NORTH DAKOTA STATE BOARD OF COSMETOLOGY
BISMARCK, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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BradyMartz

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 years ended June 30, 2020 and 2019, 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, 2020 and 2019, and the respective changes in financial position for the years 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, schedule of employer’s contributions – pension, schedule of employer’s share of net OPEB liability, schedule of employer’s contributions – OPEB, 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 January 24, 2021, 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 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

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

January 24, 2021

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF NET POSITION
JUNE 30, 2020

ASSETS	
Current assets	
Cash and cash equivalents	$ 361,904
Certificates of deposit	304,040
Interest receivable	261
Total current assets	666,205
Noncurrent assets	
Depreciable property and equipment, net	3,233
Total assets	669,438
DEFERRED OUTFLOWS OF RESOURCES	
Cost sharing defined benefit plan - pension	57,470
Cost sharing defined benefit plan - OPEB	2,713
Total deferred outflows of resources	60,183
LIABILITIES	
Current liabilities	
Accounts payable	4,235
Payroll taxes and benefits payable	6,177
Current portion - compensated absences	9,828
Unearned licenses	132,522
Total current liabilities	152,762
Long-term liabilities	
Due after one year:	
Net pension liability	92,512
Net OPEB liability	5,910
Compensated absences	16,318
Total long-term liabilities	114,740
Total liabilities	267,502
DEFERRED INFLOWS OF RESOURCES	
Cost sharing defined benefit plan - pension	47,797
Cost sharing defined benefit plan - OPEB	199
Total deferred inflows of resources	47,996
NET POSITION	
Net investment in capital assets	3,233
Unrestricted	410,890
Total net position	$ 414,123

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs Governmental Activities:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Primary government:				
Licensing and oversight	$ 357,283	$ 337,519	$ -	$ (19,764)
General revenues:				
Interest income				4,857
Miscellaneous				340
Total general revenues				5,197
Total change in net position				(14,567)
Net position, July 1, 2019				428,690
Net position, June 30, 2020				$ 414,123

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
BALANCE SHEET- GOVERNMENTAL FUNDS
JUNE 30, 2020

ASSETS	
Current assets	
Cash and cash equivalents	$ 361,904
Certificates of deposit	304,040
Interest receivable	261
Total assets	$ 666,205
LIABILITIES	
Current liabilities	
Accounts payable	$ 4,235
Payroll taxes and benefits payable	6,177
Unearned licenses	132,522
Total liabilities	142,934
FUND BALANCE	
Unassigned	523,271
Total fund balance	523,271
Total liabilities and fund balance	$ 666,205

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, 2020

Total governmental fund balances		$ 523,271
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	26,296	
Less accumulated depreciation	(23,063)	
Net capital assets		3,233
Deferred outflows relating to the cost sharing defined benefit plan for pension in the governmental activities are not financial resources, and therefore not reported in the governmental funds		57,470
Deferred outflows relating to the OPEB liability plan in the governmental activities are not financial resources, and therefore are not reported in the governmental funds		2,713
Deferred inflows relating to the cost sharing defined benefit plan for pension in the governmental activities are not financial resources, and therefore not reported in the governmental funds		(47,797)
Deferred inflows relating to the OPEB liability plan in the governmental activities are not financial resources, and therefore are not reported in the governmental funds		(199)
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		(92,512)
Net OPEB liability		(5,910)
Compensated absences		(26,146)
Net position of governmental activities		$ 414,123

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, 2020

REVENUES	
License renewals	$ 209,804
Original licenses	36,523
Penalty on licenses	44,205
Reciprocity licenses	16,278
Fees	20,839
Duplicate licenses	2,170
Fines	7,700
Interest income	4,857
Miscellaneous	340
Total revenues	342,716
EXPENDITURES	
Salaries	186,433
Travel	19,005
Professional services	7,158
Retirement	15,455
Payroll taxes	14,164
Employee insurance	36,103
Rent	25,769
Supplies/equipment/repair	15,050
Postage and box rent	8,420
Printing	6,948
Telephone	2,571
Property and risk insurance	33
Seminar	12
Capital outlay	2,340
Miscellaneous	979
Debt service:	
Principal retirement	411
Interest	8
Total expenditures	340,859
Net change in fund balance	1,857
Fund balance - July 1, 2019	521,414
Fund balance - June 30, 2020	$ 523,271

