice of funeral service, funeral directing and embalming and 150 inactive licensees. It also issues permits to more than 1,000 funeral homes and cremation establishments including those engaged in the disposition of human remains through alkaline hydrolysis. The Board issues permits to individuals engaged in the removal and transportation of dead human bodies for a fee; to funeral chapels; and to unaffiliated practitioners in North Carolina.

The Board's organization is composed of a 9-member panel including six members representing the NC Funeral Directors Association (NCFDA) and the Funeral Directors and Morticians Association of NC (FDMANC); two public members appointed by the NC General Assembly; and one member unaffiliated with an industry association. Board staff are an Executive Director, an Assistant Director, a contracted General Counsel, a Compliance Officer, Compliance Inspectors assigned to one of five regions in the state, an Administrative Officer, and five administrative and technical support staff.

**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.

The Board collected and forwarded to the State \$31,350 in civil (compromise) penalties in 2020. 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 \$100,288 or 6.68%, attributed primarily to an increase in cremation fee revenue.

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**Financial Highlights (Continued)**

The operating expenses of the Board (Enterprise Fund) increased by \$144,429 or 9.80%, attributed primarily to an increase in professional and contracted legal services.

Non-operating revenue of the Board (Enterprise Fund) consists of interest income, which decreased by \$706, or 88.81% in the current year.

The Recovery Fund experienced net operating income of \$10,713 in 2020, compared to a net operating income of \$111,411 in 2019. Pursuant to GS 90-210.66 (b), \$5 from each preneed contract registration fee collected by the Board is deposited into the Recovery Fund. These deposits totaled \$104,175 and \$110,436 for the fiscal years 2020 and 2019, respectively. A total of \$21,971 and \$16,474 in claims was approved and paid in 2020 and 2019, respectively, because of misappropriation of preneed funds by licensees. The claims paid are presented net of reimbursements of \$11,509 and \$19,662 received in 2020 and 2019, respectively, in the accompanying statements of revenues, expenses and changes in net assets. It is management's position that probable future claims to the Recovery Fund amounted to approximately \$160,000 as of December 31, 2020 based on an analysis of claims paid in 2021 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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**Basic Financial Statements (Continued)**

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>2020</u>	<u>2019</u>	<u>2018</u>
Assets:			
Current assets	\$ 1,655,021	\$ 1,381,207	\$ 1,472,123
Noncurrent assets	-	149,632	-
Net capital assets	<u>647,991</u>	<u>697,836</u>	<u>748,940</u>
Total assets	<u>2,303,012</u>	<u>2,228,675</u>	<u>2,221,063</u>
Liabilities:			
Current liabilities	462,850	382,968	410,102
Noncurrent liabilities	<u>51,456</u>	<u>39,400</u>	<u>31,900</u>
Total liabilities	<u>514,306</u>	<u>422,368</u>	<u>442,002</u>
Net Position:			
Investment in capital assets	647,991	697,836	748,940
Unrestricted	<u>1,140,715</u>	<u>1,108,471</u>	<u>1,030,121</u>
Total net position	<u>\$ 1,788,706</u>	<u>\$ 1,806,307</u>	<u>\$ 1,779,061</u>
Operating revenues	\$ 1,601,222	\$ 1,500,934	\$ 1,500,312
Operating expenses	<u>1,618,912</u>	<u>1,474,483</u>	<u>1,454,685</u>
Operating income	<u>(17,690)</u>	<u>26,451</u>	<u>45,627</u>
Non-operating revenues	<u>89</u>	<u>795</u>	<u>1,470</u>
Changes in net position	<u>(17,601)</u>	<u>27,246</u>	<u>47,097</u>
Net position - beginning of year	<u>1,806,307</u>	<u>1,779,061</u>	<u>1,731,964</u>
Net position - end of year	<u>\$ 1,788,706</u>	<u>\$ 1,806,307</u>	<u>\$ 1,779,061</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>2020</u>	<u>2019</u>	<u>2018</u>
Current and total assets	\$ 452,622	\$ 354,636	\$ 237,933
Current liabilities	72,000	37,000	37,000
Noncurrent liabilities	<u>88,000</u>	<u>40,000</u>	<u>40,000</u>
Total liabilities	<u>160,000</u>	<u>77,000</u>	<u>77,000</u>
Total net position	<u>\$ 292,622</u>	<u>\$ 277,636</u>	<u>\$ 160,933</u>

