

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Dakota State Board of Cosmetology
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the North Dakota State Board of Cosmetology as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the North Dakota State Board of Cosmetology's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit 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 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the North Dakota State Board of Cosmetology, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of employer's share of net pension liability, the schedule of employer contributions - pension, and the notes to the required supplementary information, as listed in the table of contents 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2019, on our consideration of the North Dakota State Board of Cosmetology's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota State Board of Cosmetology's internal control over financial reporting and compliance.



BRADY MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

February 7, 2019

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

Current assets

Cash and cash equivalents	\$ 279,115
Certificates of deposit	303,070
Interest receivable	261
Prepaid expenditures	2,173
Total current assets	<u>584,619</u>

Noncurrent assets

Depreciable property and equipment, net	<u>6,930</u>
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Total assets	<u>591,549</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflow - pension	<u>19,227</u>
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LIABILITIES

Current liabilities

Accounts payable	3,638
Payroll taxes and benefits payable	4,043
Current portion - capital lease payable	729
Current portion - compensated absences	5,370
Total current liabilities	<u>13,780</u>

Long-term liabilities

Due after one year:

Net pension liability	59,226
Capital lease payable	1,192
Compensated absences	7,006
Total long-term liabilities	<u>67,424</u>

Total liabilities	<u>81,204</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflow - pension	7,095
Unearned licenses	<u>128,282</u>

Total deferred inflows of resources	<u>135,377</u>
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NET POSITION

Net investment in capital assets	5,009
Unrestricted	<u>389,186</u>

Total net position	<u>\$ 394,195</u>
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See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs Governmental Activities:	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position Governmental Activities
Primary government:				
Licensing and oversight	\$ 354,311	\$ 332,002	\$ -	\$ (22,309)
General revenues:				
Interest income				659
Miscellaneous				769
Total general revenues				1,428
Total change in net position				(20,881)
Net position, July 1, 2016				415,076
Net position, June 30, 2017				\$ 394,195

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
BALANCE SHEET- GOVERNMENTAL FUNDS
JUNE 30, 2017

ASSETS

Current assets

Cash and cash equivalents	\$ 279,115
Certificates of deposit	303,070
Interest receivable	261
Prepaid expenditures	<u>2,173</u>

Total assets \$ 584,619

LIABILITIES

Current liabilities

Accounts payable	\$ 3,638
Payroll taxes and benefits payable	<u>4,043</u>

Total liabilities 7,681

DEFERRED INFLOWS OF RESOURCES

Unearned licenses	<u>128,282</u>
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FUND BALANCE

Non-spendable	2,173
Unassigned	<u>446,483</u>

Total fund balance 448,656

Total liabilities, deferred inflows
of resources, and fund balance \$ 584,619

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2017

Total governmental fund balances	\$	448,656
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Amounts reported in governmental activities in
the statement of net position are different because:

Capital assets used in the governmental activities are
not financial resources and therefore are not reported
in the funds

Cost of capital assets	23,956	
Less accumulated depreciation	<u>(17,026)</u>	
Net capital assets		6,930

Deferred outflows relating to the cost sharing defined benefit plan in the governmental activities are not financial resources, and therefore not reported in the governmental funds	19,227
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Deferred inflows relating to the cost sharing defined benefit plan in the governmental activities are not financial resources, and therefore are not reported in the governmental funds	(7,095)
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Liabilities that, because they are not due and payable in the
current period, do not require current resources to pay and are
therefore not reported in the fund statements:

Net pension liability	(59,226)
Capital lease	(1,921)
Compensated absences	<u>(12,376)</u>

Net position of governmental activities	\$	<u><u>394,195</u></u>
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See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

REVENUES

License renewals	\$ 202,749
Original licenses	39,592
Penalty on licenses	42,745
Reciprocity licenses	16,695
Fees	21,291
Duplicate licenses	2,730
Fines	6,200
Interest income	659
Miscellaneous	769
	<hr/>
Total revenues	333,430
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EXPENDITURES

