

**NEW JERSEY STATE FUNERAL
DIRECTORS ASSOCIATION, INC.**

Financial Statements

December 31, 2015 and 2014

With Independent Auditors' Report

New Jersey State Funeral Directors Association, Inc.
Notes to Financial Statements
December 31, 2015 and 2014

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Independent Auditors' Report

To the Board of Directors,
New Jersey State Funeral Directors Association, Inc.
Wall, NJ

Report on the Financial Statements

We have audited the accompanying financial statements of New Jersey State Funeral Directors Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years then ended, 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.

Auditors' 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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.

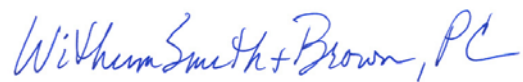
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey State Funeral Directors Association, Inc. as of December 31, 2015 and 2014, and its activities, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplemental schedules, as listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



April 11, 2016

New Jersey State Funeral Directors Association, Inc.
Statements of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents		
Checking	\$ 117,247	\$ 240,653
Savings	166,225	108,726
Petty cash	<u>350</u>	<u>350</u>
Total cash and cash equivalents	283,822	349,729
Accounts receivable	680	--
Prepaid expenses	15,429	13,960
Other current assets	28,772	19,270
Investments		
Mutual funds	1,949,505	2,208,668
Note receivable, related party	242,049	45,854
Investment in affiliate	<u>2,637,345</u>	<u>2,672,565</u>
	<u>\$ 5,157,602</u>	<u>\$ 5,310,046</u>
Liabilities and Net Assets		
Accounts payable	\$ 9,957	\$ 8,702
Accrued expenses	2,186	5,188
Due to related party	13,082	12,056
Due to affiliates	400	--
Deferred revenue	<u>222,222</u>	<u>201,250</u>
	247,847	227,196
Net assets, unrestricted	<u>4,909,755</u>	<u>5,082,850</u>
	<u>\$ 5,157,602</u>	<u>\$ 5,310,046</u>

The Notes to the Financial Statements are an integral part of these statements.

New Jersey State Funeral Directors Association, Inc.
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2015 and 2014

	2015	2014
Support and Revenue		
Member dues	\$ 340,925	\$ 341,473
Convention fees	369,369	400,026
Interest and dividends	61,705	56,670
Other income	--	156
Total support and revenue	<u>771,999</u>	<u>798,325</u>
Expenses		
Communications	28,476	35,866
Consultants	89,288	82,078
Convention	239,131	236,211
Governance	55,947	65,888
Insurance	11,852	11,110
Management fee	275,000	200,000
Office	63,534	40,861
TIER expenses	--	44,976
Bad debt	--	3,000
	<u>763,228</u>	<u>719,990</u>
Legal expenses	99,411	-
Total expenses	<u>862,639</u>	<u>719,990</u>
Change in net assets from operations	(90,640)	78,335
Non-Operating Income (Expense)		
Interest Income from KBF	7,078	--
Realized gain on investments	32,076	26,165
Unrealized (loss) on investments	(86,389)	(1,475)
Funeral Matters	--	45,854
Equity in (loss) income on investment in affiliate	(35,220)	46,266
	<u>(82,455)</u>	<u>116,810</u>
(Decrease) increase in net assets	(173,095)	195,145
Net assets, beginning of year	<u>5,082,850</u>	<u>4,887,705</u>
Net assets, end of year	<u>\$ 4,909,755</u>	<u>\$ 5,082,850</u>

The Notes to the Financial Statements are an integral part of these statements.

New Jersey State Funeral Directors Association, Inc.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (173,095)	\$ 195,145
Adjustments to reconcile change in net cash (used by) provided by operating activities		
Unrealized loss on investments	86,389	1,475
Realized gain on investments	(32,076)	(26,165)
Equity in loss (income) on investment in affiliate	35,220	(46,266)
Changes in operating assets and liabilities		
Accounts receivable	(680)	--
Prepaid expenses	(1,469)	(1,370)
Other current assets	(9,502)	(3,423)
Accounts payable	1,255	(1,607)
Accrued expenses	(3,002)	1,752
Due to/from related party	1,026	(3,575)
Due to affiliate	400	--
Deferred revenue	<u>20,972</u>	<u>(9,460)</u>
Net cash (used) provided by operating activities	(74,562)	106,506
Cash flows from investing activities		
Purchase of mutual funds	(448,576)	(825,970)
Proceeds from sale of mutual funds	653,426	389,362
Issuance of note receivable, related party	<u>(196,195)</u>	<u>(45,854)</u>
Net cash provided by (used in) investing activities	<u>8,655</u>	<u>(482,462)</u>
Net decrease cash and cash equivalents	(65,907)	(375,956)
Cash and cash equivalents, beginning of year	<u>349,729</u>	<u>725,685</u>
Cash and cash equivalents, end of year	<u>\$ 283,822</u>	<u>\$ 349,729</u>

The Notes to the Financial Statements are an integral part of these statements.

