

NORTH CAROLINA BOARD OF  
FUNERAL SERVICE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020



# **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, 2021**

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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, 2021. 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 six 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 \$65,200 in civil (compromise) penalties in 2021. 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 \$178,830 or 11.17%, attributed primarily to an increase in preneed contract and cremation fee revenue.

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**Financial Highlights (Continued)**

The operating expenses of the Board (Enterprise Fund) increased by \$94,723 or 5.85%, attributed primarily to an increase in salaries and professional and contracted legal services.

Non-operating revenue of the Board (Enterprise Fund) consists of interest income, which increased by \$214, or 240.45% in the current year.

The Recovery Fund experienced net operating income of \$72,850 in 2021, compared to a net operating income of \$10,713 in 2020. 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 \$128,340 and \$104,175 for the fiscal years 2021 and 2020, respectively. A total of \$58,290 and \$21,971 in claims was approved and paid in 2021 and 2020, respectively, because of misappropriation of preneed funds by licensees. The claims paid are presented net of reimbursements of \$2,800 and \$11,509 received in 2021 and 2020, 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, 2021 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>2021</u>	<u>2020</u>	<u>2019</u>
Assets:			
Current assets	\$ 1,834,854	\$ 1,655,021	\$ 1,381,207
Noncurrent assets	-	-	149,632
Net capital assets	<u>599,202</u>	<u>647,991</u>	<u>697,836</u>
Total assets	<u>2,434,056</u>	<u>2,303,012</u>	<u>2,228,675</u>
Liabilities:			
Current liabilities	542,671	462,850	382,968
Noncurrent liabilities	<u>35,959</u>	<u>51,456</u>	<u>39,400</u>
Total liabilities	<u>578,630</u>	<u>514,306</u>	<u>422,368</u>
Net Position:			
Investment in capital assets	599,202	647,991	697,836
Unrestricted	<u>1,256,224</u>	<u>1,140,715</u>	<u>1,108,471</u>
Total net position	<u>\$ 1,855,426</u>	<u>\$ 1,788,706</u>	<u>\$ 1,806,307</u>
Operating revenues	\$ 1,780,052	\$ 1,601,222	\$ 1,500,934
Operating expenses	<u>1,713,635</u>	<u>1,618,912</u>	<u>1,474,483</u>
Operating income (loss)	66,417	(17,690)	26,451
Non-operating revenues	<u>303</u>	<u>89</u>	<u>795</u>
Changes in net position	66,720	(17,601)	27,246
Net position - beginning of year	<u>1,788,706</u>	<u>1,806,307</u>	<u>1,779,061</u>
Net position - end of year	<u>\$ 1,855,426</u>	<u>\$ 1,788,706</u>	<u>\$ 1,806,307</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>2021</u>	<u>2020</u>	<u>2019</u>
Current and total assets	\$ 526,246	\$ 452,622	\$ 354,636
Current liabilities	72,000	72,000	37,000
Noncurrent liabilities	<u>88,000</u>	<u>88,000</u>	<u>40,000</u>
Total liabilities	<u>160,000</u>	<u>160,000</u>	<u>77,000</u>
Total net position	<u>\$ 366,246</u>	<u>\$ 292,622</u>	<u>\$ 277,636</u>

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**For the Fiscal Year Ended December 31, 2021**

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**Basic Financial Statements (Continued)**

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Revenues - Preneed contract fees	<b>\$ 128,340</b>	\$ 104,175	\$ 110,436
Litigation fees	-	-	2,213
Claims paid, net of reimbursements	<b>55,490</b>	10,462	(3,188)
Change in reserve for losses	-	83,000	-
Operating income	<b>72,850</b>	10,713	111,411
Interest income	<b>774</b>	4,273	5,292
Changes in net position	<b>73,624</b>	14,986	116,703
Net position - beginning of year	<b>292,622</b>	277,636	160,933
Net position - end of year	<b>\$ 366,246</b>	<b>\$ 292,622</b>	<b>\$ 277,636</b>