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, 2020

Net change in governmental fund balance		$ 1,857
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	2,340	
Less: current year depreciation	(1,474)	
		866
Changes in deferred inflows relating to net pension liability		(39,859)
Changes in deferred inflows relating to net OPEB liability		19
Changes in deferred outflows relating to net pension liability		9,882
Changes in deferred outflows relating to net OPEB liability		1,303
Some expenses reported in the statement of activities do not require the use of current financial resources and, therfore, are not reported as expenditures in governmental funds.		
Net change in compensated absences		(5,531)
Net change in net pension liability		17,571
Net change in net OPEB liability		(1,086)
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		411
Change in net position of governmental activities		$ (14,567)

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS	
Current assets	
Cash and cash equivalents	$ 353,363
Certificates of deposit	303,720
Interest receivable	261
Prepaid expenditures	781
Total current assets	658,125
Noncurrent assets	
Depreciable property and equipment, net	2,367
Total assets	660,492
DEFERRED OUTFLOWS OF RESOURCES	
Cost sharing defined benefit plan - pension	47,588
Cost sharing defined benefit plan - OPEB	1,410
Total deferred inflows of resources	48,998
LIABILITIES	
Current liabilities	
Accounts payable	2,805
Payroll taxes and benefits payable	3,255
Current portion - capital lease payable	411
Current portion - compensated absences	8,350
Unearned licenses	130,652
Total current liabilities	145,473
Long-term liabilities	
Due after one year:	
Net pension liability	110,083
Net OPEB liability	4,824
Compensated absences	12,264
Total long-term liabilities	127,171
Total liabilities	272,644
DEFERRED INFLOWS OF RESOURCES	
Cost sharing defined benefit plan - pension	7,938
Cost sharing defined benefit plan - OPEB	218
Total deferred inflows of resources	8,156
NET POSITION	
Net investment in capital assets	1,956
Unrestricted	426,734
Total net position	$ 428,690

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs Governmental Activities:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Primary government:				
Licensing and oversight	$ 325,250	$ 331,307	$ -	$ 6,057
General revenues:				
Interest income				7,016
Miscellaneous				2,339
Total general revenues				9,355
Total change in net position				15,412
Net position, July 1, 2018				413,278
Net position, June 30, 2019				$ 428,690

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2019

ASSETS	
Current assets	
Cash and cash equivalents	$ 353,363
Certificates of deposit	303,720
Interest receivable	261
Prepaid expenditures	782
Total assets	$ 658,126
LIABILITIES	
Current liabilities	
Accounts payable	$ 2,805
Payroll taxes and benefits payable	3,255
Unearned licenses	130,652
Total liabilities	136,712
FUND BALANCE	
Non-spendable	782
Unassigned	520,632
Total fund balance	521,414
Total liabilities and fund balance	$ 658,126

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE
STATMENT OF NET POSITION
JUNE 30, 2019

Total governmental fund balances		$ 521,414
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	(21,589)	
Net capital assets		2,367
Deferred outflows relating to the cost sharing defined benefit plan for pension in the governmental activities are not financial resources, and therefore not reported in the governmental funds		47,588
Deferred outflows relating to the OPEB liability in the governmental activities are not financial resources, and therefore not reported in the governmental funds		1,410
Deferred outflows relating to the cost sharing defined benefit plan for pension in the governmental activities are not financial resources, and therefore not reported in the governmental funds		(7,938)
Deferred inflows relating to the OPEB liability in the governmental activities are not financial resources, and therefore not reported in the governmental funds		(218)
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		(110,083)
Net OPEB liability		(4,825)
Capital lease		(411)
Compensated absences		(20,614)
Net position of governmental activities		$ 428,690

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, 2019

REVENUES	
License renewals	$ 207,647
Original licenses	36,811
Penalty on licenses	45,400
Reciprocity licenses	14,910
Fees	21,589
Duplicate licenses	2,450
Fines	2,500
Interest income	7,016
Miscellaneous	2,339
Total revenues	340,662
EXPENDITURES	
Salaries	168,446
Travel	20,992
Professional services	15,302
Retirement	10,991
Payroll taxes	15,057
Employee insurance	20,403
Rent	23,094
Supplies/equipment/repair	7,037
Postage and box rent	7,487
Printing	6,106
Telephone	2,542
Property and risk insurance	32
Seminar	3,355
Miscellaneous	6,129
Debt service:	
Principal retirement	781
Interest	58
Total expenditures	307,812
Net change in fund balance	32,850
Fund balance - July 1, 2018	488,564
Fund balance - June 30, 2019	$ 521,414

