

**STATE BOARD OF REFRIGERATION EXAMINERS**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2014 and 2013**

STATE BOARD OF REFRIGERATION EXAMINERS

Raleigh, North Carolina

FINANCIAL AUDIT REPORT

December 31, 2014

BOARD MEMBERS

J. M. King, Chairman

T. E. Street, Secretary  
C. L. Smith, Jr., Treasurer  
B. R. Cook

W. D. Frye  
L. Lynch  
K. G. Sexton

Executive Director

Barbara H. Hines

STATE BOARD OF REFRIGERATION EXAMINERS  
Raleigh, North Carolina

CONTENTS

	Page
Independent Auditor's Report on the Financial Statements	-
Financial Statements	
Statements of Net Assets	3
Statements of Revenues, Expenses and Changes In Fund Net Assets	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-12
Compliance Section	13-14

**MADDISON & CAISON, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS  
RALEIGH, NORTH CAROLINA

Independent Auditor's Report

The Honorable Patrick L. McCrory  
Governor of North Carolina  
State Board of Refrigeration Examiners  
The General Assembly of North Carolina

We have audited the accompanying financial statements of the State Board of Refrigeration Examiners (the Board) as of and for the years ended December 31, 2014 and 2013, which collectively comprise the Board's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 State Board of Refrigeration Examiners as of December 31, 2014 and 2013, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 11, 2015 and February 27, 2014 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

February 11, 2015

*Maddison & Caison, LLP*

STATE BOARD OF REFRIGERATION EXAMINERS  
STATEMENTS OF NET ASSETS  
ENTERPRISE FUND

	December 31	
	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 68,066	\$ 34,400
Securities, available-for-sale	299,904	413,255
Prepaid expenses	2,551	-
Total current assets	<u>370,521</u>	<u>447,655</u>
Capital assets:		
Furniture and equipment	23,450	26,724
Less accumulated depreciation	<u>(22,776)</u>	<u>(25,451)</u>
Total noncurrent assets	<u>674</u>	<u>1,273</u>
 TOTAL ASSETS	 <u>\$ 371,195</u>	 <u>\$ 448,928</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 6,591	\$ 6,695
Payroll liabilities	3,504	3,547
Deferred revenues	70,730	67,720
Accrued vacation	<u>9,769</u>	<u>9,176</u>
 Total current liabilities	 <u>\$ 90,594</u>	 <u>\$ 87,138</u>
<b>NET ASSETS</b>		
Investment in capital assets	\$ 674	\$ 1,273
Unrestricted:		
Board designated:		
Directors' liability reserve	125,000	150,000
Litigation reserve	125,000	150,000
Scholarship fund	<u>64,103</u>	<u>73,066</u>
	314,777	374,339
Undesignated	<u>(34,176)</u>	<u>(12,549)</u>
 TOTAL NET ASSETS	 <u>\$ 280,601</u>	 <u>\$ 361,790</u>

See accompanying accountant's report.  
See accompanying notes to financial statements.



STATE BOARD OF REFRIGERATION EXAMINERS  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
ENTERPRISE FUND

	Year Ended December 31	
	2014	2013
Operating revenues		
Charges for services:		
License renewal fees	\$ 69,000	\$ 69,960
License reinstatement fees	11,400	9,900
New license and exam fees	2,720	3,195
Miscellaneous income	566	143
Seminar income	-	7,000
CFC certification income	36,650	36,845
CFC manual income	1,070	950
Total operating revenues	<u>121,406</u>	<u>127,993</u>
Operating expenses		
Salaries and contract labor	105,853	102,319
Payroll taxes	8,294	7,878
Pension plan	12,700	12,616
Hospital and medical benefits	2,485	7,254
Per diem, board members	2,000	2,000
Travel, board members and staff	6,619	5,721
Office supplies and expenses	6,916	5,584
CFC supplies	434	1,248
Office rent	22,800	22,800
Utilities	4,759	5,616
Postage and box rent	5,000	6,080
Insurance	1,188	1,177
Examination expense	-	2,000
Audit, legal fees, and investigative	14,489	14,062
Dues	222	299
Depreciation	599	2,799
Board meeting expense	14,022	10,856
Equipment rental/maintenance	10,080	10,328
Seminar expense	-	6,765
Scholarships	8,963	9,551
Newsletter	-	394
Credit card and bank fees	1,307	1,351
Miscellaneous	520	-
Total operating expenses	<u>229,250</u>	<u>238,698</u>
Operating loss	(107,844)	(110,705)