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**For the Fiscal Year Ended December 31, 2020**

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**Basic Financial Statements (Continued)**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Revenues - Preneed contract fees	<b>\$ 104,175</b>	\$ 110,436	\$ 106,439
Litigation fees	-	2,213	19,484
Claims paid, net of reimbursements	<b>10,462</b>	(3,188)	38,028
Change in reserve for losses	<b>83,000</b>	-	(43,000)
Operating income	<b>10,713</b>	111,411	91,927
Interest income	<b>4,273</b>	5,292	3,439
Changes in net position	<b>14,986</b>	116,703	95,366
Net position - beginning of year	<b>277,636</b>	160,933	65,567
Net position - end of year	<b>\$ 292,622</b>	\$ 277,636	\$ 160,933

**Significant Events**

*Continued Transition to Digital Platforms for Board Operations*

A major objective for the Board, which began in 2019, was an initiative to transition from paper-driven operations to digital platforms for a range of Board programs and systems. This initiative followed the implementation in 2018 of a multi-level, comprehensive licensing management system known familiarly as iGov. In 2020, the Board continued this important initiative and installed two web-based portals to facilitate the preparation and submission of mandatory reports for the Preneed and Cremations programs. These portals enable licensees and establishments to complete these reports online through a program-specific platform which assures timely electronic submission to the Board. The process for populating and completing these reports is user-friendly and easier for licensees than past procedures requiring manual entry of data on paper.

Another important enhancement occurring in 2020 was the Board's decision to amend an existing administrative rule in the NC Administrative Code (21 NCAC 34B .0308) allowing notification to licensees and establishments of the annual renewal deadlines by electronic means rather than through U.S. Postal Service. This amended rule prompted an immediate cost savings to the Board by eliminating the need for postage, temporary staff, and outsourcing for the preparation of mailing labels, envelopes, and insertion of paper notices. While difficult to pinpoint a precise dollar amount, the cost savings were approximately \$16,238 which is the invoice amount for the cost of temporary staff, postage, and outsourcing the preparation of mailing labels and envelope insertion. It is noted that the percentage of online renewals rose in 2020 to 93% from 72% in 2019.

*Impact of the Novel Coronavirus Pandemic*

In early 2020, the declaration of a global pandemic resulting from the transmission of the COVID-19 virus prompted the Board to respond in a number of unanticipated ways with certain impact on revenues and expenditures. In March and April, Board staff noted a measurable reduction in the number of preneed contracts and application fees filed with the Board. Beginning in May, these revenues began to return to projected levels. The reduction is attributed to a gubernatorial Executive Order requiring residents to stay at home except for maintaining essential public operations and services.

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**Significant Events (Continued)**

*Impact of the Novel Coronavirus Pandemic (Continued)*

As mortality rates increased in North Carolina due to the virus, there was a parallel increase in the numbers of reported cremations and cremation fees submitted to the Board. Cremation fees earned in 2020 were \$566,980 which was 135.0% of the projected revenue of \$420,000. For 2019, cremation fees earned were \$485,470. The 2020 cremation fee revenue therefore represented a 16.8% increase or \$81,510 more compared to the fees earned in 2019.

As the need for mitigation and control of the virus' transmission increased, the Executive Director suspended establishment inspections for a 4-week period; allowed staff to work at home along with staggered work schedules after the suspension of the Governor's stay-at-home order; and implemented remote Board meetings rather than in-person meetings. These efforts clearly affected the Board's projected revenues and expenses in 2020 through unanticipated expenses for IT services to enable the transition to remote Board meetings including the acquisition of an additional large screen monitor for the Board room as well as cameras and microphones to enable remote participation by Board members, respondents and attorneys during disciplinary hearings, and invited guests presenting information to the Board. The temporary suspension of establishment inspections achieved moderate cost savings since Compliance Inspectors were not traveling or incurring other usual travel and per diem costs associated with their inspection responsibilities. Other IT-related costs included the purchase of a laptop computer to enable the Executive Director to work remotely from home and the installation of remote linkages to enable staff to access the Board's server and network services from home. In October, the Board convened for an in-person Board meeting at a site other than the Board room which could assure proper social distancing and other public health safety measures to minimize risk of transmitting the virus. Total costs for this meeting were approximately \$3,800 for the venue, food and beverage service, and IT services.