New Jersey State Funeral Directors Association, Inc.
Notes to Financial Statements
December 31, 2015 and 2014

1. Summary of Significant Accounting Policies

Nature of Activities

The New Jersey State Funeral Directors Association, Inc. (the "Association") was incorporated in 1919. Membership consists of funeral directors who are licensed by the State of New Jersey.

The aims and purpose of the Association are:

- a. To promote and cultivate the art and science of funeral directing and embalming.
- b. To elevate the professional character and education of funeral directors.
- c. To encourage among them mutual improvements and good will.
- d. To enlighten and direct public opinion in relation to the advantage of enacting proper, just and uniform laws on funeral directing and embalming in the State of New Jersey.
- e. To acquire property for the purpose for which this corporation was organized, by purchase, deed, gift, devise, bequest or otherwise and administer same.
- f. To publish reports and collectively represent, have cognizance of, and safeguard the common interest of its members and the public.
- g. To foster among its members high professional ideals of public service.

Financial statement presentation

The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association also uses fund accounting as is permitted by the accounting guidance provided by *Financial Statements for Not-for-Profit Organizations*. The Association had no temporarily or permanently restricted net assets at December 31, 2015 and 2014.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

The Association is a not-for-profit organization exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code. As a non-profit entity, the Association is also exempt from New Jersey sales and corporate income taxes.

The Association files information returns in the U.S. federal jurisdiction. The Association had no unrecognized tax benefits at December 31, 2015 and 2014. In addition, the Association has no income tax related penalties or interest for the periods reported in these financial statements.

Cash and Cash Equivalents

For purposes of the Statements of Financial Position and Statements of Cash Flows, the Association considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Extension of credit and credit terms are determined by management. The amounts are stated at unpaid balances, less an allowance for doubtful accounts. Allowances, if any, are based on management's estimation of collectability. It is the Association's policy to charge off uncollectible receivables when management determines that it has exhausted all collection efforts. There was no allowance for doubtful accounts at December 31, 2015 and 2014.

New Jersey State Funeral Directors Association, Inc.
Notes to Financial Statements
December 31, 2015 and 2014

Investments

Investments are comprised of mutual funds. Mutual funds are invested in debt and equity securities and are carried at fair value.

Investment in Affiliate

The Association records its investment in New Jersey Funeral Directors Services, Inc. (a for-profit entity) in accordance with the accounting guidance provided in ASC 323 Investments – Equity Method and Joint Ventures. This method provides that investments in companies in which the Association has an interest in excess of 20%, but does not possess a permanent controlling interest, should be carried at cost and adjusted for the Association’s proportionate share of their earnings or losses.

Support and Revenue

The Association records contributions and support as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Association received no temporarily or permanently restricted net assets at December 31, 2015 and 2014.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the years ended December 31, 2015 and 2014, there were no contributed goods or services meeting the requirements for recognition in the financial statements.

Dues revenue is recorded over the period of membership and fee and training revenue is recorded when the services have been rendered.

Sales Tax

The Association collects sales tax. The amount received is credited to a liability account and as payments are made, this account is charged. At any point in time, this account represents the net amount owed to the taxing authority for amounts collected but not yet remitted.

Risks and Uncertainties

The Association provides for various investment options in various combinations of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and such changes could materially affect the amounts reported on the balance sheets.

2. Investment in Affiliate

The Association is the owner of seventy-nine percent (79%) of the issued and outstanding stock of New Jersey Funeral Directors Services, Inc. At the discretion of NJ Funeral Directors Services, Inc. the Association may also receive dividends.

Summarized financial information for New Jersey Funeral Directors Services, Inc. is as follows:

	2015	2014
Total assets	\$ 3,992,280	\$ 4,063,625
Total liabilities	653,869	680,632
Total stockholders’ equity	<u>\$ 3,338,411</u>	<u>\$ 3,382,993</u>
Total revenue	<u>\$ 4,290,601</u>	<u>\$ 4,298,709</u>
Total expenses	<u>\$ 4,225,107</u>	<u>\$ 4,174,914</u>
Total comprehensive income	<u>\$ (44,582)</u>	<u>\$ 58,565</u>

New Jersey State Funeral Directors Association, Inc.
Notes to Financial Statements
December 31, 2015 and 2014

3. Investments

Investments consisted of the following at December 31:

	2015	2014
Mutual funds		
Large blend funds	\$ 302,191	\$ 297,786
Large value funds	215,056	275,966
Mid-cap growth funds	118,078	77,439
Small growth funds	56,871	58,967
High yield muni funds	46,961	40,766
Inflation-protected bond funds	24,365	158,250
Short government funds	0	126,604
Bank loan funds	46,144	27,867
Fixed income, tax exempt securities fund	1,107,553	1,145,023
European stock funds	32,286	--
	<u>\$ 1,949,505</u>	<u>\$ 2,208,668</u>