See accompanying accountant's report.  
See accompanying notes to financial statements.

STATE BOARD OF REFRIGERATION EXAMINERS  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
ENTERPRISE FUND

	Year Ended December 31	
	2014	2013
Nonoperating revenues		
Interest and dividends	\$ 17,867	\$ 15,574
Unrealized gain (loss) on securities	(31,118)	45,937
Realized gain on securities	39,906	15,341
Total nonoperating revenues	<u>26,655</u>	<u>76,852</u>
Change in net assets	(81,189)	(33,853)
Net assets - beginning of year	<u>361,790</u>	<u>395,643</u>
Net assets - end of year	<u>\$ 280,601</u>	<u>\$ 361,790</u>

See accompanying accountant's report.  
See accompanying notes to financial statements.



STATE BOARD OF REFRIGERATION EXAMINERS  
STATEMENTS OF CASH FLOWS  
ENTERPRISE FUND

	Year Ended December 31	
	2014	2013
Cash flows from operating activities:		
Cash received from licenses and applicants	\$ 86,130	\$ 78,495
Cash received from others	38,286	44,938
Cash paid to employees and professionals	(117,960)	(114,707)
Cash paid to suppliers	(112,796)	(108,482)
Net cash used by operating activities	(106,340)	(99,756)
Cash used by capital and related financing activities:		
Acquisition of capital assets	-	(587)
Net cash used by financing activities	-	(587)
Cash flows from investing activities:		
Purchase of securities, available-for-sale	(17,861)	(15,564)
Sale of securities, available-for-sale	140,000	70,000
Receipt of interest and dividend income	17,867	15,574
Net cash provided by investing activities	140,006	70,010
Net increase (decrease) in cash and cash equivalents	33,666	(30,333)
Cash and cash equivalents - beginning of year	34,400	64,733
Cash and cash equivalents - end of year	<u>\$ 68,066</u>	<u>\$ 34,400</u>
Reconciliation of operating income to net cash flows from operating activities		
Operating loss	\$ (107,844)	\$ (110,705)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	599	2,799
Changes in assets and liabilities		
Decrease (increase) in prepaid expenses	(2,551)	5,566
Increase (decrease) in accounts payable	(104)	3,866
Increase (decrease) in payroll liabilities	(43)	3,050
Increase in accrued vacation	593	228
Increase (decrease) in deferred revenues	3,010	(4,560)
Net cash used by operating activities	<u>\$ (106,340)</u>	<u>\$ (99,756)</u>

See accompanying accountant's report.  
See accompanying notes to financial statements.

STATE BOARD OF REFRIGERATION EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013

Note 1 – Summary of Significant Accounting Policies

**Description of Organization**

The State Board of Refrigeration Examiners (the Board) is an occupational licensing board and is authorized under Chapter 87 of the North Carolina General Statutes. The Board is an independent state agency.

**Reporting Entity**

The Board is considered an agency of the State of North Carolina for financial reporting purposes. The Board members are appointed by the Governor. The Board, with other state licensing boards, is reported as an enterprise fund within the State of North Carolina's *Comprehensive Annual Financial Report* (CAFR).

**Basis of Presentation**

The statement of net assets reflects all assets including long-term assets, and all obligations including long-term obligations.