Another critical impact as a result of the pandemic involved Board policy and communications issues with the NC Office of the Governor, the NC Department of Health and Human Services, the NC Office of the Chief Medical Examiner, the NC Institute of Medicine, and a number of public health providers. At the direction of the Board President and with the Board's approval, the Executive Director wrote two letters to the Governor. The first letter urged acknowledgement that funeral service workers in North Carolina must be considered essential and critical infrastructure as designated by the U.S. Department of Homeland Security/Critical Infrastructure Services Agency. The other letter expressed the Board's concern that some hospitals, the Office of the Chief Medical Examiner, and other public health providers were refusing to disclose the cause of death upon the removal and transportation of decedents. Without knowledge that COVID-19 may have been the cause of death, funeral service workers would have been forced to exercise the highest level of precaution for all decedents which would have created unnecessary strain on a limited supply of protective equipment and additional, unanticipated costs for precautions that might not have been necessary. In December, the Board approved a communication to the NC Vaccination Advisory Committee asserting that funeral service workers should be included in the first priority group to receive a vaccination against the coronavirus based on their state and federal designation as essential, front-line workers.

**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2020**

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**Significant Events (Continued)**

*Impact of the Novel Coronavirus Pandemic (Continued)*

Other noted outcomes resulting from the Board's response to the pandemic included emergency rulemaking to address issues imposed by legislation and to assure an appropriate response to its regulatory responsibility as an occupational licensing board. The Board filed notice with the NC Rules Review Commission of intent to invoke emergency rulemaking allowing waivers of administrative rules not otherwise mandated by general statute. The Board also approved two resolutions in response to legislation requiring state agencies including occupational licensing boards to assure flexibility in oversight and regulatory requirements where feasible and possible. The first resolution waived the limit on the number of hours allowed for online continuing education instruction thus allowing licensees to acquire up to 10 hours of online CE credit rather than 2 hours. The other resolution allowed for an extension of time for payment of civil penalties if a licensee submitted a written request for additional time. The Board anticipates ongoing activity and response to the pandemic in 2021.

*Outsourced Program Operations and Systems*

In early 2019, the Board approved an engagement with Thomas, Judy & Tucker, CPA, a firm specializing in outsourced accounts for financial and accounting systems management. The annual cost of \$28,187 in 2019 escalated in 2020 to \$53,360 which included the transition of the Board's payroll operations from ADP Payroll Systems to Thomas, Judy & Tucker and which required systems and software development as well as testing and implementation costs. These costs are included in Professional fees in the Statement of Revenues, Expenses, and Changes in Net Position. Board staff anticipate some reduction in these annual costs since the new payroll system is fully implemented which should require just monthly maintenance charges for the future. Board staff continue to monitor costs and explore ways for further reductions in outsourcing costs for its accounting and financial systems.

In early 2020, the Board approved an engagement with Nichols, Choi & Lee, PLLC, for general counsel, outside litigation, and administrative rulemaking services. The Board's expenditures for legal services are substantial given the backlog of cases resulting from consumer and staff-generated complaints and a critical need to reduce this backlog, the need for significant activity in administrative rulemaking as a result of the pandemic, the ongoing adjudication of Preneed Recovery Trust Fund claims, and the Board's continued focus on compliance matters often requiring investigations through the compliance inspections staff. Board staff continue to manage legal costs within existing budget constraints but acknowledge that this critical area will require ongoing services from Nichols, Choi & Lee on a range of legal issues both anticipated and unanticipated.

**Strategic Planning: Short-term and Long-term Projections**

In 2021, Board staff will conduct a comprehensive review and analysis of its information technology needs and existing services from i3Verticals, the firm that maintains the Board's licensing management system. This review and analysis will focus on the need for additional enhancements to the system; the capacity for the existing IT firm to provide adequate and expected levels of service; and opportunities for cost reductions in monthly fees.



**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
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**For the Fiscal Year Ended December 31, 2020**

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**Strategic Planning: Short-term and Long-term Projections (Continued)**

Board staff has projected a critical need for the construction and implementation of a Preneed Portal to streamline the filing of preneed contracts and timely submission of preneed contract application fees as mandated by statute.

Board staff also anticipate improvements to the Board's website and a need for a Resident Traineeship portal through the website to facilitate traineeship applications and submission of monthly work reports. This portal would be deemed essential as a primary means of communication with resident trainees and their preceptors.