Salaries	180,587
Travel	23,491
Professional services	22,920
Retirement	9,889
Payroll taxes	15,085
Employee insurance	14,114
Rent	18,813
Supplies/equipment/repair	13,198
Postage and box rent	15,463
Printing	16,794
Telephone	1,963
Property and risk insurance	37
Seminar	1,270
Capital outlay	3,078
Miscellaneous	10,292
Debt service:	
Principal retirement	2,188
Interest	264
	<hr/>
Total expenditures	349,446
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Net change in fund balance	(16,016)
Fund balance - July 1, 2016	464,672
	<hr/>
Fund balance - June 30, 2017	\$ 448,656
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See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net change in governmental fund balance	\$	(16,016)
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Amounts reported for the governmental activities
in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is depreciated over their estimated useful lives.

Expenditures for capital assets	3,078	
Less: current year depreciation	(3,719)	
Less: Loss on disposal	<u>(1,799)</u>	
		(2,440)

Changes in deferred inflows relating to net pension liability		(1,658)
Changes in deferred outflows relating to net pension liability		13,565

Some expenses reported in the statement of activities
do not require the use of current financial resources and,
therefore, are not reported as expenditures in
governmental funds.

Net change in compensated absences		(2,125)
Net change in net pension liability		(14,395)

The issuance of long-term debt (e.g. bonds, leases) provides
current financial resources to governmental funds, while
the repayment of the principal of long-term debt consumes
the current financial resources of governmental funds.
Neither transaction, however, has any effect on net position.

Capital lease principal payments		<u>2,188</u>
Change in net position of governmental activities	<u>\$</u>	<u>(20,881)</u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 DESCRIPTION OF THE BOARD AND REPORTING ENTITY

The North Dakota State Board of Cosmetology was created by North Dakota Statute (N.D.C.C. 43-11). The Board is charged with the responsibility of administering and licensing cosmetologists to practice in North Dakota.

Reporting Entity

The accompanying financial statements present the activities of the North Dakota State Board of Cosmetology. The Board has considered all potential component units for which the Board is financially accountable and other organizations for which the nature and significance of their relationships with the Board such that exclusion would cause the Board's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the North Dakota State Board of Cosmetology.

Based on these criteria, there are no component units to be included with the North Dakota State Board of Cosmetology as a reporting entity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Presentation

The Board's basic financial statements consist of government-wide statements and fund financial statements.

Government-Wide and Fund Financial Statements

The Statement of Net Position and Statement of Activities report information on all non-fiduciary activities of the Board. The Board reports all activities as governmental activities that are financed through fees. The Statement of Net Position presents the reporting entity's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. The net position is reported in two categories.

Net investment in capital assets consists of the amount of capital assets, net of accumulated depreciation, less any related debt.

Unrestricted net position consists of net position accumulated, but no restrictions on their use. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources which are imposed by management, but can be removed or modified.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include license renewals and other fees.

Separate fund financial statements are provided for the North Dakota State Board of Cosmetology's governmental fund.

Fund Accounting Structure

The Board uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The Board reports its general fund as a major governmental fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. It is currently the only fund of the Board.

Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid expenses; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board of Directors – the Board's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the Board's "intent" to be used for specific purposes, but are neither restricted nor committed. The Board has authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the fund.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

When both restricted and unrestricted resources are available for use, the Board's preference is to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned – in order as needed.

Basis of Accounting

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or if they are collected within 60 days after year-end.

Cash and Cash Equivalents

The Board considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

State statutes authorize the Board to invest in:

- (1.) Bonds, treasury bills, and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an Act of Congress.
- (2.) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3.) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.
- (4.) Obligations of the state.
- (5.) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

The investments of the Board at June 30, 2017, consisted of certificates of deposit. For risk analysis purposes, the certificates of deposit are classified as deposits.