The statement of revenues, expenses and changes in fund net assets presents a comparison between direct expenses and program revenues of the Board. Primary revenues include fees and other charges paid by licensees.

**Measurement Focus and Basis of Accounting**

In accordance with North Carolina General Statutes, the Board's accounts are maintained during the year using the modified accrual basis of accounting. However, at year-end, financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash flows take place.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Deferred Revenues**

Deferred revenues consist principally of license fees collected in advance and prepayments for the annual update.

STATE BOARD OF REFRIGERATION EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013

Note 1 – Summary of Significant Accounting Policies (continued)

**Capital Assets**

Capital assets are defined by the Board as assets with an initial individual cost of \$200 or more and an estimated useful life of more than two years. Purchased assets are reported at cost. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend asset lives are expensed.

Capital assets are depreciated using the straight-line method over five years.

**Accrued Vacation**

The vacation leave policy of the Board provides for accumulation of earned vacation leave with such leave being fully vested when earned. Because vacation leave is payable to employees at termination, a liability for the outstanding balances has been recorded. That portion of accrued vacation that is estimated to be used in the next fiscal year has been designated as a current liability in the financial statements (first-in, first-out method of using accumulated time).

**Net Assets**

Net assets in the financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through state statute.

**Financial Accounting Standards Boards Pronouncements**

Pronouncements of the FASB after November 30, 1989 are not applied unless so directed by the Government Accounting Standards Board (GASB).

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Board considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

**Definition of Operating Versus Non-Operating Revenues**

Operating revenues are considered to be all revenues directly related to the provision of services. All other revenues are considered non-operating.

Note 2 – Deposits and Investments

The Board maintains cash balances and money market accounts in one financial institution and one brokerage house in Garner, North Carolina. Accounts have a book and market value of \$68,086 at December 31, 2014.



STATE BOARD OF REFRIGERATION EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013

Note 2 – Deposits and Investments (continued)

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits may not be returned to it. The Board does not have a formal deposit policy for custodial credit risk. As of December 31, 2014 the Board's deposits had no custodial credit risk.

Note 3 – Operating Leases

The Board leases office space under a lease expiring January 1, 2017. The Board also leases a digital copier under a lease expiring July 17, 2015 (\$505 per month) and a postage meter under a lease expiring September 1, 2015 (\$483 per quarter). Future minimum lease commitments are as follows:

	<u>Office</u>	<u>Equipment</u>	<u>Total</u>
Year ended December 31, 2015	\$ 22,800	\$ 4,479	\$ 27,279
Year ended December 31, 2016	22,800	-	22,800
	<u>\$ 45,600</u>	<u>\$ 4,479</u>	<u>\$ 50,079</u>

Note 4 – Pension Plan

The Board has a Simplified Employee Pension Plan. Under sections of the federal tax law, the Board may contribute a percentage of the employees' compensation to the employees' IRA. The employees' rights to the contributions are 100% vested. Pension expense was \$12,700 and \$12,616 for the years ended December 31, 2014 and 2013, respectively.

Note 5 - CFC Certification Program

In 1994 the Board was approved to administer the technician certification program in the State of North Carolina under Section 608 of the Clean Air Act issued by the Environmental Protection Agency. A breakdown of revenue and expenses is as follows:

	<u>2014</u>	<u>2013</u>
CFC certification revenue	\$ 37,720	\$ 37,795
CFC expenses:		
Supplies	434	1,248
Postage	500	500
Telephone	500	500
Total expenses	<u>1,434</u>	<u>2,248</u>
Net CFC income	<u>\$ 36,286</u>	<u>\$ 35,547</u>

STATE BOARD OF REFRIGERATION EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013

Note 6 - Statutory Requirements

Chapter 87, Article 5, of the General Statutes of North Carolina provides that after the payment of all necessary expenditures from license fees earned, the Board retains 25% of any excess, and pays the remaining 75% to the State Treasurer. In 2014 and 2013 the Board experienced a net loss from operations excluding CFC income and expense; thus, there is no amount due the State Treasurer.