Other strategic plans include the development of the following proposals for the Board's consideration:

Development and delivery of an NCBFS Annual Report.

Identification of program standards, measures and outcomes as a way to measure the Board's efficiency and effectiveness in its delivery of services to licensees and consumers.

Feasibility study of the Board's resident traineeship program to assess the need for any statutory or administrative rule changes in association with the funeral service education program at Fayetteville Technical Community College.

Feasibility study in association with the Board's Laws & Rules examination provider, Scantron, to assess and evaluate the need for online proctoring and remote testing to expand access to examination candidates.

**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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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 1-7, 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 12, 2021

**NORTH CAROLINA BOARD OF FUNERAL SERVICE****Statement of Net Position****December 31, 2020**

	2020		
	Enterprise Fund	Preneed Recovery Fund	Total
<b>ASSETS:</b>			
Current assets:			
Cash	\$ 1,466,030	\$ -	\$ 1,466,030
Cash held by state treasurer	-	409,017	409,017
Due from (to) other funds	(43,605)	43,605	-
Cremation fees receivable	58,095	-	58,095
Prepaid expenses	24,780	-	24,780
Investments, current	149,721	-	149,721
Total current assets	1,655,021	452,622	2,107,643
Capital assets - net of depreciation:			
Building and improvements	586,431	-	586,431
Furniture, equipment, and software	61,560	-	61,560
Total capital assets - net of depreciation	647,991	-	647,991
Total assets	2,303,012	452,622	2,755,634
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	47,397	-	47,397
Payroll liabilities	9,188	-	9,188
Unearned revenue	406,265	-	406,265
Reserve for losses on preneed contracts	-	72,000	72,000
Total current liabilities	462,850	72,000	534,850
Noncurrent liabilities:			
Reserve for losses on preneed contracts	-	88,000	88,000
Accrued vacation	51,456	-	51,456
Total noncurrent liabilities	51,456	88,000	139,456
Total liabilities	514,306	160,000	674,306
<b>NET POSITION:</b>			
Investment in capital assets	647,991	-	647,991
Unrestricted	1,140,715	-	1,140,715
Restricted	-	292,622	292,622
Total net position	\$ 1,788,706	\$ 292,622	\$ 2,081,328

**NORTH CAROLINA BOARD OF FUNERAL SERVICE****Statement of Net Position****December 31, 2019**

	2019		
	Enterprise Fund	Preneed Recovery Fund	Total
<b>ASSETS:</b>			
Current assets:			
Cash	\$ 1,336,068	\$ -	\$ 1,336,068
Cash held by state treasurer	-	332,576	332,576
Due from (to) other funds	(22,060)	22,060	-
Cremation fees receivable	42,704	-	42,704
Prepaid expenses	24,495	-	24,495
Total current assets	<u>1,381,207</u>	<u>354,636</u>	<u>1,735,843</u>
Noncurrent assets:			
Investments	<u>149,632</u>	<u>-</u>	<u>149,632</u>
Capital assets - net of depreciation:			
Building and improvements	614,854	-	614,854
Furniture, equipment, and software	82,982	-	82,982
Total capital assets - net of depreciation	<u>697,836</u>	<u>-</u>	<u>697,836</u>
Total assets	<u>2,228,675</u>	<u>354,636</u>	<u>2,583,311</u>
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	28,374	-	28,374
Payroll liabilities	1,529	-	1,529
Unearned revenue	353,065	-	353,065
Reserve for losses on preneed contracts	-	37,000	37,000
Total current liabilities	<u>382,968</u>	<u>37,000</u>	<u>419,968</u>
Noncurrent liabilities:			
Reserve for losses on preneed contracts	-	40,000	40,000
Accrued vacation	39,400	-	39,400
Total noncurrent liabilities	<u>39,400</u>	<u>40,000</u>	<u>79,400</u>
Total liabilities	<u>422,368</u>	<u>77,000</u>	<u>499,368</u>
<b>NET POSITION:</b>			
Investment in capital assets	697,836	-	697,836
Unrestricted	1,108,471	-	1,108,471
Restricted	-	277,636	277,636
Total net position	<u>\$ 1,806,307</u>	<u>\$ 277,636</u>	<u>\$ 2,083,943</u>