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, 2019

Net change in governmental fund balance		$ 32,850
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.		
Less: current year depreciation	(2,255)	
Changes in deferred inflows relating to net pension liability		(2,279)
Changes in deferred inflows relating to net OPEB liability		94
Changes in deferred outflows relating to net pension liability		(3,131)
Changes in deferred outflows relating to net OPEB liability		186
Some expenses reported in the statement of activities do not require the use of current financial resources and, therfore, are not reported as expenditures in governmental funds.		
Net change in compensated absences		(3,287)
Net change in net pension liability		(7,487)
Net change in net OPEB liability		(60)
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		781
Change in net position of governmental activities		$ 15,412

See Notes to the Financial Statements

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.

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

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.

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, 2020 and 2019, 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 acquisition value at the time received.

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 two items that qualify for reporting in this category named C*ost sharing defined benefit plan – pension* which represents actuarial differences within NDPERS pension plans as well as amounts paid to the plans after the measurement date and *Cost sharing defined benefit plan – OPEB* which represents the actuarial differences within the NDPERS OPEB liability. See notes 6 and 7 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, C*ost sharing defined benefit plan – 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. The second item is reported on the statement of net position as *Cost sharing defined benefit plan - OPEB*, which represents the actuarial differences within the NDPERS OPEB liability. See notes 6 and 7 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.

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.

Other Post Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and additions to/deduction from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments 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 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, 2020 and 2019, the Board had $576,559 and $562,564, respectively, 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, 2020 is as follows:

	7/1/2019	Additions	Disposals	6/30/2020
Capital assets being depreciated:				
Equipment	$ 23,956	$ 2,340	$ -	$ 26,296
Total capital assets being depreciated	23,956	2,340	-	26,296
Less accumulated depreciation for:				
Equipment	21,589	1,474	-	23,063
Total accumulated depreciation	21,589	1,474	-	23,063
Total capital assets, net	$ 2,367	$ 866	$ -	$ 3,233

A summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2019 is as follows:

	7/1/2018	Additions	Disposals	6/30/2019
Capital assets being depreciated:				
Equipment	$ 23,956	$ -	$ -	$ 23,956
Total capital assets being depreciated	23,956	-	-	23,956
Less accumulated depreciation for:				
Equipment	19,334	2,255	-	21,589
Total accumulated depreciation	19,334	2,255	-	21,589
Total capital assets, net	$ 4,622	$ (2,255)	$ -	$ 2,367

As of June 30, 2020 and 2019, equipment capitalized under a capital lease and the accumulated depreciation is as follows:

	2020	2019
Equipment	$ 10,085	$ 10,085
Less: accumulated amortization shown as depreciation	(10,085)	(9,962)
Total	$ -	$ 123

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

NOTE 5 LONG TERM OBLIGATIONS

During the year ended June 30, 2020, the following changes occurred in liabilities reported in long-term liabilities:

	Balance 7/1/2019	Additions	Reductions	Balance 06/30/20	Due Within One Year
Net pension liability*	$110,083	$ 58,578	$ (76,149)	$ 92,512	$ -
Net OPEB liability**	4,824	2,773	(1,687)	5,910	-
Compensated absences	20,614	7,862	(2,330)	26,146	9,828
Capital lease payable	411	-	(411)	-	-
Total	$135,932	$ 69,213	$ (80,577)	$124,568	$ 9,828

During the year ended June 30, 2019, the following changes occurred in liabilities reported in long-term liabilities:

	Balance 7/1/2018	Additions	Reductions	Balance 6/30/2019	Due Within One Year
Net pension liability*	$102,596	$ 38,274	$ (30,787)	$110,083	$ -
Net OPEB Liability**	4,764	1,395	(1,335)	4,824	-
Compensated absences	17,328	6,899	(3,613)	20,614	8,350
Capital lease payable	1,192	-	(781)	411	411
Total	$125,880	$ 46,568	$ (36,516)	$135,932	$ 8,761

*See note 6 for more information on the net pension liability.
**See note 7 for more information on the net OPEB liability.

There were no obligations for capital leases as of the year ended June 30, 2020.