The following schedule summarizes the investment return and its classification in the Statements of Activities for the years ended December 31:

	2015	2014
Interest and dividends from investments	\$ 61,705	\$ 56,154
Realized gain on investments	32,076	26,165
Unrealized (loss) gain on investments	<u>(86,389)</u>	<u>(1,475)</u>
	<u>\$ 7,392</u>	<u>\$ 80,844</u>

4. Fair Value Accounting

The Association follows FASB's accounting pronouncement ASC 820 Fair Value Measurements and Disclosure. The pronouncement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosure about fair value measurements. Fair value is defined 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The pronouncement describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable.

These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect one's estimates of assumptions that a market participant would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Shares of mutual funds are valued at quoted market prices which represent the net asset value of shares held by the Association at year end.

There have been no changes in the methodologies used for periods presented in these financial statements.

New Jersey State Funeral Directors Association, Inc.
Notes to Financial Statements
December 31, 2015 and 2014

The following table represents the Association's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 283,822	\$ --	\$ --	\$ 283,822
Mutual funds	<u>1,949,505</u>	<u>--</u>	<u>--</u>	<u>1,949,505</u>
Total	<u>\$ 2,233,327</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,233,327</u>

The following table represents the Association's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 349,729	\$ --	\$ --	\$ 349,729
Mutual funds	<u>2,208,668</u>	<u>--</u>	<u>--</u>	<u>2,208,668</u>
Total	<u>\$ 2,558,397</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,558,397</u>

5. Program and Supporting Expenses

The Association is required to report its expenses on a functional basis. Expenses are charged to program and general and administrative expenses on the basis of periodic time and expense studies. Accordingly, total expenses were allocated among program and supporting services as follows:

	2015	2014
Program	\$ 295,078	\$ 302,099
General and administrative	567,561	417,891
Fundraising	<u>--</u>	<u>--</u>
	<u>\$ 862,639.</u>	<u>\$ 719,990</u>

6. Legal Expenses

In 2015, the NJSFDA supported the passage of legislation reaffirming that tax-exempt religious cemeteries are prohibited from improperly using their tax-exempt status to engage in for-profit activities related to the sale of monuments, vaults and funeral services in NJ. The Roman Catholic Archdiocese of Newark et al., subsequently filed a complaint against the State of New Jersey in U.S. District Court. The NJSFDA has been permitted to serve as an Intervenor Defendant in that case. Legal expenses related to the case totaled \$99,411 in 2015.

7. Related Party Transactions

The Association has entered into a management agreement with New Jersey Funeral Directors Services, Inc to provide it with office space, personnel and related services. Fees for these services were \$275,000 and \$200,000 in 2015 and 2014, respectively.

The Association owed New Jersey Funeral Director Services – PAC \$13,082 and \$12,056 at December 31, 2015 and 2014, respectively.

New Jersey State Funeral Directors Association, Inc.
Notes to Financial Statements
December 31, 2015 and 2014

The Association has entered into a line of credit agreement with Knowledge Based Funerals, LLC (“KBF”) during the year ended December 31, 2014 to fund operating expenses during the ramp-up period ending December 31, 2020. The borrowing base available was \$225,000, plus any investment income earned until advanced. Advances made to KBF will accrue interest at the rate of 4.0% per annum, compounding annually, from the date when made until repaid in full. Outstanding principal and interest will be repaid annually on the last business day in January of each fiscal year starting on the later of (i) the date which is 24 months after KBF first collects a monthly subscription fee for the deployment of its Funeral Matters product, or (ii) the date when the borrower has at least 60 subscribers to the product. The note matures on the earlier of (i) December 31, 2030, or (ii) ten years from the date of the lender’s final advance.

At December 31, 2015, the outstanding balance due to the Association is \$234,971 and the interest accrued is \$7,078. The outstanding principal balance at 12/31/2014 was \$45,854 and there was no interest accrued at that time since the advance was made on the last day of the year.

Due to the ownership interest in New Jersey Funeral Directors Services, Inc. (see Note 2), the Association can receive dividends based upon its ownership interest. No dividends were declared or paid during 2015 and 2014. The Executive Director and CFO of the Association are also the President and CFO of New Jersey Funeral Directors Services, Inc. and New Jersey Funeral Service Education Corp. The Executive Director and CFO of the Association are Trustees of New Jersey Prepaid Funeral Trust Fund. The Executive Director is also the Treasurer of New Jersey Funeral Directors – PAC.

8. Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash investments. At various times throughout 2015 and 2014, the Association had bank deposits in excess of federally insured limits. Management monitors the soundness of the financial institutions and they have not experienced any losses.

