

NORTH CAROLINA BOARD OF
FUNERAL SERVICE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021



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, 2022

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, 2022. 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 \$40,300 in civil (compromise) penalties in 2022. All funds assessed and collected by the Board for civil (compromise) penalties are forwarded to the respective counties. In annual budget preparations these penalties are not considered as revenues or as expenses.

The operating revenues of the Board (Enterprise Fund) decreased by \$45,164 or 2.54%, attributed primarily to a decrease in compromise penalties and preneed contract fee revenue.

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Financial Highlights (Continued)

The operating expenses of the Board (Enterprise Fund) decreased by \$141,014 or 8.23%, attributed primarily to a decrease in salaries and compromise penalties remitted.

Non-operating revenue of the Board (Enterprise Fund) consists of interest income, which increased by \$74, or 24.42% in the current year.

The Recovery Fund experienced net operating income of \$99,414 in 2022, compared to a net operating income of \$72,850 in 2021. 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 \$123,850 and \$128,340 for the fiscal years 2022 and 2021, respectively. A total of \$28,436 and \$58,290 in claims was approved and paid in 2022 and 2021, respectively, because of misappropriation of preneed funds by licensees. The claims paid are presented net of reimbursements of \$4,000 and \$2,800 received in 2022 and 2021, 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, 2022 based on an analysis of claims paid in 2022 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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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2022

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>2022</u>	<u>2021</u>	<u>2020</u>
Assets:			
Current assets	\$ 1,883,606	\$ 1,834,854	\$ 1,655,021
Noncurrent assets	153,436	5,915	-
Net capital assets	549,468	599,202	647,991
Total assets	<u>2,586,510</u>	<u>2,439,971</u>	<u>2,303,012</u>
Liabilities:			
Current liabilities	538,441	545,474	462,850
Noncurrent liabilities	29,925	39,034	51,456
Total liabilities	<u>568,366</u>	<u>584,508</u>	<u>514,306</u>
Net Position:			
Investment in capital assets	549,420	599,239	647,991
Unrestricted	1,468,724	1,256,224	1,140,715
Total net position	<u>\$ 2,018,144</u>	<u>\$ 1,855,463</u>	<u>\$ 1,788,706</u>
Operating revenues	\$ 1,734,888	\$ 1,780,052	\$ 1,601,222
Operating expenses	1,572,584	1,713,598	1,618,912
Operating income (loss)	162,304	66,454	(17,690)
Non-operating revenues	377	303	89
Changes in net position	162,681	66,757	(17,601)
Net position - beginning of year	1,855,463	1,788,706	1,806,307
Net position - end of year	<u>\$ 2,018,144</u>	<u>\$ 1,855,463</u>	<u>\$ 1,788,706</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>2022</u>	<u>2021</u>	<u>2020</u>
Current and total assets	\$ 630,493	\$ 526,246	\$ 452,622
Current liabilities	72,000	72,000	72,000
Noncurrent liabilities	88,000	88,000	88,000
Total liabilities	<u>160,000</u>	<u>160,000</u>	<u>160,000</u>
Total net position	<u>\$ 470,493</u>	<u>\$ 366,246</u>	<u>\$ 292,622</u>

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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2022

Basic Financial Statements (Continued)

	2022	2021	2020
Revenues - Preneed contract fees	\$ 123,850	\$ 128,340	\$ 104,175
Claims paid, net of reimbursements	24,436	55,490	10,462
Change in reserve for losses	<u>-</u>	<u>-</u>	<u>83,000</u>
Operating income	99,414	72,850	10,713
Interest income	4,833	774	4,273
Changes in net position	104,247	73,624	14,986
Net position - beginning of year	366,246	292,622	277,636
Net position - end of year	<u>\$ 470,493</u>	<u>\$ 366,246</u>	<u>\$ 292,622</u>

Significant Events

In a post-pandemic environment, the NC Board of Funeral Service continued its assessment of the pandemic's impact on Board programs and services to licensees and consumers. Among the lessons learned was one of particular significance: the utilization and application of remote connectivity through technology. In 2020, the Board quickly realized that meeting in person was untenable in many cases and a long-standing practice that could not be sustained given the limitations on public gatherings and the Governor's declared state of emergency resulting from the explosive spread of COVID-19 and its subvariants.

