

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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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 Audit of the Financial Statements

#### ***Opinion***

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, 2022 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.

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, 2022, 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.

#### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, North Dakota State Board of Cosmetology changed its method of accounting for leases in 2022 due to the adoption of GASB Statement No. 87, *Leases*, see note 8 to the financial statements. Our opinion is not modified with respect to this matter.

#### ***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the North Dakota State Board of Cosmetology, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota State Board of Cosmetology's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota State Board of Cosmetology's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota State Board of Cosmetology's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 May 10, 2023, 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 & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

May 10, 2023

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2022**

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 266,282
Certificates of deposit	304,715
Interest receivable	261
Total current assets	<u>571,258</u>
Noncurrent assets	
Depreciable property and equipment, net	1,210
Lease asset, net	67,907
Total noncurrent assets	<u>69,117</u>
Total assets	<u>640,375</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Cost sharing defined benefit plan - pension	135,899
Cost sharing defined benefit plan - OPEB	3,735
Total deferred outflows of resources	<u>139,634</u>

**LIABILITIES**

Current liabilities	
Accounts payable	13,113
Accrued wages	598
Payroll taxes and benefits payable	5,292
Current portion - lease liability	24,900
Current portion - compensated absences	9,744
Unearned licenses	130,543
Total current liabilities	<u>184,190</u>
Long-term liabilities	
Due after one year:	
Net pension liability	98,477
Net OPEB liability	5,458
Interest payable	63
Lease liability	44,088
Compensated absences	23,520
Total long-term liabilities	<u>171,606</u>
Total liabilities	<u>355,796</u>

**DEFERRED INFLOWS OF RESOURCES**

Cost sharing defined benefit plan - pension	189,006
Cost sharing defined benefit plan - OPEB	2,028
Total deferred inflows of resources	<u>191,034</u>

**NET POSITION**

Net investment in capital and leased assets	129
Unrestricted	233,050
Total net position	<u>\$ 233,179</u>

See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2022**

Functions/Programs Governmental Activities:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government:				
Licensing and oversight	\$ 408,145	\$ 339,702	\$ -	\$ (68,443)
General revenues:				
Interest income				964
Miscellaneous				59
Total general revenues				1,023
Total change in net position				(67,420)
Net position, July 1, 2021				300,599
Net position, June 30, 2022				\$ 233,179

See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**BALANCE SHEET- GOVERNMENTAL FUNDS**  
**JUNE 30, 2022**

	<u><b>General Fund</b></u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 266,282
Certificates of deposit	304,715
Interest receivable	<u>261</u>
Total assets	<u><u>\$ 571,258</u></u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 13,113
Accrued wages	599
Payroll taxes and benefits payable	5,292
Unearned licenses	<u>130,543</u>
Total liabilities	<u>149,547</u>
<b>FUND BALANCE</b>	
Unassigned	<u>421,711</u>
Total fund balance	<u>421,711</u>
Total liabilities and fund balance	<u><u>\$ 571,258</u></u>

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, 2022**

Total governmental fund balances	\$	421,711
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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	26,296	
Less accumulated depreciation	(25,086)	
Lease assets	92,245	
Less accumulated amortization	<u>(24,338)</u>	
Net capital and lease assets		69,117

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	135,899
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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	3,735
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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	(189,006)
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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	(2,028)
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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		(98,477)
Net OPEB liability		(5,458)
Lease liability		(68,988)
Accrued interest		(63)
Compensated absences		<u>(33,263)</u>

Net position of governmental activities	\$	<u>233,179</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, 2022**

	<u><b>General Fund</b></u>
<b>REVENUES</b>	
License renewals	\$ 209,455
Original licenses	39,382
Penalty on licenses	49,250
Reciprocity licenses	13,073
Fees	19,742
Duplicate licenses	2,050
Fines	6,750
Interest income	964
Miscellaneous	59
	<hr/>
Total revenues	340,725
	<hr/>
<b>EXPENDITURES</b>	
Salaries	193,620
Travel	26,869
Professional services	47,163
Retirement	13,404
Payroll taxes	21,898
Employee insurance	21,727
Rent	1,237
Supplies/equipment/repair	14,505
Postage and box rent	9,044
Printing	4,677
Telephone	2,700
Property and risk insurance	42
Advertising	2,190
Miscellaneous	2,550
Debt service:	
Principal retirement	23,187
Interest	81
	<hr/>
Total expenditures	384,894
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Net change in fund balance	(44,169)
Fund balance - July 1, 2021	465,880
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Fund balance - June 30, 2022	\$ 421,711
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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, 2022**

Net change in governmental fund balance	\$	(44,169)
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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.