Capital Assets

Capital assets are reported at actual historical cost. Contributed assets are reported at estimated acquisition value at the time received.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

Capital assets are defined by the Board as assets with an initial, individual cost of over \$500 and a useful life of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method of depreciation over 5 to 7 years.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The Board has one item that qualifies for reporting in this category named *Deferred outflow – pension* which represents actuarial differences within NDPERS pension plans as well as amounts paid to the plans after the measurement date. See note 6 for further details.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Board has two types of items that qualify for reporting in this category. Accordingly, the item, *Deferred inflow – unearned licenses*, is reported as deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent unearned license revenue as of June 30, 2017. The unearned license revenues are the result of the license period overlapping two fiscal years. The portion applicable to the next fiscal year is unearned license revenue in the current fiscal year. The second item, *Deferred Inflow – pension*, represents actuarial differences within NDPERS pension plans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. See note 6 for further details.

Compensated Absences

N.D.C.C 54-06-14 allows employees to accrue annual leave at a variable rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at April 30th each year. Employees are paid for unused annual leave upon termination or retirement.

N.D.C.C 54-06-14 states employees accrue sick leave at a rate of one working day per month of employment without limitation on the amount that can be accumulated. Employees vest at ten years of creditable service at which time the state is liable for ten percent of the employee's accumulated unused sick leave.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations such as capital leases are reported as liabilities in the governmental activities Statement of Net Position.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

In the fund financial statements, governmental fund types report the face amount of the debt as another financing source in the year of issuance, and payments on the debt as expenditures when incurred.

Revenue Recognition

Revenue is recorded for licenses, exams, and other miscellaneous fees. The Board considers these program revenues. Licenses are issued for a calendar year. Revenue is recognized when earned. Unearned license revenue represents 50% of the money collected for the calendar year licenses and permits before fiscal year end.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources relating to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and additions to/deductions from NDPERS fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 DEPOSITS

Custodial Credit Risk - Deposits

Custodial credit risk is risk associated with the failure of a depository financial institution to recover its deposits or collateralized securities that are in the possession of outside parties. The Board does not have a formal deposit policy for custodial credit risk for deposits.

In accordance with North Dakota Statutes, the Board maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

North Dakota State Board of Cosmetology maintains interest bearing cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000 per financial institution. At June 30, 2017, the Board had \$486,917 of deposits that were exposed to custodial credit risk. These deposits are deposited with the Bank of North Dakota and backed by the full faith and credit of the State of North Dakota.

NOTE 4 CAPITAL ASSETS

A summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2017 is as follows:

	<u>7/1/2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>6/30/2017</u>
Capital assets being depreciated:				
Equipment	<u>\$ 31,525</u>	<u>\$ 3,078</u>	<u>\$ 10,647</u>	<u>\$ 23,956</u>
Total capital assets being depreciated	<u>31,525</u>	<u>3,078</u>	<u>10,647</u>	<u>23,956</u>
Less accumulated depreciation for:				
Equipment	<u>22,155</u>	<u>3,719</u>	<u>8,848</u>	<u>17,026</u>
Total accumulated depreciation	<u>22,155</u>	<u>3,719</u>	<u>8,848</u>	<u>17,026</u>
Total capital assets, net	<u>\$ 9,370</u>	<u>\$ (641)</u>	<u>\$ 1,799</u>	<u>\$ 6,930</u>

As of June 30, 2017, equipment capitalized under a capital lease and the accumulated depreciation is as follows:

Equipment	\$ 10,085
Less: accumulated amortization shown as depreciation	<u>(8,436)</u>
Total	<u>\$ 1,649</u>

All depreciation expense was allocated to the licensing and oversight function on the Statement of Activities.