Remote Connectivity as a Strategy for Improved Services to Stakeholders

In 2022, the Board relied upon current technology as an effective way to assure access to Board meetings, administrative hearings, and committee meetings primarily through WebEx remote connectivity. This technology facilitated the Board's work and its outreach to licensees and consumers. And, importantly, remote connectivity with the Board's computer network and server enabled employees to work remotely when necessary without interruption of services to stakeholders.

Amendments to Preneed and Continuing Education Rules

In addition to the integration of remote connectivity for Board meetings and other interactions with licensees and consumers, the Board discussed strategies for improvements in its services to stakeholders and its regulatory responsibilities set forth in general statutes and administrative rules. Under the leadership of Board President Chris Watson, the Board identified an apparent uptick in the number of disciplinary actions and administrative hearings resulting from non-compliance with preneed statutes and rules and misappropriation of consumers' funds in support of preneed contracts. In response to this concern, the Board authorized General Counsel to petition the NC Office of Administrative Hearings/Rules Review Commission to amend certain rules governing the licensure of preneed sales. These amendments primarily created a new condition for preneed sales licensure by requiring any first-time applicant for a preneed sales license to have completed a Board-sponsored educational course on preneed statutes and rules within the immediate three-year period prior to licensure.

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Significant Events (Continued)

As a result of temporary waivers for accrual of Continuing Education (CE) credits that the Board granted to licensees in 2020 and 2021, the Board approved amendments to its administrative rules governing continuing education credit in 2022. Prior to 2022, the Board's rules did not permit licensees to accrue more than two (2) hours of CE credit through online instruction. The waivers granted during the pandemic allowed licensees to accrue up to ten (10) hours of CE credit that could be applied to annual license renewal. Licensees could thus apply five (5) hours toward license renewal for a current year with an opportunity to roll-over an additional five (5) hours to the next succeeding renewal cycle. This amendment represented an important advantage for licensees since they were not required to travel or take extended time off from their professional duties to attend in-person continuing education courses. This advantage was particularly important in the second and third quarters of the year when the nation's economy was marked by rapidly increasing costs for gasoline and high inflation.

Another key advantage for licensees in meeting their annual continuing education accrual requirements was the Board's decision to lift the cap on the number of hours allowed for preneed instruction. Prior to 2022, the Board's rules capped the number of hours a licensee could accrue in preneed education to no more than (2) hours. Realizing that this limitation was inconsistent with the Board's initiative aimed at broadening the competency and training of preneed sales licensees, the Board petitioned the Rules Review Commission for an amendment to the existing rules to lift this cap on hours. By doing so, the Board signaled important support for maximum opportunity for licensees to acquire training and education on preneed statutes and rules as one strategy for minimizing the number of disciplinary actions and administrative hearings associated with inadequate competencies among licensees in the preneed program.

Amendments to the Funeral Practice Act

Throughout 2022, the NC Board of Funeral Service invested considerable time and effort in the study and analysis of The Funeral Practice Act (NC General Statutes, Article 13A, The Practice of Funeral Service). This intensive review was intended to identify barriers to licensure and employment of qualified, competent licensees in funeral directing and embalming. Given current metrics from the U.S. Department of Labor/Bureau of Labor Statistics, the employment outlook for funeral-related occupations suggests declining growth in the numbers of licensees available for employment through 2030. In response, the Board engaged in discussions about challenges that funeral establishments in North Carolina will face in their recruitment and retention of competent funeral professionals to fill their vacancies. Subsequent to those discussions, the Board authorized the following proposed statutory amendments to remove barriers to licensure and to alleviate the pressures imposed on funeral establishments for recruiting and retaining licensed funeral professionals:

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Management's Discussion and Analysis
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Significant Events (Continued)

- *Reciprocal Licensure*

An important source for the recruitment of funeral professionals are jurisdictions whose licensees may plan to relocate to North Carolina and wish to acquire a license by reciprocity. The Board's statutes governing reciprocal licensure could be considered unduly burdensome when considering that North Carolina requires licensure requirements in jurisdictions to be "equal to or greater than" those of North Carolina. In determining eligibility for reciprocal licensure, the Board is required to evaluate the requirements for examination, education and training "at the time the license was issued" in the other jurisdiction. To mitigate this stringent requirement, the Board voted affirmatively to seek legislation in the 2023 session of the NC General Assembly amending the reciprocal licensure statute by adopting a "substantially equivalent" standard and eliminating evaluation of licensure requirements from other jurisdictions "at the time the license was issued." If approved, these changes would facilitate the licensure of qualified, competent individuals from other jurisdictions.