The obligations for capital leases as of the year ended June 30, 2019 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%.	$ 411

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 nine 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, one member elected by the retired public employees and 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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

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

At June 30, 2020 and 2019, the Board reported a liability of $92,512 and $110,083, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, 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, 2019, the Board's proportion was 0.007893 percent, which was an increase of 0.014416 percent from its proportion measured of 0.006523 as of June 30, 2018. At June 30, 2018, the Board's proportion was 0.006523 percent, which was an increase of 0.012906 percent from its proportion measured of 0.006383 percent as of June 30, 2017.

For the year ended June 30, 2020, the Board recognized pension expense of $19,617. At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 55	$ (16,789)
Changes of assumptions	34,569	(29,681)
Net difference between projected and actual earnings on pension plan investments	1,612	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,023	(1,327)
Employer contributions subsequent to the measurement date	7,211	-
Total	$ 57,470	$ (47,797)

$7,211 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 ending June 30, 2021.

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 ending June 30:		
2021	$	5,850
2022		3,998
2023		3
2024		(5,509)
2025		(1,880)

For the year ended June 30, 2019, the Board recognized pension expense of $18,025. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		**Deferred Inflows of Resources**	
Differences between expected and actual experience	$	291	$	(3,745)
Changes of assumptions		39,738		(1,571)
Net difference between projected and actual earnings on pension plan investments		-		(536)
Changes in proportion and differences between employer contributions and proportionate share of contributions		2,431		(2,086)
Employer contributions subsequent to the measurement date		5,128		-
Total	$	47,588	$	(7,938)

$5,128 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 ending June 30, 2020.

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 ending June 30:		
2020	$	11,195
2021		9,728
2022		8,231
2023		4,991
2024		377

Actuarial Assumptions

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%		
Salary increases	Service At Beginning of Year	State Employee	Non-State Employee
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
	Age*		
	Under 30	7.25%	10.00%
	30-39	6.50%	7.50%
	40-49	6.25%	6.75%
	50-59	5.75%	6.50%
	60+	5.00%	5.25%
Investment rate of return	7.50%, net of investment expenses		
Cost-of-living adjustments	None		

*Age-based salary increase rates apply for employees with three or more years of service.

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	2.50%		
Salary increases	Service At Beginning of Year	State Employee	Non-State Employee
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
	Age*		
	Under 30	7.25%	10.00%
	30-39	6.50%	7.50%
	40-49	6.25%	6.75%
	50-59	5.75%	6.50%
	60+	5.00%	5.25%
Investment rate of return	7.75%, net of investment expenses		
Cost-of-living adjustments	None		

*Age-based salary increase rates apply for employees with three or more years of service.

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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 as of July 1, 2019 and 2018 are summarized in the following table:

July 1, 2019

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equities	30.00%	6.25%
International Equities	21.00%	6.95%
Private Equities	7.00%	10.15%
Domestic Fixed Income	23.00%	2.11%
Global Real Assets	19.00%	5.41%

July 1, 2018

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equities	30.00%	6.05%
International Equities	21.00%	6.71%
Private Equities	7.00%	10.20%
Domestic Fixed Income	23.00%	1.45%
Global Real Assets	19.00%	5.11%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments in the July 1, 2019 and July 1, 2018 actuarial reports is 7.50% and 7.75%; the municipal bond rate is 3.13% and 3.62%; and the resulting Single Discount Rate is 7.50% and 6.32%, respectively.

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 as of June 30, 2019 and 2018, calculated using the discount rate of 7.50 and 6.32 percent, respectively, 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 (6.50 and 5.32 percent) or 1-percentage-point higher (8.50 and 7.32 percent) than the current rate.

At June 30, 2020:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Employer's proportionate share of the net pension liability	$ 132,642	$ 92,512	$ 58,795

At June 30, 2019:

	1% Decrease 5.32%	Current Discount Rate 6.32%	1% Increase 7.32%
Employer's proportionate share of the net pension liability	$ 149,582	$ 110,083	$ 77,122

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 OTHER POST EMPLOYMENT BENEFITS

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine 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, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as *"prefunded credit applied"* on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The benefits are equal to $5.00 for each of the employee’s, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020 and 2019, the Board reported a liability of $5,910 and $4,824, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Board's proportion of the net OPEB liability was based on the Board's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2019, the Board's proportion was 0.007358 percent, which was an increase of 0.001233 percent from its proportion measured of 0.006125 as of June 30, 2018. At June 30, 2018, the Board’s proportion was 0.006125 percent, which was an increase of 0.000102 percent from its proportion measured of 0.006023 percent as of June 30, 2017.