**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Year Ended December 31, 2020**

	2020		
	Enterprise Fund	Preneed Recovery Fund	Total
Operating revenues:			
Preneed contract fees	\$ 312,525	\$ 104,175	\$ 416,700
License fees	595,320	-	595,320
Cremation fees	566,980	-	566,980
Burial Association income	11,812	-	11,812
Late fees	46,085	-	46,085
Traineeship	12,355	-	12,355
Board continuing education fees	2,600	-	2,600
Compromise penalties collected	31,350	-	31,350
Other income	22,195	-	22,195
Total operating revenues	<u>1,601,222</u>	<u>104,175</u>	<u>1,705,397</u>
Operating expenses:			
Salaries, payroll taxes and benefits	870,766	-	870,766
Professional fees	112,210	-	112,210
Occupancy and utilities	51,808	-	51,808
Travel	50,963	-	50,963
Board expenses	25,661	-	25,661
Printing and postage	25,218	-	25,218
Contracted services	233,872	-	233,872
Temporary services fees	35,057	-	35,057
Office supplies and expense	13,965	-	13,965
Miscellaneous	10,034	-	10,034
Compromise penalties remitted	31,350	-	31,350
Equipment, lease and maintenance	86,459	-	86,459
Depreciation	60,200	-	60,200
SBI fingerprinting	684	-	684
Insurance and bonding	8,965	-	8,965
Hearing expense	1,700	-	1,700
Claims paid, net of reimbursements	-	10,462	10,462
Increase in reserve for losses on preneed contracts	-	83,000	83,000
Total operating expenses	<u>1,618,912</u>	<u>93,462</u>	<u>1,712,374</u>
Operating income (loss)	(17,690)	10,713	(6,977)
Nonoperating revenues:			
Interest income	89	4,273	4,362
Changes in net position	(17,601)	14,986	(2,615)
Net position - beginning of year	<u>1,806,307</u>	<u>277,636</u>	<u>2,083,943</u>
Net position - end of year	<u>\$ 1,788,706</u>	<u>\$ 292,622</u>	<u>\$ 2,081,328</u>

**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Year Ended December 31, 2019**

	2019		
	Enterprise Fund	Preneed Recovery Fund	Total
Operating revenues:			
Preneed contract fees	\$ 331,260	\$ 110,436	\$ 441,696
License fees	581,295	-	581,295
Cremation fees	485,470	-	485,470
Burial Association income	13,925	-	13,925
Late fees	42,730	-	42,730
Traineeship	11,125	-	11,125
Board continuing education fees	1,100	-	1,100
Compromise penalties collected	19,795	-	19,795
Other income	14,234	-	14,234
Total operating revenues	<u>1,500,934</u>	<u>110,436</u>	<u>1,611,370</u>
Operating expenses:			
Salaries, payroll taxes and benefits	856,404	-	856,404
Professional fees	86,842	-	86,842
Occupancy and utilities	47,570	-	47,570
Travel	54,423	-	54,423
Board expenses	39,851	-	39,851
Printing and postage	22,916	-	22,916
Contracted services	120,015	-	120,015
Temporary services fees	54,430	-	54,430
Office supplies and expense	15,720	-	15,720
Miscellaneous	5,964	-	5,964
Compromise penalties remitted	19,795	-	19,795
Equipment, lease and maintenance	72,391	-	72,391
Depreciation	68,741	-	68,741
SBI fingerprinting	940	-	940
Insurance and bonding	3,774	-	3,774
Hearing expense	4,707	-	4,707
Litigation fees	-	2,213	2,213
Claims paid, net of reimbursements	-	(3,188)	(3,188)
Total operating expenses	<u>1,474,483</u>	<u>(975)</u>	<u>1,473,508</u>
Operating income	26,451	111,411	137,862
Nonoperating revenues:			
Interest income	<u>795</u>	<u>5,292</u>	<u>6,087</u>
Changes in net position	27,246	116,703	143,949
Net position - beginning of year	<u>1,779,061</u>	<u>160,933</u>	<u>1,939,994</u>
Net position - end of year	<u>\$ 1,806,307</u>	<u>\$ 277,636</u>	<u>\$ 2,083,943</u>