- *Resident Traineeship Supervision*

Many licensed funeral establishments in North Carolina provide employment opportunity for resident trainees for hands-on instruction in their particular area of funeral service: funeral directing or embalming. This opportunity represents mutual advantage to both parties since funeral establishments have access to additional staff in a cost-effective way while prospective licensees can satisfy their traineeship requirements for hours and cases. The Board's current statutes limit the number of trainees that a qualified licensee may supervise at one time to no more than one (1) trainee. The Board authorized an amendment to the statute to allow up to two (2) trainees under the supervision of a qualified licensee. This increased number accomplishes two key objectives: increased employment opportunity for resident trainees and acceleration in the numbers of trainees eligible for licensure upon completion of their academic and examination requirements. Additionally, funeral establishments have increased opportunity for short-term employment of individuals who can enhance staffing when vacancies among licensed staff occur. This approach is another strategy the Board has adopted to eliminate barriers to licensure and to address a labor market shortage among licensed funeral professionals.

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Management's Discussion and Analysis
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Significant Events (Continued)

• *Proposed Fee Increases*

In 2022, staff presented budget recommendations to the Board for Fiscal Year 2023. In reviewing and considering staff's proposal for projected revenue and operating expenses, the Board approved modest increases in the Fiscal Year 2023 budget to reflect trends initially observed in 2020 for unanticipated revenue from cremation fees and preneed contracts. These trends likely result from the pandemic's impact on consumers. In considering projected increases in revenue and operating expenses for 2023, the Board learned that cremation fees which are currently \$10.00 per cremation were set by statute in 1989 and have not changed since then. The preneed contract registration fee of \$20.00 per contract was set by statute in 2014 and has not changed since then. As noted in its budget proposal, staff reported that the Board nets \$15.00 per preneed contract registration and does not accrue the entire \$20.00 fee since \$5.00 is dedicated for the Preneed Recovery Trust Fund. Realizing the annual increases in certain costs such as utilities, insurance, telephone and communications, information technology fees and office space fees, the Board is seeking amendments to relevant statutes to increase the cremation fees to \$20.00 per cremation and the preneed contract registration fees to \$25.00 per contract with \$5.00 per contract fee dedicated to the Preneed Recovery Trust Fund. These proposed, modest increases are projected to offset declining license fee revenues, and they prompted the Board's approval in December 2022 for a 3.1% projected increase in Revenue and a 2.2% increase in Operating Expenses. It was noted during these budget discussions that the Board staff complement has been reduced from 16 staff in 2018 to 13 staff in 2022 which further affirms the Board's fiscal responsibility in controlling and managing expenses.

Key Objectives for 2023

As referenced, the Board will seek sponsor(s) for legislation to amend the Funeral Practice Act to remove barriers associated with reciprocal licensure; to alleviate current limitations on the number of resident trainees under a supervisor; and to adjust fees for cremations and preneed contract registrations. Additionally, the Board has identified the following strategic goals and objectives for 2023:

Board Examinations

The Board is reviewing current examination requirements for licensees to determine the need for amendments to statutes or rules. Effective January 1, 2023, the Board's contracted examinations administrator, The Conference of Funeral Service Examining Boards ("The Conference"), streamlined state (SBE) and national (NBE) board examinations by collapsing the state board examinations into the national board examinations. The resulting board examinations are now known as the NBE – Arts and the NBE – Sciences. Additionally, the Board recognizes the need to update the NC Laws and Rules Examination which will be an important goal for 2023. Also under consideration is a staff proposal to determine whether or not to continue the Pathology Examination as a requirement for licensure in funeral directing. Graduates of the one-year diploma program in funeral directing are currently required to successfully complete a pathology course as a requirement for graduation, and the Board is considering whether or not this requirement duplicates its requirement for a similar examination for Funeral Director license candidates. The Board also recognizes that the Pathology Examination is not required for Funeral Director candidates if they apply for a provisional Funeral Director license. Those seeking licensure through a traditional, non-provisional pathway are, however, required to successfully pass the Pathology examination. Retention of the Pathology Examination will also require that The Conference update its content in 2023.