For the year ended June 30, 2020, the Board recognized OPEB expense of $919. At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 146	$ (185)
Changes of assumptions	704	-
Net difference between projected and actual earnings on OPEB plan investments	7	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	698	(14)
Employer contributions subsequent to the measurement date	1,155	-
Total	$ 2,710	$ (199)

$1,155 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021.

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

Year ending June 30:	
2021	$ 219
2022	219
2023	274
2024	264
2025	201
Thereafter	179

For the year ended June 30, 2019, the Board recognized OPEB expense of $605. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 144	$ (100)
Changes of assumptions	396	-
Net difference between projected and actual earnings on OPEB plan investments	-	(104)
Changes in proportion and differences between employer contributions and proportionate share of contributions	49	(15)
Employer contributions subsequent to the measurement date	821	-
Total	$ 1,410	$ (218)

$821 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related OPEBs will be recognized in OPEB expense as follows:

Year ending June 30:	
2020	$ 47
2021	47
2022	47
2023	92
2024	84
Thereafter	54

Actuarial assumptions.

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.25%, net of investment expenses
Cost-of-living adjustments	None

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, 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 set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC 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. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2019 and 2018 are summarized in the following tables:

July 1, 2019

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Large Cap Domestic Equities	33.00%	6.00%
Small Cap Domestic Equities	6.00%	7.30%
Domestic Fixed Income	40.00%	2.07%
International Equities	21.00%	6.95%

July 1, 2018

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37.00%	7.15%
Small Cap Domestic Equities	9.00%	14.42%
Core-Plus Fixed Income	40.00%	0.10%
International Equities	14.00%	8.83%

Discount rate.

The discount rate used to measure the total OPEB liability was 7.25% and 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2019, and July 1, 2018, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate.

The following presents the net OPEB liability of the Plans as of June 30, 2019 and 2018, calculated using the discount rate of 7.25% and 7.50%, respectively, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 and 6.50 percent) or 1-percentage-point higher (8.25 and 8.50 percent) than the current rate:

At June 30, 2020:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Employer's proportionate share of the net OPEB liability	$ 7,543	$ 5,910	$ 4,512

At June 30, 2019:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Employer's proportionate share of the net OPEB liability	$ 6,103	$ 4,824	$ 3,727

OPEB plan fiduciary net position

Detailed information about the OPEB 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 8 OPERATING LEASE

The Board signed a lease that commenced on April 1, 2017 and was set to expire on March 31, 2019. The lease was renewed for an additional two years. Rental expense was $25,769 and $23,094 for the years ended June 30, 2020 and 2019, respectively. Minimum lease payments on the lease are as follows for the years ending June 30:

2021	$ 24,326
2022	6,126

NOTE 9 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 10 NEW ACCOUNTING PRONOUNCEMENTS

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 June 15, 2021. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information* Arrangements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

NOTE 11 SUBSEQUENT EVENT

No significant events occurred subsequent to the Board's year end. Subsequent events have been evaluated through January 24, 2021, which is the date 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, 2020

	Budgeted, Original and Final	Actual	Variances with Final Budget, Positive (Negative)
REVENUES			
License renewals	$ 207,875	$ 209,804	$ 1,929
Original licenses	29,550	36,523	6,973
Penalty on licenses	40,000	44,205	4,205
Reciprocity licenses	12,000	16,278	4,278
Fees	20,500	20,839	339
Duplicate licenses	2,200	2,170	(30)
Fines	2,000	7,700	5,700
Interest income	1,000	4,857	3,857
Miscellaneous	400	340	(60)
Total revenues	315,525	342,716	27,191
EXPENDITURES			
Salaries	195,000	186,433	8,567
Travel	20,500	19,005	1,495
Professional services	9,000	7,158	1,842
Retirement	15,600	15,455	145
Payroll taxes	15,400	14,164	1,236
Employee insurance	31,120	36,103	(4,983)
Rent	23,787	25,769	(1,982)
Supplies/equipment/repair	14,500	15,050	(550)
Postage and box rent	8,000	8,420	(420)
Printing	6,500	6,948	(448)
Telephone	2,550	2,571	(21)
Property and risk insurance	50	33	17
Seminar	2,000	12	1,988
Capital outlay	-	2,340	(2,340)
Miscellaneous	2,310	979	1,331
Debt service:			
Principal retirement	-	411	(411)
Interest	-	8	(8)
Total expenditures	346,317	340,859	5,458
Net change in fund balance	$ (30,792)	1,857	$ 32,649
Fund balance - July 1, 2019		521,414	
Fund balance - June 30, 2020		$ 523,271	