**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
**Statement of Cash Flows**  
**Year Ended December 31, 2020**

	2020		
	Enterprise Fund	Preneed Recovery Fund	Total
Cash flows from operating activities:			
Cash received from fees	\$ 1,639,031	\$ 82,630	\$ 1,721,661
Cash received for reimbursement of claims paid	-	11,509	11,509
Cash payments to employees for services	(851,051)	-	(851,051)
Cash payments to suppliers of goods and services	(539,689)	-	(539,689)
Cash payments for other operating expenses	(107,974)	(21,971)	(129,945)
Net cash provided by operating activities	<u>140,317</u>	<u>72,168</u>	<u>212,485</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(10,355)</u>	<u>-</u>	<u>(10,355)</u>
Net cash used in capital and related financing activities	<u>(10,355)</u>	<u>-</u>	<u>(10,355)</u>
Cash flows from investing activities:			
Interest	<u>-</u>	<u>4,273</u>	<u>4,273</u>
Net cash provided by investing activities	<u>-</u>	<u>4,273</u>	<u>4,273</u>
Net increase in cash	129,962	76,441	206,403
Cash - beginning of year	<u>1,336,068</u>	<u>332,576</u>	<u>1,668,644</u>
Cash - end of year	<u><u>\$ 1,466,030</u></u>	<u><u>\$ 409,017</u></u>	<u><u>\$ 1,875,047</u></u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	<u>\$ (17,690)</u>	<u>\$ 10,713</u>	<u>\$ (6,977)</u>
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	60,200	-	60,200
Increase in reserve for losses on preneed contracts	-	83,000	83,000
Changes in assets and liabilities:			
Due to/from funds	21,545	(21,545)	-
Cremation fees receivable	(15,391)	-	(15,391)
Prepaid expenses	(285)	-	(285)
Accounts payable	19,023	-	19,023
Payroll liabilities	7,659	-	7,659
Unearned revenue	53,200	-	53,200
Accrued vacation	12,056	-	12,056
Total adjustments	<u>158,007</u>	<u>61,455</u>	<u>219,462</u>
Net cash provided by operating activities	<u><u>\$ 140,317</u></u>	<u><u>\$ 72,168</u></u>	<u><u>\$ 212,485</u></u>



# NORTH CAROLINA BOARD OF FUNERAL SERVICE

## Statement of Cash Flows

Year Ended December 31, 2019

	2019		
	Enterprise Fund	Preneed Recovery Fund	Total
Cash flows from operating activities:			
Cash received from fees	\$ 1,482,870	\$ 127,710	\$ 1,610,580
Cash received for reimbursement of claims paid	-	19,663	19,663
Cash payments to employees for services	(847,375)	-	(847,375)
Cash payments to suppliers of goods and services	(484,795)	-	(484,795)
Cash payments for other operating expenses	(114,069)	(18,688)	(132,757)
Net cash provided by operating activities	<u>36,631</u>	<u>128,685</u>	<u>165,316</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(17,637)</u>	<u>-</u>	<u>(17,637)</u>
Net cash used in capital and related financing activities	<u>(17,637)</u>	<u>-</u>	<u>(17,637)</u>
Cash flows from investing activities:			
Interest	-	5,292	5,292
Maturity of certificate of deposits	159,766	-	159,766
Purchase of certificate of deposits	<u>(159,766)</u>	<u>-</u>	<u>(159,766)</u>
Net cash provided by investing activities	<u>-</u>	<u>5,292</u>	<u>5,292</u>
Net increase in cash	18,994	133,977	152,971
Cash - beginning of year	<u>1,317,074</u>	<u>198,599</u>	<u>1,515,673</u>
Cash - end of year	<u>\$ 1,336,068</u>	<u>\$ 332,576</u>	<u>\$ 1,668,644</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 26,451</u>	<u>\$ 111,411</u>	<u>\$ 137,862</u>
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	68,741	-	68,741
Changes in assets and liabilities:			
Due to/from funds	(17,274)	17,274	-
Cremation fees receivable	(2,664)	-	(2,664)
Prepaid expenses	(18,989)	-	(18,989)
Accounts payable	(13,263)	-	(13,263)
Payroll liabilities	1,529	-	1,529
Unearned revenue	(15,400)	-	(15,400)
Accrued vacation	7,500	-	7,500
Total adjustments	<u>10,180</u>	<u>17,274</u>	<u>27,454</u>
Net cash provided by operating activities	<u>\$ 36,631</u>	<u>\$ 128,685</u>	<u>\$ 165,316</u>

# **NORTH CAROLINA BOARD OF FUNERAL SERVICE**

## **Notes to Financial Statements**

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### **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**

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**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.

**Unearned Revenue**

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

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

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**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.