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Management's Discussion and Analysis
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Key Objectives for 2023 (Continued)

Administrative Rules for Removal and Transportation of Decedents

Among the license and permit categories that the Board offers is the Removal and Transportation permit which enables qualified individuals to engage in the removal and transportation of decedents from the origin of death to another location pursuant to NC General Statute 90-210.25(c). This statute enables the promulgation of rules in support of the transportation of decedents in consultation with the NC Office of the Chief Medical Examiner. The Board has discussed the need and content for administrative rules; and its Laws, Rules and Legislation Committee is evaluating rules for applying for a Removal and Transportation permit; for the annual renewal of the permit; for Standards for the Removal and Transportation of Dead Human Remains; Requirements for Removal Vehicles; and for Chain of Custody and Control. While North Carolina is one (1) of five (5) states with statutes that govern the removal and transportation of decedents, it does not currently have any administrative rules in place to administer the statutory requirements for removal and transportation.

Preneed Program Portal

The Board in early 2023 authorized staff to move forward with contractual arrangements for the development, implementation, administration and maintenance of an integrated online system for the submission and registration of preneed contracts; submission of Certificates of Performance; and online submission of registration fees and late fees. This integrated system enables the Board's capacity for enhanced and streamlined services to preneed funeral establishments, preneed sales licensees, and consumers. An important objective for this new platform is to facilitate the registration of preneed contracts and fees through online submission which is a reliable, timely, and verifiable method compared to the dependence on U.S. Postal Service delivery which is often inconsistent and untimely. Staff must currently review postmarks on mailing envelopes to determine whether or not contracts have been submitted within the deadlines established by statutes. The online Preneed Program Portal will eliminate the need for this ineffective, inefficient practice. This portal results from an initiative begun in 2019 to transition the Board's major programs to online platforms where feasible in an effort to streamline our services primarily to licensees in the submission of statutorily-mandated reports and fees. Current platforms available to licensees are: Annual Renewals, Cremation Reports; and Preneed Annual Reports.

These are the major objectives that the Board has thus far identified as significant with positive impacts on licensees and prospective licensees. The current Board President, Dr. Steven Lyons, has proposed a Board retreat in the fall of 2023 for the Board to gather and discuss emerging trends in funeral service; national trends in deregulation of occupational licensing boards; and long-term planning initiatives.

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, 2022 and 2021, 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, 2022 and 2021, 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 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. 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, 2022 and 2021, 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 1-8, 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 27, 2023

NORTH CAROLINA BOARD OF FUNERAL SERVICE**Statement of Net Position****December 31, 2022**

	2022		
	Enterprise Fund	Preneed Recovery Fund	Total
ASSETS:			
Current assets:			
Cash	\$ 1,815,154	\$ -	\$ 1,815,154
Cash held by state treasurer	-	613,778	613,778
Due from (to) other funds	(16,715)	16,715	-
Cremation fees receivable	56,855	-	56,855
Prepaid expenses	28,312	-	28,312
Total current assets	<u>1,883,606</u>	<u>630,493</u>	<u>2,514,099</u>
Noncurrent assets:			
Investments	150,409	-	150,409
Right to use leased assets, net of amortization	3,027	-	3,027
	<u>153,436</u>	<u>-</u>	<u>153,436</u>
Property and equipment - net of depreciation:			
Building and improvements	528,964	-	528,964
Furniture, equipment, and software	20,504	-	20,504
Total property and equipment - net of depreciation	<u>549,468</u>	<u>-</u>	<u>549,468</u>
Total assets	<u>2,586,510</u>	<u>630,493</u>	<u>3,217,003</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	55,072	-	55,072
Payroll liabilities	127	-	127
Lease liabilities, current portion	992	-	992
Unearned revenue	482,250	-	482,250
Reserve for losses on preneed contracts	-	72,000	72,000
Total current liabilities	<u>538,441</u>	<u>72,000</u>	<u>610,441</u>
Noncurrent liabilities:			
Reserve for losses on preneed contracts	-	88,000	88,000
Lease liabilities	2,083	-	2,083
Accrued vacation	27,842	-	27,842
Total noncurrent liabilities	<u>29,925</u>	<u>88,000</u>	<u>117,925</u>
Total liabilities	<u>568,366</u>	<u>160,000</u>	<u>728,366</u>
NET POSITION:			
Investment in capital assets	549,420	-	549,420
Unrestricted	1,468,724	-	1,468,724
Restricted	-	470,493	470,493
Total net position	<u>\$ 2,018,144</u>	<u>\$ 470,493</u>	<u>\$ 2,488,637</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Statement of Net Position