**Significant Events**

Throughout 2021, the NC Board of Funeral Service continued to seek innovative ways to conduct business with stakeholders in response to unpredictable variables that resulted from the COVID-19 pandemic that initially began in 2020. These variables included a continuation of remote Board meetings when necessary and implementation of legally-defensible procedures for conducting disciplinary and administrative hearings remotely. These responses were challenging to the Board in terms of unanticipated costs for retrofitting the Board room with sufficient audio and video technology to assure the public's access to monthly Board meetings. In meeting these challenges, the Board implemented certain changes including the following:

- Sustained reliance on WebEx technology for the conduct of Board meetings, Committee meetings, and administrative hearings.
- Installation of ceiling-mounted microphones to assure maximum audio capability and the acquisition of centralized controls for the integrated operation of technical equipment in the Board room.
- Expansion of access to Board meetings by broadcasting the Business Sessions of each Board meeting through YouTube which created opportunity for wider public participation than in the past and which enabled licensees to attend Board meetings for continuing education credit without a physical presence. This expansion demonstrated the Board's commitment to North Carolina's Open Meetings law in a meaningful and tangible way.
- Waiver of administrative rules that limited licensees' ability to acquire continuing education credits required for annual license renewal through online instruction. The Board's existing administrative rules do not allow licensees to accrue more than two [2] hours of credit through online instruction. In 2020 and continuing through 2021, the Board waived this limitation to allow licensees up to ten [10] hours of online credits. This waiver has prompted a new initiative to review, assess and amend the Board's current Continuing Education program to assure that it is contemporary and meets the needs of licensees who must acquire at least five [5] hours of continuing education credit annually.

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**For the Fiscal Year Ended December 31, 2021**

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**Significant Events (Continued)**

- Remote connectivity for Board meetings supported similar innovations in planning and directing work among Board staff. We learned that work-at-home arrangements and telecommuting were viable options for Board staff particularly when it was necessary to close the Board office during periods of staff quarantine or exposure to COVID-19 and its sub-variants in 2021. Through remote connection to the Board's server and remote access to the Board's communications/telephone systems, staff were able to continue Board operations during the year without interruption to licensees, the public, and other stakeholders.

These responses to the pandemic are indicative of the Board's quick adaptability and expanded capacity for innovation in seeking new ways of conducting business with those who rely upon us. We expect to continue these improvements and efficiencies in our operations and service to stakeholders to assure accessibility, timeliness, and responsiveness to those we serve.

In 2022, the Board will focus attention on its investment in organizational development, work planning, and human capital. The pandemic has likely imposed permanent changes in the workforce in terms of increased telecommuting and working remotely, and current labor market trends suggest challenges for recruitment and retention of experienced staff. The Board currently has three [3] staff vacancies and will decide how best to recruit for these vacancies given the unique circumstances in state and regional labor markets in competing for skilled, experienced administrative and compliance staff. The Board will explore non-traditional allocation and measurement of work in terms of employee performance and conduct; compensation strategies to include combinations of short-term salary adjustments as well as cost-of-living adjustments that elevate base pay and benefits; and appropriate intangible benefits to enhance retention of long-term staff.

**Key Objectives for 2022**

Among the Board's primary initiatives has been a continuing transition from inefficient paper-based methods for licensee reporting, license renewal, and mandatory document submissions to digital platforms which are cost-effective, reliable, secure and timely. Examples include the following:

In 2020, the Board amended an administrative rule allowing for the mandatory notification to licensees of annual license renewal by email rather than delivery by the U.S. Postal Service. General statutes require such notice on or about the first week in December, and an accompanying administrative rule required that such notification be by flat mail. The amended rule which allows notification by email assures immediate notice to licensees via electronic transmission and is cost-effective since there is no requirement to affix postage to each notice. It also has allowed additional time for license renewal since licensees have access to the online portal beginning on November 1st of each year.

In February 2021, the Board launched a new online portal for the submission of mandatory monthly Cremation Reports and online payment of cremation fees. This option for electronic submission of cremation reports represents a significant improvement in the timely receipt of these reports which is a measurable benefit to funeral and establishments and crematories required to submit them. It is noted that the online submission of cremation reports has slightly reduced revenues from late fees, but the impact on the Board's operating budget is not significant and is clearly offset by improved service to licensees.