**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.

**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 \$1,193,334 at December 31, 2020.

The Board also has cash held by the State Treasurer totaling \$409,017 at December 31, 2020. 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.

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

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

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, 2020, for the Board's investments.

Investment Type	Fair Value	Weighted Average Maturities	Ratings
Certificates of deposit	<u>\$ 149,721</u>	<u>2.18 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:

	2020	2019
Carrying amount of deposits with private financial institutions:		
Cash	\$ 1,466,030	\$ 1,336,068
Cash held by state treasurer	409,017	332,576
Investments in certificates of deposits	149,721	149,632
Total deposits and investments	<u>\$ 2,024,768</u>	<u>\$ 1,818,276</u>
Current:		
Cash	\$ 1,466,030	\$ 1,336,068
Cash held by State Treasurer	409,017	332,576
Investments in certificates of deposits	149,721	-
Total current	<u>2,024,768</u>	<u>1,668,644</u>
Noncurrent:		
Investments in certificates of deposits	-	149,632
Total deposits and investments	<u>\$ 2,024,768</u>	<u>\$ 1,818,276</u>

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

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**NOTE 3 - CAPITAL ASSETS**

Changes in capital assets for the years ended December 31, 2020 and 2019 are as follows:

	Cost 1/1/2020	Additions	Disposals/ Retirements	Cost 12/31/2020	Accum. Depreciation	Net Amount
Capital Assets:						
Building	\$1,031,185	\$ -	\$ -	\$1,031,185	\$ 444,754	\$ 586,431
Furniture, equipment, software	298,643	10,355	-	308,998	247,438	61,560
	<u>\$1,329,828</u>	<u>\$ 10,355</u>	<u>\$ -</u>	<u>\$1,340,183</u>	<u>\$ 692,192</u>	<u>\$ 647,991</u>
	Cost 1/1/2019	Additions	Disposals/ Retirements	Cost 12/31/2019	Accum. Depreciation	Net Amount
Capital Assets:						
Building	\$1,031,185	\$ -	\$ -	\$1,031,185	\$ 416,331	\$ 614,854
Furniture, equipment, software	281,006	17,637	-	298,643	215,661	82,982
	<u>\$1,312,191</u>	<u>\$ 17,637</u>	<u>\$ -</u>	<u>\$1,329,828</u>	<u>\$ 631,992</u>	<u>\$ 697,836</u>

**NOTE 4 - CHANGES IN LONG-TERM LIABILITIES**

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

	2020	2019
Beginning balance	\$ 39,400	\$ 31,900
Increases	35,960	21,580
Decreases	23,904	14,080
Ending balance	<u>\$ 51,456</u>	<u>\$ 39,400</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, 2020 and 2019, totaled approximately \$6,000 and \$5,400, respectively.

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

2021	\$ 5,495
2022	5,213
2023	3,240
2024	3,240
2025	3,240
	<u>\$ 20,428</u>

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

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**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, 2020 and 2019, totaled \$25,649 and \$26,435, respectively. Contributions are immediately 100% vested. Employee retirement contributions totaled \$19,622 and \$19,722, for the years ended December 31, 2020 and 2019, respectively.

**NOTE 7 - 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, 2020. A reserve has been established for \$160,000 and \$77,000 at December 31, 2020 and 2019, 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 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 resolved in 2018 whereby the defendant was ordered to reimburse the Board \$15,345 over a two year period. As of December 31, 2020, the Board has received \$15,345 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:

	2020	2019
Reserve for losses, beginning of year	\$ 77,000	\$ 77,000
Litigation fees paid	-	(2,213)
Claim payments, net of reimbursements	(10,462)	3,188
Claims incurred and unpaid	50,094	-
Change in general reserve for probable future claims	43,368	(975)
Reserve for losses, end of year	<u>\$ 160,000</u>	<u>\$ 77,000</u>

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

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**NOTE 7 - LOSS CONTINGENCIES (Continued)**

**Other Contingencies**

On March 11, 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic, which has caused significant economic issues and disruptions to businesses and organizations throughout the world. The ultimate impact that may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Board's financial position, operations and cash flows in future periods.

**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', employees' liability, workers' compensation and cyber insurance with a private insurance company.

**NOTE 9 - SUBSEQUENT EVENTS**

Management of the Board evaluated subsequent events through April 12, 2021, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

The audit was conducted in approximately 90 hours at a cost of \$13,800.