December 31, 2021

	2021		
	Enterprise Fund	Preneed Recovery Fund	Total
ASSETS:			
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	<u>1,834,854</u>	<u>526,246</u>	<u>2,361,100</u>
Noncurrent assets:			
Right to use leased assets, net of amortization	<u>5,915</u>	<u>-</u>	<u>5,915</u>
Property and equipment - net of depreciation:			
Building and improvements	558,008	-	558,008
Furniture, equipment, and software	<u>41,194</u>	<u>-</u>	<u>41,194</u>
Total capital assets - net of depreciation	<u>599,202</u>	<u>-</u>	<u>599,202</u>
Total assets	<u>2,439,971</u>	<u>526,246</u>	<u>2,966,217</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	70,866	-	70,866
Payroll liabilities	6,685	-	6,685
Lease liabilities, current portion	2,803	-	2,803
Unearned revenue	465,120	-	465,120
Reserve for losses on preneed contracts	<u>-</u>	<u>72,000</u>	<u>72,000</u>
Total current liabilities	<u>545,474</u>	<u>72,000</u>	<u>617,474</u>
Noncurrent liabilities:			
Reserve for losses on preneed contracts	-	88,000	88,000
Lease liabilities	3,075	-	3,075
Accrued vacation	<u>35,959</u>	<u>-</u>	<u>35,959</u>
Total noncurrent liabilities	<u>39,034</u>	<u>88,000</u>	<u>127,034</u>
Total liabilities	<u>584,508</u>	<u>160,000</u>	<u>744,508</u>
NET POSITION:			
Investment in capital assets	599,239	-	599,239
Unrestricted	1,256,224	-	1,256,224
Restricted	<u>-</u>	<u>366,246</u>	<u>366,246</u>
Total net position	<u>\$ 1,855,463</u>	<u>\$ 366,246</u>	<u>\$ 2,221,709</u>

See Notes to Financial Statements

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2022

	2022		
	Enterprise Fund	Preneed Recovery Fund	Total
Operating revenues:			
Preneed contract fees	\$ 371,615	\$ 123,850	\$ 495,465
License fees	590,260	-	590,260
Cremation fees	640,030	-	640,030
Burial Association income	7,738	-	7,738
Late fees	31,605	-	31,605
Traineeship	14,030	-	14,030
Board continuing education fees	2,850	-	2,850
Compromise penalties collected	40,300	-	40,300
Other income	36,460	-	36,460
Total operating revenues	<u>1,734,888</u>	<u>123,850</u>	<u>1,858,738</u>
Operating expenses:			
Salaries, payroll taxes and benefits	759,189	-	759,189
Professional fees	135,032	-	135,032
Occupancy and utilities	56,344	-	56,344
Travel	59,410	-	59,410
Board expenses	36,531	-	36,531
Printing and postage	24,829	-	24,829
Contracted services	256,050	-	256,050
Temporary services fees	28,360	-	28,360
Office supplies and expense	10,045	-	10,045
Miscellaneous	9,382	-	9,382
Compromise penalties remitted	40,300	-	40,300
Equipment maintenance	88,313	-	88,313
Lease expense, right to use leased assets	3,044	-	3,044
Depreciation	49,734	-	49,734
SBI fingerprinting	228	-	228
Insurance and bonding	13,915	-	13,915
Hearing expense	1,878	-	1,878
Claims paid, net of reimbursements	-	24,436	24,436
Total operating expenses	<u>1,572,584</u>	<u>24,436</u>	<u>1,597,020</u>
Operating income	162,304	99,414	261,718
Nonoperating revenues:			
Interest income	<u>377</u>	<u>4,833</u>	<u>5,210</u>
Changes in net position	162,681	104,247	266,928
Net position - beginning of year	<u>1,855,463</u>	<u>366,246</u>	<u>2,221,709</u>
Net position - end of year	<u>\$ 2,018,144</u>	<u>\$ 470,493</u>	<u>\$ 2,488,637</u>