Current year depreciation	(939)	
Current year amortization	<u>(24,338)</u>	
Total		(25,277)

Changes in deferred inflows relating to net pension liability		(147,000)
Changes in deferred inflows relating to net OPEB liability		(1,833)
Changes in deferred outflows relating to net pension liability		(68,524)
Changes in deferred outflows relating to net OPEB liability		(534)

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		(4,529)
Net change in net pension liability		199,011
Net change in net OPEB liability		2,240
Net change in accrued interest		(63)

Repayment of long-term debt reported as an expenditure  
in the governmental funds but the repayment reduces  
long-term liabilities in the statement of net position.  
In the current year, these consist of:

Lease liability payments		<u>23,258</u>
Change in net position of governmental activities	\$	<u><u>(67,420)</u></u>

See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**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.

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

*Restricted net position* consists of funds received that are restricted for a specific purpose.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

*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.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

*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, 2022, consisted of certificates of deposit. For risk analysis purposes, the certificates of deposit are classified as deposits.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

**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 *Cost 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, *Cost 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 30<sup>th</sup> 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.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

**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.

**Leases**

The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the Board has control of the right to use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial lease term of more than 12 months, or that contain an option to purchase that the Board is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the Board uses its incremental borrowing rate based on the information available at the lease commencement date. The Board has made an accounting policy election to use a risk-free rate based on US Treasury T-bill rate



**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

as of the lease commencement. The Board accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets.

The Board continues to record rent expense for short term leases on a straight-line basis over the lease term. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Board is reasonably certain to exercise. The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The Board's lease agreements do not include any material residual value guarantees or restrictive covenants.

### **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.

### **Implementation of New Accounting Principles**

The Board implemented GASB Statement No. 87, Leases, during the year ended June 30, 2022. GASB Statement No. 87 establishes a single model for lease accounting based on the foundation principal that leases are financings of the right to use an underlying asset.

The adoption of GASB 87 resulted in the recognition of a right to use leased asset and lease liability of \$91,008 as of July 1, 2021. Results for periods prior to June 30, 2021 continue to be reported in accordance with the Commission's historical accounting treatment. See note 8 for expanded disclosures regarding the Commission's leases.

## **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, 2022**

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, 2022, the Board had \$475,578 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, 2022 is as follows:

	<u>7/1/2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>6/30/2022</u>
Equipment	\$ 26,296	\$ -	\$ -	\$ 26,296
Total capital assets being depreciated	<u>26,296</u>	<u>-</u>	<u>-</u>	<u>26,296</u>
Less accumulated depreciation for:				
Equipment	24,147	939	-	25,086
Total accumulated depreciation	<u>24,147</u>	<u>939</u>	<u>-</u>	<u>25,086</u>
Total capital assets, net	<u>\$ 2,149</u>	<u>\$ (939)</u>	<u>\$ -</u>	<u>\$ 1,210</u>

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, 2022, the following changes occurred in liabilities reported in long-term liabilities:

	<u>Balance 7/1/2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/22</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 28,735</u>	<u>\$ 8,467</u>	<u>\$ (3,938)</u>	<u>\$ 33,264</u>	<u>\$ 9,744</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.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

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.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

**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, 2022, the Board reported a liability of \$98,477 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2021, the Board's proportion was 0.009448 percent, which was a decrease of 0.000008 percent from its proportion measured as of June 30, 2020.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

For the year ended June 30, 2022, the Board recognized pension expense of \$22,775. At June 30, 2022, 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	\$ 1,700	\$ (10,051)
Changes of assumptions	108,994	(142,106)
Net difference between projected and actual earnings on pension plan investments	-	(36,523)
Changes in proportion and differences between employer contributions and proportionate share of contributions	18,950	(326)
Employer contributions subsequent to the measurement date	<u>6,254</u>	<u>-</u>
Total	<u>\$ 135,899</u>	<u>\$ (189,006)</u>

\$6,254 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, 2023.