**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
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**For the Fiscal Year Ended December 31, 2021**

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**Key Objectives for 2022 (Continued)**

From 2020 through 2021, the Board's transition from paper-based license and permit renewal to online renewal and payment of fees has prompted nearly 97% of all licensees and establishments to use this option rather than submitting paper applications and checks. Prior to 2020, there was no online option for license renewal. The cost savings to the Board has been significant and impressive in terms of savings on postage, paper, and temporary staff required for processing over 4,000 renewals annually.

In 2022, the Board plans to expand this critical initiative mandating a shift to online transactions where feasible which was first envisioned in 2019 by the Board's President at that time. This initiative also includes a close, focused assessment of the Funeral Practice Act and the Board's administrative rules that govern its continuing education and resident traineeship programs. The Funeral Practice Act has evolved over past years through a number of changes that the Board and the General Assembly have individually or jointly initiated. This evolution has assured that relevant general statutes reflect revisions that are necessary to assure contemporary funeral practice that is based on best practices and trends in the funeral industry. However, neither the Board nor the General Assembly have used a wholistic approach in reviewing the Board's statutory scheme to determine if further changes are needed to assure consistency with accepted standards of modern funeral practice. A comprehensive review of statutes will necessitate an accompanying assessment of existing administrative rules to assure consistency between the two and to eliminate outdated, redundant rules and streamline those that are unnecessarily burdensome.

Based on these observations, key objectives for 2022 and beyond include:

- Construct and implement a Preneed Services Portal designed to enable the online submission of preneed contracts and payment of registration fees. This portal would include substantive guidelines and resources for licensees in the sale of preneed contracts to consumers.
- Complete and publish the Preneed Program guidelines for the Board's Compliance Manual to summarize relevant statutes and administrative rules for licensees and other interested parties.
- Review and assess the current statute requiring a Preneed Annual Report to determine if the Board should seek amendments to the content and submission requirements.
- Review and assess the current statutes and administrative rules governing the Board's Continuing Education program to determine if revisions or amendments are necessary to update and reform this program.
- Update the North Carolina Laws and Rules examination to assure that it is consistent with existing statutes and administrative rules; pursue the feasibility and cost of remote proctoring for the Laws and Rules examination.
- Determine whether or not to continue the requirement for a Pathology examination as a component of the State Board Examinations for licensure in Funeral Directing.
- Review and assess the current statute and administrative rules governing licensure of individuals from other jurisdictions to determine a practical, reasonable standard for reciprocity and to avoid denial of licensure to otherwise qualified candidates from other jurisdictions.
- Review and assess the Resident Traineeship program to assure that its requirements properly align with the academic and career objectives for individuals pursuing licensure by examination.

**NORTH CAROLINA BOARD OF FUNERAL SERVICE**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2021**

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**Key Objectives for 2022 (Continued)**

These objectives will be achieved by engaging the Board's committees for Laws, Rules & Legislation; Finance and Personnel; Exams; Continuing Education; Preneed; and Traineeship.

This Discussion and Analysis seeks to review past Board policy and practice in identifying and implementing programs, practices, policies and procedures to enhance and focus the Board's objective for meeting its statutory mandate for compliant regulation of North Carolina's funeral industry and for the protection of the public health, safety and welfare. It also is intended as a roadmap and projection for the effective, capable and efficient management and administration of the Board's programs and services. The Board's commitment to its licensees, the public and other stakeholders reflects its insistence on best practices, contemporary statutes and administrative rules, and superior standards for the professional practice of funeral service.

**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

### ***Opinion***

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Board and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

### ***Auditor's Responsibilities for the Audit of the Financial Statements (Continued)***

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***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, 2021 and 2020, 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 18, 2022