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 maintenance	83,126	-	83,126
Lease expense, right to use leased assets	3,298	-	3,298
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>1,713,598</u>	<u>55,490</u>	<u>1,769,088</u>
Operating income (loss)	66,454	72,850	139,304
Nonoperating revenues:			
Interest income	<u>303</u>	<u>774</u>	<u>1,077</u>
Changes in net position	66,757	73,624	140,381
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>\$ 1,855,463</u>	<u>\$ 366,246</u>	<u>\$ 2,221,709</u>

See Notes to Financial Statements

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Statement of Cash Flows

Year Ended December 31, 2022

	2022		
	Enterprise Fund	Preneed Recovery Fund	Total
Cash flows from operating activities:			
Cash received from fees	\$ 1,754,968	\$ 146,660	\$ 1,901,628
Cash received for reimbursement of claims paid	-	4,000	4,000
Cash payments to employees for services	(773,864)	-	(773,864)
Cash payments to suppliers of goods and services	(667,715)	-	(667,715)
Cash payments for interest on leased assets	(156)	-	(156)
Cash payments for other operating expenses	(136,241)	(28,436)	(164,677)
Net cash provided by operating activities	<u>176,992</u>	<u>122,224</u>	<u>299,216</u>
Cash flows from capital and related financing activities:			
Payments on lease liabilities	(2,803)	-	(2,803)
Net cash used in capital and related financing activities	<u>(2,803)</u>	<u>-</u>	<u>(2,803)</u>
Cash flows from investing activities:			
Interest	-	4,833	4,833
Maturity of certificate of deposits	150,405	-	150,405
Purchase of certificate of deposits	(150,408)	-	(150,408)
Net cash provided by (used in) investing activities	<u>(3)</u>	<u>4,833</u>	<u>4,830</u>
Net increase in cash	174,186	127,057	301,243
Cash - beginning of year	<u>1,640,968</u>	<u>486,721</u>	<u>2,127,689</u>
Cash - end of year	<u>\$ 1,815,154</u>	<u>\$ 613,778</u>	<u>\$ 2,428,932</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 162,304</u>	<u>\$ 99,414</u>	<u>\$ 261,718</u>
Adjustment to reconcile operating income to net cash provided by operating activities:			
Amortization, leased assets	2,888	-	2,888
Depreciation	49,734	-	49,734
Changes in assets and liabilities:			
Due to/from funds	(22,810)	22,810	-
Cremation fees receivable	2,950	-	2,950
Prepaid expenses	(4,735)	-	(4,735)
Accounts payable	(15,794)	-	(15,794)
Payroll liabilities	(6,558)	-	(6,558)
Unearned revenue	17,130	-	17,130
Accrued vacation	(8,117)	-	(8,117)
Total adjustments	<u>14,688</u>	<u>22,810</u>	<u>37,498</u>
Net cash provided by operating activities	<u>\$ 176,992</u>	<u>\$ 122,224</u>	<u>\$ 299,216</u>

See Notes to Financial Statements

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 interest on leased assets	(237)	-	(237)
Cash payments for other operating expenses	(137,738)	(58,290)	(196,028)
Net cash provided by operating activities	<u>189,855</u>	<u>76,930</u>	<u>266,785</u>
Cash flows from capital and related financing activities:			
Payments on lease liabilities	(3,098)	-	(3,098)
Acquisition of property and equipment	(11,814)	-	(11,814)
Net cash used in capital and related financing activities	<u>(14,912)</u>	<u>-</u>	<u>(14,912)</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 (loss) to net cash provided by operating activities:			
Operating income (loss)	<u>\$ 66,454</u>	<u>\$ 72,850</u>	<u>\$ 139,304</u>
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:			
Amortization, leased assets	3,061	-	3,061
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>123,401</u>	<u>4,080</u>	<u>127,481</u>
Net cash provided by operating activities	<u>\$ 189,855</u>	<u>\$ 76,930</u>	<u>\$ 266,785</u>

See Notes to Financial Statements

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

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

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

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

Financial Reporting Entity

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and may be reported as such in the State's *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

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.

Changes in Financial Accounting and Reporting

For the fiscal year ended December 31, 2022, the Board implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No. 87 increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for all leases, including those that previously were classified as operating leases and recognized as income by lessors and expenditures by lessees. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

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.