NOTE 5 LONG TERM OBLIGATIONS

During the year ended June 30, 2017, the following changes occurred in liabilities reported in long-term liabilities:

	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2017</u>	<u>Due Within One Year</u>
Net pension liability*	\$ 44,831	\$ 14,395	\$ -	\$ 59,226	\$ -
Compensated absences	10,250	6,294	(4,168)	12,376	5,370
Capital lease payable	4,109	-	(2,188)	1,921	729
Total	<u>\$ 14,359</u>	<u>\$ 6,294</u>	<u>\$ (6,356)</u>	<u>\$ 14,297</u>	<u>\$ 6,099</u>

* See Note 6 for more information on the net pension liability.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

The obligations for capital leases as of the years ended June 30, 2017 are as follows:

\$3,684 lease dated September 24, 2014 for the purchase of a mailing solution machine. Due in monthly principal and interest payments of \$70 through December 2019 with interest at 0.58%. \$ 1,921

The future lease obligations for the capital lease payable are as follows for the year ended June 30, 2017:

2018	\$ 839
2019	839
2020	420
Less: interest	<u>(177)</u>
Present value of minimum lease payments	<u>\$ 1,921</u>

NOTE 6 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to N.D.C.C. Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Board reported a liability of \$59,226 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the Board's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the Board's proportion was 0.006077 percent, which was a decrease of 0.000516 from its proportion measured at June 30, 2015.

For the year ended June 30, 2017, the Board recognized pension expense of \$7,102. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 890	\$ (548)
Changes of assumptions	5,460	(2,942)
Net difference between projected and actual earnings on pension plan investments	8,263	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(3,605)
Employer contributions subsequent to the measurement date	<u>4,614</u>	<u>-</u>
Total	<u>\$ 19,227</u>	<u>\$ (7,095)</u>

\$4,614 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$	1,245
2019		1,245
2020		3,048
2021		1,682
2022		298

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

Sensitivity of the Board's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate.

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	<u>\$ 84,011</u>	<u>\$ 59,226</u>	<u>\$ 38,344</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain or review this report should be addressed to the Executive Director – NDPERS, P.O. Box 1657, Bismarck, North Dakota 58502-1657.

NOTE 7 OPERATING LEASE

The Board signed a three-year lease for office space that commenced on September 1, 2013 and was terminated on August 31, 2016. On April 1, 2017, the Board entered into a new lease for office space that is set to expire on March 31, 2019. Rental expense was \$13,424 in the year ended June 30, 2017. The Board also incurred \$5,389 of other rental costs not associated with leases. Minimum future lease payments on the lease are as follows for the years ending June 30:

2018	\$ 23,094
2019	17,321

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE 8 RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Board participates in the following funds:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The Board also participates in the North Dakota Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period.

The Board participates in the North Dakota Risk Management Workplace Safety Program and purchases commercial insurance for employee health and accident insurance.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. 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. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on the Board's financial statements.

NOTE 10 SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 7, 2019, the date on which these financial statements were available to be issued.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS – BUDGET TO ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted, Original and Final	Actual	Variances with Final Budget, Positive (Negative)
REVENUES			
License renewals	\$ 211,435	\$ 202,749	\$ (8,686)
Original licenses	41,000	39,592	(1,408)
Penalty on licenses	35,000	42,745	7,745
Reciprocity licenses	18,000	16,695	(1,305)
Fees	22,000	21,291	(709)
Duplicate licenses	2,500	2,730	230
Fines	2,000	6,200	4,200
Interest income	1,000	659	(341)
Miscellaneous	-	769	769
	<u>332,935</u>	<u>333,430</u>	<u>495</u>
Total revenues			
EXPENDITURES			
Salaries	180,000	180,587	(587)
Travel	30,000	23,491	6,509
Professional services	18,000	22,920	(4,920)
Retirement	9,000	9,889	(889)
Payroll taxes	13,000	15,085	(2,085)
Employee insurance	14,000	14,114	(114)
Rent	33,000	18,813	14,187
Supplies/equipment/repair	20,000	13,198	6,802
Postage and box rent	10,000	15,463	(5,463)
Printing	7,000	16,794	(9,794)
Telephone	1,700	1,963	(263)
Property and risk insurance	1,500	37	1,463
Seminar	3,000	1,270	1,730
Capital outlay	-	3,078	(3,078)
Miscellaneous	1,000	10,292	(9,292)
Debt service:			
Principal retirement	-	2,188	(2,188)
Interest	-	264	(264)
	<u>341,200</u>	<u>349,446</u>	<u>(8,246)</u>
Total expenditures			
Net change in fund balance	\$ (8,265)	(16,016)	\$ (7,751)
Fund balance - July 1, 2016		<u>464,672</u>	
Fund balance - June 30, 2017		<u>\$ 448,656</u>	