**NORTH CAROLINA BOARD OF FUNERAL SERVICE****Statement of Net Position****December 31, 2021**

	2021		
	Enterprise Fund	Preneed Recovery Fund	Total
<b>ASSETS:</b>			
Current assets:			
Cash	\$ 1,640,968	\$ -	\$ 1,640,968
Cash held by state treasurer	-	486,721	486,721
Due from (to) other funds	(39,525)	39,525	-
Cremation fees receivable	59,805	-	59,805
Prepaid expenses	23,577	-	23,577
Investments, current	150,029	-	150,029
Total current assets	1,834,854	526,246	2,361,100
Capital assets - net of depreciation:			
Building and improvements	558,008	-	558,008
Furniture, equipment, and software	41,194	-	41,194
Total capital assets - net of depreciation	599,202	-	599,202
Total assets	2,434,056	526,246	2,960,302
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	70,866	-	70,866
Payroll liabilities	6,685	-	6,685
Unearned revenue	465,120	-	465,120
Reserve for losses on preneed contracts	-	72,000	72,000
Total current liabilities	542,671	72,000	614,671
Noncurrent liabilities:			
Reserve for losses on preneed contracts	-	88,000	88,000
Accrued vacation	35,959	-	35,959
Total noncurrent liabilities	35,959	88,000	123,959
Total liabilities	578,630	160,000	738,630
<b>NET POSITION:</b>			
Investment in capital assets	599,202	-	599,202
Unrestricted	1,256,224	-	1,256,224
Restricted	-	366,246	366,246
Total net position	\$ 1,855,426	\$ 366,246	\$ 2,221,672

**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 Revenues, Expenses, and Changes in Net Position**  
**Year Ended December 31, 2021**

	2021		
	Enterprise Fund	Preneed Recovery Fund	Total
Operating revenues:			
Preneed contract fees	\$ 385,160	\$ 128,340	\$ 513,500
License fees	590,515	-	590,515
Cremation fees	636,365	-	636,365
Burial Association income	11,015	-	11,015
Late fees	41,335	-	41,335
Traineeship	14,725	-	14,725
Board continuing education fees	4,125	-	4,125
Compromise penalties collected	65,200	-	65,200
Other income	31,612	-	31,612
Total operating revenues	<u>1,780,052</u>	<u>128,340</u>	<u>1,908,392</u>
Operating expenses:			
Salaries, payroll taxes and benefits	889,013	-	889,013
Professional fees	141,970	-	141,970
Occupancy and utilities	55,131	-	55,131
Travel	48,057	-	48,057
Board expenses	27,816	-	27,816
Printing and postage	29,026	-	29,026
Contracted services	257,596	-	257,596
Temporary services fees	15,169	-	15,169
Office supplies and expense	9,112	-	9,112
Miscellaneous	11,457	-	11,457
Compromise penalties remitted	65,200	-	65,200
Equipment, lease and maintenance	86,461	-	86,461
Depreciation	60,603	-	60,603
Examination expense	250	-	250
SBI fingerprinting	456	-	456
Insurance and bonding	9,696	-	9,696
Hearing expense	6,622	-	6,622
Claims paid, net of reimbursements	-	55,490	55,490
Total operating expenses	<u>1,713,635</u>	<u>55,490</u>	<u>1,769,125</u>
Operating income	66,417	72,850	139,267
Nonoperating revenues:			
Interest income	303	774	1,077
Changes in net position	66,720	73,624	140,344
Net position - beginning of year	<u>1,788,706</u>	<u>292,622</u>	<u>2,081,328</u>
Net position - end of year	<u>\$ 1,855,426</u>	<u>\$ 366,246</u>	<u>\$ 2,221,672</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	<u>89</u>	<u>4,273</u>	<u>4,362</u>
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 Cash Flows

Year Ended December 31, 2021

	2021		
	Enterprise Fund	Preneed Recovery Fund	Total
Cash flows from operating activities:			
Cash received from fees	\$ 1,837,197	\$ 132,420	\$ 1,969,617
Cash received for reimbursement of claims paid	-	2,800	2,800
Cash payments to employees for services	(907,013)	-	(907,013)
Cash payments to suppliers of goods and services	(602,354)	-	(602,354)
Cash payments for other operating expenses	(141,073)	(58,290)	(199,363)
Net cash provided by operating activities	<u>186,757</u>	<u>76,930</u>	<u>263,687</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(11,814)	-	(11,814)
Net cash used in capital and related financing activities	<u>(11,814)</u>	<u>-</u>	<u>(11,814)</u>
Cash flows from investing activities:			
Interest	-	774	774
Maturity of certificate of deposits	149,693	-	149,693
Purchase of certificate of deposits	(149,698)	-	(149,698)
Net cash provided by (used in) investing activities	<u>(5)</u>	<u>774</u>	<u>769</u>
Net increase in cash	174,938	77,704	252,642
Cash - beginning of year	<u>1,466,030</u>	<u>409,017</u>	<u>1,875,047</u>
Cash - end of year	<u>\$ 1,640,968</u>	<u>\$ 486,721</u>	<u>\$ 2,127,689</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 66,417</u>	<u>\$ 72,850</u>	<u>\$ 139,267</u>
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	60,603	-	60,603
Increase in reserve for losses on preneed contracts	-	-	-
Changes in assets and liabilities:			
Due to/from funds	(4,080)	4,080	-
Cremation fees receivable	(1,710)	-	(1,710)
Prepaid expenses	1,203	-	1,203
Accounts payable	23,469	-	23,469
Payroll liabilities	(2,503)	-	(2,503)
Unearned revenue	58,855	-	58,855
Accrued vacation	(15,497)	-	(15,497)
Total adjustments	<u>120,340</u>	<u>4,080</u>	<u>124,420</u>
Net cash provided by operating activities	<u>\$ 186,757</u>	<u>\$ 76,930</u>	<u>\$ 263,687</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 (loss) 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**