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:**

2023	\$ (3,841)
2024	(10,373)
2025	(9,583)
2026	(35,564)

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

**Actuarial Assumptions**

The total pension liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expense
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equities	30%	6.00%
International Equities	21%	6.70%
Private Equities	7%	9.50%
Domestic Fixed Income	23%	0.73%
Global Real Assets	19%	4.77%

**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.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

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 is 7.00%; the municipal bond rate is 1.92%; and the resulting Single Discount Rate is 7.00%.

**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 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate.

	<b>1% Decrease 6.00%</b>	<b>Current Discount Rate 7.00%</b>	<b>1% Increase 8.00%</b>
Employer's proportionate share of the net pension liability	\$ 156,611	\$ 98,477	\$ 50,071

**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.



**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

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, 2022, the Board reported a liability of \$5,458, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, 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, 2021, the Board's proportion was 0.009813 percent, which was an increase of 0.000662 percent from its proportion measured as of June 30, 2020.



**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

For the year ended June 30, 2022, the Board recognized OPEB expense of \$1,135. At June 30, 2022, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 313	\$ (150)
Changes of assumptions	845	-
Net difference between projected and actual earnings on OPEB plan investments	-	(1,870)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,575	(8)
Employer contributions subsequent to the measurement date	<u>1,001</u>	<u>-</u>
Total	<u>\$ 3,735</u>	<u>\$ (2,028)</u>

\$1,001 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, 2023.

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

**Year ended June 30:**

2023	\$ 268
2024	254
2025	169
2026	(57)
2027	72

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

***Actuarial assumptions.***

The total OPEB liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	6.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2021 are summarized in the following tables:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Large Cap Domestic Equities	33%	5.85%
Small Cap Domestic Equities	6%	6.75%
Domestic Fixed Income	26%	6.25%
International Equities	35%	0.50%

***Discount rate.***

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory rates described in this report. 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.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

***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, 2020, calculated using the discount rate of 6.50%, 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	<b>1% Decrease 5.50%</b>	<b>Current Discount Rate 6.50%</b>	<b>1% Increase 7.50%</b>
Employer's proportionate share of the net OPEB liability	\$ 8,095	\$ 5,458	\$ 3,227

***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 LEASES**

The Board has a building lease from April 1, 2017 through March 31, 2025 with monthly installments of \$2,042. The Board has an equipment lease from June 6, 2022 through November 30, 2023 with monthly installments of \$70.

The following is the total lease expense for the year ended June 30, 2022:

<b>Lease expense</b>	
Amortization expense by class of underlying asset	
Equipment	\$ 69
Building	24,269
Total amortization expense	24,338
Interest on lease liabilities	842
<b>Total</b>	<b>\$ 25,180</b>

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

The following is a schedule of activity in leased assets and the lease liability for the year ended June 30, 2022:

	Beginning of Year	Additions	Modifications & Remeasurements	Subtractions	End of Year	Amounts Due Within One Year
<b>Lease Assets</b>						
Equipment	\$ -	\$ 1,237	\$ -	\$ -	\$ 1,237	
Building	91,008	-	-	-	91,008	
	<u>91,008</u>	<u>1,237</u>	<u>-</u>	<u>-</u>	<u>92,245</u>	
<b>Less: Accumulated Amortization</b>						
Equipment	-	(69)	-	-	(69)	
Building	-	(24,269)	-	-	(24,269)	
	<u>-</u>	<u>(24,338)</u>	<u>-</u>	<u>-</u>	<u>(24,338)</u>	
<b>Total Lease Assets, net</b>	<u>\$ 91,008</u>	<u>\$ (23,101)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,907</u>	
<b>Lease Liabilities</b>	<u>\$ 91,008</u>	<u>\$ 1,167</u>	<u>\$ -</u>	<u>\$ (23,187)</u>	<u>\$ 68,988</u>	<u>\$ 24,900</u>

The following is a schedule by years of future minimum rental payments required under the lease:

	Principal	Interest	Total Payments
Year Ending June 30, 2023	\$ 24,900	\$ 628	\$ 25,528
Year Ending June 30, 2024	25,242	348	25,590
Year Ending June 30, 2025	18,846	84	18,930
Total Future Payments	<u>\$ 68,988</u>	<u>\$ 1,061</u>	<u>\$ 70,049</u>

**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.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

**NOTE 10 NEW ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. 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.