9. Commitments

In July 2014, Knowledge Based Funerals, LLC (“KBF”) was formed by Thanexus, Inc. and the New Jersey Funeral Directors Services, Inc. as the legal container for Funeral MattersSM, a system of print and internet based tools designed to provide a framework for, and to enhance communication between funeral homes and their clientele when deciding on pre-need and at-need arrangements. KBF will also provide performance-based analytical information for funeral homes to evaluate themselves against a statistical database of industry peers while improving their delivery of goods and services.

10. Subsequent Events

The Association has evaluated subsequent events occurring after the Statements of Financial Position date through the date of April 11, 2016, which is the date the financial statements were available to be issued. Based on this evaluation, the Association has determined that no subsequent events have occurred which require disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

New Jersey State Funeral Directors Association, Inc.
Schedule of Assets, Liabilities and Net Assets by Fund
December 31, 2015

	Total All Funds	Operating Fund	Research and Development Fund	Reserve and Legal Defense Fund
Assets				
Cash and cash equivalents				
Checking	\$ 117,247	\$ 117,247	\$ --	\$ --
Savings	166,225	55,803	--	110,422
Petty cash	<u>350</u>	<u>350</u>	<u>--</u>	<u>--</u>
Total cash and cash equivalents	283,822	173,400	--	110,422
Accounts receivable	680	680	--	--
Prepaid expenses	15,429	15,429	--	--
Other current assets	28,772	28,772	--	--
Investments				
Mutual funds	1,949,505	1,134,280	--	815,225
Note receivable, related party	242,049	--	242,049	--
Investment in affiliate	<u>2,637,345</u>	<u>2,637,345</u>	<u>--</u>	<u>--</u>
	<u>\$ 5,157,602</u>	<u>\$ 3,989,906</u>	<u>\$ 242,049</u>	<u>\$ 925,647</u>
Liabilities and Net Assets				
Accounts payable	\$ 9,957	\$ 9,957	\$ --	\$ --
Accrued expenses	2,186	2,186	--	--
Due from related party	13,082	13,082	--	--
Due from affiliates	400	400	--	--
Deferred revenue	<u>222,222</u>	<u>222,222</u>	<u>--</u>	<u>--</u>
	247,847	247,847	--	--
Net assets, unrestricted	<u>4,909,755</u>	<u>3,742,059</u>	<u>242,049</u>	<u>925,647</u>
	<u>\$ 5,157,602</u>	<u>\$ 3,989,906</u>	<u>\$ 242,049</u>	<u>\$ 925,647</u>

See Independent Auditors' Report.

New Jersey State Funeral Directors Association, Inc.
Schedule of Revenues and Expenses by Fund
Year Ended December 31, 2015

	Total All Funds	Operating Fund	Research and Development Fund	Reserve and Legal Defense Fund
Support and Revenue				
Member dues	\$ 340,925	\$ 340,925	\$ --	\$ --
Convention fees	369,369	369,369	--	--
Interest and dividends	61,705	31,054	2,054	28,597
Other Income	--	--	--	--
Total support and revenue	<u>771,999</u>	<u>741,348</u>	<u>2,054</u>	<u>28,597</u>
Expenses				
Communications	28,476	28,476	--	--
Consultants	89,288	89,288	--	--
Convention	239,131	239,131	--	--
Governance	55,947	55,947	--	--
Insurance	11,852	11,852	--	--
Management fee	275,000	275,000	--	--
Office	<u>63,534</u>	<u>53,865</u>	<u>665</u>	<u>9,004</u>
	763,228	753,559	665	9,004
Legal expenses	<u>99,411</u>	--	--	<u>99,411</u>
Total expenses	<u>862,639</u>	<u>753,559</u>	<u>665</u>	<u>108,415</u>
Change in net assets from operations	(90,640)	(12,211)	1,389	(79,818)
Non-Operating Income (Expense)				
Interest Income from KBF	7,078	--	7,078	--
Realized gain on investments	32,076	14,791	11,893	5,392
Unrealized (loss) on investments	(86,389)	(47,481)	(7,313)	(31,595)
Equity in (loss) on investment in affiliate	<u>(35,220)</u>	<u>(35,220)</u>	--	--
	<u>(82,455)</u>	<u>(67,910)</u>	<u>11,658</u>	<u>(26,203)</u>
Increase (decrease) in net assets	(173,095)	(80,121)	13,047	(106,021)
Net assets, beginning of year	<u>5,082,850</u>	<u>3,822,180</u>	<u>229,002</u>	<u>1,031,668</u>
Net assets, end of year	<u>\$ 4,909,755</u>	<u>\$ 3,742,059</u>	<u>\$ 242,049</u>	<u>\$ 925,647</u>

See Independent Auditors' Report.