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

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

Right-To-Use Leased Asset and Lease Liabilities

Leases that provide the Board the right-to-use an asset for a period of more than one year are considered a capital asset. Right-to-use leased assets are recorded at the initial measurement of the lease liability which equals the present value of all payments expected to be made during the lease term. The right-to-use leased assets are amortized on a straight-line basis over the term of the lease(s).

Lease liabilities represent the Board's financial obligation to make lease payments during the term of the lease and is measured at the present value of future lease payments.

Property and Equipment

Property and equipment, including software, 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.

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 total investment in capital assets. Capital assets include property and equipment, net of accumulated depreciation; right-to-use leased assets, net of accumulated amortization; and related lease liabilities.

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.

NORTH CAROLINA BOARD OF FUNERAL SERVICE

Notes to Financial Statements

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

Net Position (Continued)

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 \$1,511,892 at December 31, 2022.

The Board also has cash held by the State Treasurer totaling \$613,778 at December 31, 2022. These funds are part of the Short Term Investment Fund and are invested in U.S. Treasuries and other low-risk investments specifically authorized by statute.

The Board is subject to the following risks:

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk and credit risk at December 31, 2022, for the Board's investments.

Investment Type	Fair Value	Weighted Average Maturities	Ratings
Certificates of deposit	<u>\$ 150,409</u>	<u>20.4 months</u>	N/A

NORTH CAROLINA BOARD OF FUNERAL SERVICE**Notes to Financial Statements****NOTE 2 - DEPOSITS, INVESTMENTS, AND CONCENTRATIONS OF CREDIT RISK (Continued)**

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:

	2022	2021
Carrying amount of deposits with private financial institutions:		
Cash	\$ 1,815,154	\$ 1,640,968
Cash held by state treasurer	613,778	486,721
Investments in certificates of deposits	150,409	150,029
Total deposits and investments	<u>\$2,579,341</u>	<u>\$2,277,718</u>
Current:		
Cash	\$ 1,815,154	\$ 1,640,968
Cash held by State Treasurer	613,778	486,721
Investments in certificates of deposits	-	150,029
Total current	<u>2,428,932</u>	<u>2,277,718</u>
Noncurrent:		
Investments in certificates of deposits	150,409	-
Total deposits and investments	<u>\$2,579,341</u>	<u>\$2,277,718</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Changes in property and equipment for the years ended December 31, 2022 and 2021 are as follows:

	Cost 1/1/2021	Additions	Disposals/ Retirements	Cost 12/31/2022	Accum. Depreciation	Net Amount
Building	\$ 1,031,185	\$ -	\$ -	\$ 1,031,185	\$ 502,221	\$ 528,964
Furniture, equipment, software	319,104	-	-	319,104	298,600	20,504
	<u>\$ 1,350,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,350,289</u>	<u>\$ 800,821</u>	<u>\$ 549,468</u>
	Cost 1/1/2020	Additions	Disposals/ Retirements	Cost 12/31/2021	Accum. Depreciation	Net Amount
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>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 4 - CHANGES IN LONG-TERM LIABILITIES

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

	2022	2021
Beginning balance	\$ 35,959	\$ 51,456
Increases	31,812	39,307
Decreases	39,929	54,804
Ending balance	<u>\$ 27,842</u>	<u>\$ 35,959</u>
Current portion of balance	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 - RIGHT-TO-USE LEASED ASSETS AND RELATED LEASE LIABILITIES

The Board has leases providing the right-to-use a copier and other office equipment. Lease expenses were comprised of the following:

	2022	2021
Amortization expense by class of underlying asset		
Copy machine	\$ 1,906	\$ 2,079
Other office equipment	982	982
Amortization expense	2,888	3,061
Interest on lease liabilities	156	237
Total lease expense, right to use leased assets	<u>\$ 3,044</u>	<u>\$ 3,298</u>

Right-to-use leased assets activity:

	1/1/2021	Additions	Subtractions	12/31/2022
Copy machine	\$ 3,985	\$ -	\$ (3,985)	\$ -
Other office equipment	4,991	-	-	4,991
	<u>8,976</u>	<u>-</u>	<u>(3,985)</u>	<u>4,991</u>

Less: Accumulated amortization:

Copy machine	(2,079)	(1,906)	3,985	-
Other office equipment	(982)	(982)	-	(1,964)
	<u>(3,061)</u>	<u>(2,888)</u>	<u>3,985</u>	<u>(1,964)</u>
Right-to-use assets, net	<u>\$ 5,915</u>	<u>\$ (2,888)</u>	<u>\$ -</u>	<u>\$ 3,027</u>