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, 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.



**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2022**

**NOTE 11 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Board's year end. Subsequent events have been evaluated through May 10, 2023, 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, 2022**

	Budgeted, Original and Final	Actual	Variances with Final Budget
<b>REVENUES</b>			
License renewals	\$ 209,425	\$ 209,455	\$ 30
Original licenses	34,650	39,382	4,732
Penalty on licenses	44,500	49,250	4,750
Reciprocity licenses	13,000	13,073	73
Fees	23,295	19,742	(3,553)
Duplicate licenses	1,500	2,050	550
Fines	5,000	6,750	1,750
Interest income	3,500	964	(2,536)
Miscellaneous	-	59	59
Total revenues	334,870	340,725	5,855
<b>EXPENDITURES</b>			
Salaries	223,000	193,620	29,380
Travel	25,000	26,869	(1,869)
Professional services	24,000	47,163	(23,163)
Retirement	16,000	13,404	2,596
Payroll taxes	18,000	21,898	(3,898)
Employee insurance	37,530	21,727	15,803
Rent	24,510	1,237	23,273
Supplies/equipment/repair	25,600	14,505	11,095
Postage and box rent	9,000	9,044	(44)
Printing	8,000	4,677	3,323
Telephone	2,700	2,700	-
Property and risk insurance	50	42	8
Miscellaneous	2,075	2,550	(475)
Debt service:			
Principal retirement	-	23,187	(23,187)
Interest	-	81	(81)
Total expenditures	415,465	384,894	30,571
Net change in fund balance	\$ (80,595)	(44,169)	\$ 36,426
Fund balance - July 1, 2021		465,880	
Fund balance - June 30, 2022		\$ 421,711	

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
2022	0.00945%	\$ 98,477	\$ 107,022	92.02%	78.26%
2021	0.00946%	297,488	101,277	293.74%	48.91%
2020	0.00789%	92,512	72,023	128.45%	71.66%
2019	0.00652%	110,083	67,017	164.26%	63.53%
2018	0.00638%	102,596	65,156	157.46%	61.98%
2017	0.00608%	59,226	61,245	96.70%	70.46%
2016	0.00659%	44,831	58,739	76.32%	77.15%
2015	0.00664%	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
2022	\$ 6,254	\$ (6,254)	\$ -	\$ 87,837	7.12%
2021	7,620	(7,620)	-	107,022	7.12%
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
2022	0.009813%	\$ 5,458	\$ 107,018	5.10%	76.63%
2021	0.009151%	7,698	101,277	7.38%	63.38%
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
2022	\$ 1,001	\$ (1,001)	\$ -	\$ 87,807	1.14%
2021	1,220	(1,220)	-	107,018	1.14%
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

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2022**

**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 CHANGE OF BENEFIT TERMS**

***Changes of pension benefit terms. – NDPERS Pension***

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (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, 2020.

***Changes of OPEB benefit terms. – NDPERS OPEB***

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, 2020.

**NOTE 3 CHANGE OF ASSUMPTIONS**

***Changes of pension assumptions. – NDPERS Pension***

All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

***Changes of OPEB assumptions. – NDPERS OPEB***

All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

**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, 2022, 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 May 10, 2023.

**Report on 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 2022-002 and 2022-003 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 2022-001 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on the North Dakota State Board of Cosmetology's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. North Dakota State Board of Cosmetology's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **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**

May 10, 2023



**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2022**

2022-001 Significant Deficiency: Preparation of Financial Statements

Criteria

An appropriate system of internal control requires the Board to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The Board's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the entity currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The Board has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The Board elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the Board's financial statements.

Recommendation

We recommend the Board consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. 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.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2022**

2022-002 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.

**NORTH DAKOTA STATE BOARD OF COSMETOLOGY**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2022**

2022-003 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 for the general ledger accounts to be reflected on a GAAP basis.