	<u>2014</u>	<u>2013</u>
Excess (deficit) of revenues over expenditures	\$ ( 81,189)	\$ ( 33,853)
Less - investment income		
Interest and dividend income	( 16,876)	( 15,574)
Unrealized gain (loss) on marketable securities	31,118	( 45,937)
Realized gain on marketable securities	( 39,906)	( 15,341)
Income before adjustment for CFC income	(106,853)	(110,705)
Less - CFC income	( 37,720)	( 37,795)
Plus - CFC expense	1,434	2,248
Loss from normal operations	<u><u>\$ (143,139)</u></u>	<u><u>\$ (146,252)</u></u>

Note 7 – Capital Assets

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

	<u>January 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2013</u>
Furniture and equipment	\$26,137	\$ 587	\$ -	\$26,724
	<u>January 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2014</u>
Furniture and equipment	\$26,724	\$ -	\$ 3,284	\$23,450

Note 8 - Investments

Investment income consists of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 17,867	\$ 15,574
Unrealized gain (loss) on securities	(31,118)	45,937
Realized gain on securities	<u>39,906</u>	<u>15,341</u>
Total investment income	<u><u>\$ 26,655</u></u>	<u><u>\$ 76,852</u></u>

STATE BOARD OF REFRIGERATION EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013

Note 8 – Investments (continued)

Investments are comprised of the following available-for-sale securities:

December 31, 2014

	<u>Cost</u>	Unrealized <u>Gains</u>	<u>Market</u>
American Balanced Fund, Inc.	\$ 43,297	\$ 19,388	\$ 62,685
Bond Fund of America, Inc.	37,308	( 1,472)	35,836
Europacific Growth Fund	24,444	11,269	35,713
Growth Fund of America, Inc.	28,483	18,410	46,893
Income Fund of America, Inc.	56,198	13,466	69,664
Investment Co. of America	<u>39,774</u>	<u>9,339</u>	<u>49,113</u>
	<u>\$ 229,504</u>	<u>\$ 70,400</u>	<u>\$ 299,904</u>

December 31, 2013

	<u>Cost</u>	Unrealized <u>Gains</u>	<u>Market</u>
American Balanced Fund, Inc.	\$ 57,028	\$ 27,893	\$ 84,921
Bond Fund of America, Inc.	54,244	( 3,875)	50,369
Europacific Growth Fund	35,036	18,874	53,910
Growth Fund of America, Inc.	35,055	28,669	63,724
Income Fund of America, Inc.	79,031	15,943	94,974
Investment Co. of America	<u>51,343</u>	<u>14,014</u>	<u>65,357</u>
	<u>\$ 311,737</u>	<u>\$101,518</u>	<u>\$ 413,255</u>

The Financial Accounting Standards Board has issued an accounting standard related to fair value measurements. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy regarding the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. It defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.



STATE BOARD OF REFRIGERATION EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013

Note 8 – Investments (continued)

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant, unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

All assets reflected on the Statement of Net Assets are Level 1 assets.

Note 9 – Net Assets Designated

The reserved fund balance of \$314,103 at December 31, 2014 consists of \$64,103 reserved for a scholarship fund in refrigeration study, \$125,000 reserved for directors' and officers' liability, and \$125,000 reserved for litigation. Scholarships funds were awarded in the amounts of \$8,963 in 2014 and \$9,551 in 2013.

**MADDISON & CAISON, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS  
RALEIGH, NORTH CAROLINA

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

State Board of Refrigeration Examiners  
Garner, North Carolina

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the State Board of Refrigeration Examiners (the Board) as of and for the years ended December 31, 2014 and 2013 and the related notes to the financial statements and have issued our report thereon dated February 11, 2015 and February 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing opinions on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operating of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material* weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all the deficiencies in internal control that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and other matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

February 11, 2015

*Madison + Coison, LLP*