	1/1/2020	Additions	Subtractions	12/31/2021
Copy machine	\$ 3,985	\$ -	\$ -	\$ 3,985
Other office equipment	4,991	-	-	4,991
	<u>8,976</u>	<u>-</u>	<u>-</u>	<u>8,976</u>

Less: Accumulated amortization:

Copy machine	-	(2,079)	-	(2,079)
Other office equipment	-	(982)	-	(982)
	<u>-</u>	<u>(3,061)</u>	<u>-</u>	<u>(3,061)</u>
Right-to-use assets, net	<u>\$ 8,976</u>	<u>\$ (3,061)</u>	<u>\$ -</u>	<u>\$ 5,915</u>

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 5 - RIGHT-TO-USE LEASED ASSETS AND RELATED LEASE LIABILITIES (Continued)

Lease liabilities were comprised of the following:

	<u>1/1/2021</u>	<u>Additions</u>	<u>Subtractions</u>	<u>12/31/2022</u>
Copy machine and other equipment	\$ 5,878	\$ -	\$ (2,803)	\$ 3,075
	<u>1/1/2020</u>	<u>Additions</u>	<u>Subtractions</u>	<u>12/31/2021</u>
Copy machine and other equipment	\$ 8,976	\$ -	\$ (3,098)	\$ 5,878

Future lease payments are comprised of the following:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2023	\$ 992	\$ 88	\$ -
2024	1,025	55	1,080
2025	1,058	22	1,080
2026	-	-	-
2027	-	-	-
Thereafter	-	-	-
	<u>\$ 3,075</u>	<u>\$ 165</u>	<u>\$ 2,160</u>

NOTE 6 - RETIREMENT PLAN

The Board established a defined contribution plan and trust during the fiscal year ended December 31, 1993. The 401(k) plan was amended and restated effective January 1, 2006. Participating employees may contribute up to the maximum allowable by law. Additionally, the Board makes a contribution of 3% plus a match of up to 3% of each participant's salary. The Board's contributions for the years ended December 31, 2022 and 2021, totaled \$27,708 and \$33,043, respectively. Contributions are immediately 100% vested. Employee retirement contributions totaled \$21,513 and \$20,540, for the years ended December 31, 2022 and 2021, 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, 2022. A reserve has been established for \$160,000 at December 31, 2022 and 2021, 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.

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 7 - LOSS CONTINGENCIES (Continued)

Preneed Recovery Fund (Continued)

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:

	2022	2021
Reserve for losses, beginning of year	\$ 160,000	\$ 160,000
Litigation fees paid	-	-
Claim payments, net of reimbursements	(24,436)	(55,490)
Claims incurred and unpaid	5,075	17,195
Change in general reserve for probable future claims	19,361	38,295
Reserve for losses, end of year	<u>\$ 160,000</u>	<u>\$ 160,000</u>

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 - RESTATEMENT

The adoption of GASB Statement No. 87 changed the manner in which the Board accounts for leases that provide the Board the right-to-use office space and a copier. Under GASB Statement No. 87, a lessee is required to recognize an intangible right-to-use lease asset and a lease liability. Right-to-use leased assets are recorded at the initial measurement of the lease liability which equals the present value of all payments expected to be made during the lease term. Right-to-use leased assets are amortized over the term of the lease contract. Lease payments are separated into interest expense and a reduction of the lease liabilities.

NORTH CAROLINA BOARD OF FUNERAL SERVICE
Notes to Financial Statements

NOTE 9 - RESTATEMENT (Continued)

The effects of the changes as of and for the year ended December 31, 2021 are as follows:

	As Originally Reported	As Adjusted	Effect of Change
Statement of Revenues, Expenses, and Changes in Net Position:			
Equipment maintenance	\$ 86,461	\$ 83,126	\$ (3,335)
Lease expense, right to use leased assets	-	3,298	3,298
Statement of Net Position:			
Right to use leased assets, net of amortization	\$ -	\$ 5,915	\$ 5,915
Lease liabilities, current portion	-	2,803	2,803
Lease liabilities	-	3,075	3,075

NOTE 10 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through April 27, 2023, 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 \$15,000.