## **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 Annual Comprehensive Financial Report (ACFR). 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 \$1,358,379 at December 31, 2021.

The Board also has cash held by the State Treasurer totaling \$486,721 at December 31, 2021. 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, 2021, for the Board's investments.

Investment Type	Fair Value	Weighted Average Maturities	Ratings
Certificates of deposit	<u>\$ 150,029</u>	<u>11.2 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:

	2021	2020
Carrying amount of deposits with private financial institutions:		
Cash	\$ 1,640,968	\$ 1,466,030
Cash held by state treasurer	486,721	409,017
Investments in certificates of deposits	150,029	149,721
Total deposits and investments	<u>\$ 2,277,718</u>	<u>\$ 2,024,768</u>
Current:		
Cash	\$ 1,640,968	\$ 1,466,030
Cash held by State Treasurer	486,721	409,017
Investments in certificates of deposits	150,029	149,721
Total current	<u>2,277,718</u>	<u>2,024,768</u>
Total deposits and investments	<u>\$ 2,277,718</u>	<u>\$ 2,024,768</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, 2021 and 2020 are as follows:

	<u>Cost 1/1/2020</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Cost 12/31/2021</u>	<u>Accum. Depreciation</u>	<u>Net Amount</u>
Capital Assets:						
Building	\$1,031,185	\$ -	\$ -	\$1,031,185	\$ 473,177	\$ 558,008
Furniture, equipment, software	308,998	11,814	1,708	319,104	277,910	41,194
	<u>\$1,340,183</u>	<u>\$ 11,814</u>	<u>\$ 1,708</u>	<u>\$1,350,289</u>	<u>\$ 751,087</u>	<u>\$ 599,202</u>
	<u>Cost 1/1/2019</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Cost 12/31/2020</u>	<u>Accum. Depreciation</u>	<u>Net Amount</u>
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>

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

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

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 51,456	\$ 39,400
Increases	39,307	35,960
Decreases	54,804	23,904
Ending balance	<u>\$ 35,959</u>	<u>\$ 51,456</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, 2021 and 2020, totaled approximately \$5,700 and \$6,000, respectively.

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

2022	\$ 5,213
2023	3,240
2024	3,240
2025	3,240
2025	270
	<u>\$ 15,203</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, 2021 and 2020, totaled \$33,043 and \$25,649, respectively. Contributions are immediately 100% vested. Employee retirement contributions totaled \$20,540 and \$19,622, for the years ended December 31, 2021 and 2020, 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, 2021. A reserve has been established for \$160,000 at December 31, 2021 and 2020, 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 settled in 2019 to allow for reimbursement of certain claims paid in previous years by the Board. In 2021, the Board obtained a default judgment in one case for \$31,644, including court costs and attorney fees. 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:

	2021	2020
Reserve for losses, beginning of year	\$ 160,000	\$ 77,000
Litigation fees paid	-	-
Claim payments, net of reimbursements	(55,490)	(10,462)
Claims incurred and unpaid	17,195	50,094
Change in general reserve for probable future claims	38,295	43,368
Reserve for losses, end of year	<u>\$ 160,000</u>	<u>\$ 160,000</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 18, 2022, 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 85 hours at a cost of \$14,400.