See Notes to the Required Supplementary Information

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, 2019

	Budgeted, Original and Final	Actual	Variances with Final Budget, Positive (Negative)
REVENUES			
License renewals	$ 204,360	$ 207,647	$ 3,287
Original licenses	28,715	36,811	8,096
Penalty on licenses	40,000	45,400	5,400
Reciprocity licenses	12,000	14,910	2,910
Fees	18,775	21,589	2,814
Duplicate licenses	2,500	2,450	(50)
Fines	2,000	2,500	500
Interest income	640	7,016	6,376
Miscellaneous	400	2,339	1,939
Total revenues	309,390	340,662	31,272
EXPENDITURES			
Salaries	214,000	168,446	45,554
Travel	17,000	20,992	(3,992)
Professional services	23,000	15,302	7,698
Retirement	15,500	10,991	4,509
Payroll taxes	-	15,057	(15,057)
Employee insurance	27,220	20,403	6,817
Rent	24,300	23,094	1,206
Supplies/equipment/repair	9,100	7,037	2,063
Postage and box rent	8,000	7,487	513
Printing	7,000	6,106	894
Telephone	2,000	2,542	(542)
Property and risk insurance	1,500	32	1,468
Seminar	3,000	3,355	(355)
Miscellaneous	8,310	6,129	2,181
Debt service:			
Principal retirement	-	781	(781)
Interest	-	58	(58)
Total expenditures	359,930	307,812	52,118
Net change in fund balance	$ (50,540)	32,850	$ 83,390
Fund balance - July 1, 2018		488,564	
Fund balance - June 30, 2019		$ 521,414	

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
2020	0.007893%	$ 92,512	$ 72,023	128.45%	71.66%
2019	0.006523%	110,083	66,938	164.45%	63.53%
2018	0.006383%	102,596	65,156	157.46%	61.98%
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
2020	$ 7,211	$ (7,211)	$ -	$ 101,277	7.12%
2019	5,128	(5,128)	-	72,023	7.12%
2018	4,766	(4,766)	-	66,938	7.12%
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
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
LAST 10 FISCAL YEARS*

	Employer's proportion of the net OPEB liability (asset)	Employer's proportionate share of the net OPEB liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2020	0.007358%	$ 5,910	$ 72,023	8.21%	63.13%
2019	0.006125%	4,824	66,938	7.21%	61.89%
2018	0.006023%	4,764	65,156	7.31%	59.78%

* Complete data for this schedule is not available prior to 2018.

See Notes to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
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
2020	$ 1,155	$ (1,155)	$ -	$ 101,277	1.14%
2019	821	(821)	-	72,023	1.14%
2018	763	(763)	-	66,930	1.14%

* Complete data for this schedule is not available prior to 2018.

See Notes to the Required Supplementary Information

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.

NOTE 2 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB

Changes of pension benefit terms.

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes of OPEB benefit terms.

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

NOTE 3 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB

Changes of pension assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

Changes of OPEB assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.50% to 7.25%.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

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 years ended June 30, 2020 and 2019, 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 January 24, 2021.

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) as a basis for designing 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 material weaknesses 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 deficiencies described in the accompanying schedule of findings and responses as items #2 and #3 to be material weaknesses.

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 #1 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 statements. 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

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

January 24, 2021

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

#1 – Significant Deficiency: Preparation of Financial Statements

Criteria
An appropriate system of internal control requires the Board to determine that financial statements 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 and required financial statement disclosures.

Condition
The Board's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the Board does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause
The Board's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current 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 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 footnotes to the financial statements prepared by the auditing firm at the time of the audit.

#2 – Material Weakness: Segregation of Duties

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.

#3 – Material Weakness: Journal Entries

Criteria
The Board is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition
During our audit, adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with GAAP.

Cause
The Board's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on a GAAP basis.

Effect
An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with GAAP prior to the audit.

Recommendation
Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. 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.

Views of Responsible Officials and Planned Corrective Actions
Due to the financial, efficiency and time constraints, it has been determined by the Board and the management of the North Dakota State Board of Cosmetology that it is in the best interest of the North Dakota State Board of Cosmetology and all interested parties to have adjustments proposed by the auditing firm in order to for the general ledger accounts to be reflected on a GAAP basis.