See Notes to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered- employee payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.006077%	\$ 59,226	\$ 61,245	96.70%	70.46%
2016	0.006593%	44,831	58,739	76.32%	77.15%
2015	0.006636%	42,120	55,895	75.36%	77.70%

* Complete data for this schedule is not available prior to 2015.

See Notes to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION
LAST 10 FISCAL YEARS

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered- employee payroll	Contributions as a percentage of covered-employee payroll
2017	\$ 4,725	\$ (4,614)	\$ 111	\$ 64,803	7.12%
2016	4,434	(4,361)	73	61,245	7.12%
2015	4,461	(4,182)	279	58,739	7.12%

* Complete data for this schedule is not available prior to 2015.

See Notes to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE 1 BUDGETS

Budgetary Process

The budgetary process is prescribed by provisions of the Board and entails the preparation of budgetary documents within a reasonable timetable. Legally, North Dakota state law does not strictly impose a requirement on the Board to follow the budgetary process but the Board has chosen to prepare an annual budget.

Expenditures in Excess of Budget

The Board's general fund had expenditures in excess of \$8,246 for the year ended June 30, 2017. No remedial action is required or anticipated in regards to these expenditures.

NOTE 2 CHANGES OF ASSUMPTIONS

NDPERS Pension Plan

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
North Dakota State Board of Cosmetology
Bismarck, North Dakota

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 governmental activities and the major fund of the North Dakota State Board of Cosmetology, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise North Dakota State Board of Cosmetology's basic financial statements and have issued our report thereon dated February 7, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a material weakness.

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. We consider the deficiency described in the accompany schedule of findings and responses as item 2017-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Dakota State Board of Cosmetology's financial statements are free from 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*.

North Dakota State Board of Cosmetology's Response to Findings

North Dakota State Board of Cosmetology's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. North Dakota State Board of Cosmetology's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 performed 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.



BRADY MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

February 7, 2019

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

2017-001 – Material Weakness

Criteria

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

Cause

Size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

Views of Responsible Officials and Planned Corrective Actions:

The Board hired a bookkeeper to assist with the budget, quarterlies, monthly bank statements, annual W-2's and W-3's, and other accounting duties when needed.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

2017-002 – Significant Deficiency

Criteria

An appropriate system of internal control requires the Board to make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with accounting principles generally accepted in the United States of America. This requires the Board's personnel to maintain knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

Condition

The Board's auditors prepared the financial statements as of June 30, 2017. In addition, adjusting entries were proposed in order to bring the financial statements into compliance with GAAP. An appropriate system of internal controls requires that the Board make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the Board's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

Cause

It is currently not cost effective for the Board to maintain a working knowledge of current generally accepted accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with accounting principles generally accepted in the United States of America. However, the Board is aware of the deficiency and addresses it by reviewing and approving the completed statements and proposed adjusting entries prior to distribution to the end users.

Recommendation

We recommend that the Board reviews its current training system to determine if it is cost effective for the Board to obtain this knowledge internally. As a compensating control the Board should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Due to the financial, efficiency and time constraints, it has been determined by North Dakota State Board of Cosmetology's management that it is in the best interest of North Dakota State Board of Cosmetology and all interested parties to have the auditors assist with the adjusting entries and footnotes to the financial statements at the time of the audit.