

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

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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

Opinions

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, 2023, 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, 2023, 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.

Basis for Opinions

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 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.

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 Responsibility 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 schedule, 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 is the responsibility of management and, 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 the 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 is the responsibility of management and, 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. Our opinions on the basic financial statements are 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 March 11, 2025, 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**

March 11, 2025

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF NET POSITION
JUNE 30, 2023

ASSETS

Current assets

Cash and cash equivalents	\$ 246,808
Certificates of deposit	305,015
Interest receivable	261
Prepaid expenditures	<u>2,792</u>
Total current assets	<u>554,876</u>

Noncurrent assets

Capital assets, net	<u>43,555</u>
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Total assets	<u>598,431</u>
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DEFERRED OUTFLOWS OF RESOURCES

Cost sharing defined benefit plan - pension	151,089
Cost sharing defined benefit plan - OPEB	<u>6,113</u>

Total deferred inflows of resources	<u>157,202</u>
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LIABILITIES

Current liabilities

Accounts payable	8,000
Payroll taxes and benefits payable	4,132
Interest payable	40
Current portion - lease liability	25,242
Current portion - compensated absences	1,680
Unearned licenses	<u>133,210</u>
Total current liabilities	<u>172,304</u>

Long-term liabilities

Due after one year:	
Net pension liability	209,120
Net OPEB liability	9,799
Lease liability	<u>18,846</u>
Total long-term liabilities	<u>237,765</u>

Total liabilities	<u>410,069</u>
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DEFERRED INFLOWS OF RESOURCES

Cost sharing defined benefit plan - pension	113,761
Cost sharing defined benefit plan - OPEB	<u>955</u>

Total deferred inflows of resources	<u>114,716</u>
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NET POSITION

Net investment (deficit) in capital assets	(533)
Unrestricted	<u>231,381</u>

Total net position	<u><u>\$ 230,848</u></u>
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See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023

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	\$ 351,566	\$ 340,169	\$ -	\$ (11,397)
General revenues:				
Interest income				1,045
Miscellaneous				8,021
Total general revenues				9,066
Total change in net position				(2,331)
Net position, July 1, 2022				233,179
Net position, June 30, 2023				\$ 230,848

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
BALANCE SHEET- GOVERNMENTAL FUNDS
JUNE 30, 2023

	<u>General Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 246,808
Certificates of deposit	305,015
Interest receivable	261
Prepaid expenditures	<u>2,792</u>
Total assets	<u><u>\$ 554,876</u></u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 8,000
Payroll taxes and benefits payable	4,132
Unearned licenses	<u>133,210</u>
Total liabilities	<u>145,342</u>
FUND BALANCE	
Non-spendable	2,792
Unassigned	<u>406,742</u>
Total fund balance	<u>409,534</u>
Total liabilities and fund balance	<u><u>\$ 554,876</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, 2023

Total governmental fund balances	\$	409,534
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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	7,993	
Less accumulated depreciation	(7,252)	
Lease assets	92,245	
Less accumulated amortization	<u>(49,431)</u>	
Net capital assets		43,555

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		151,089
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Deferred outflows relating to the OPEB liability in the governmental activities are not financial resources, and therefore not reported in the governmental funds		6,113
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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		(113,761)
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Deferred inflows relating to the OPEB liability in the governmental activities are not financial resources, and therefore not reported in the governmental funds		(955)
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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		(209,120)
Net OPEB liability		(9,799)
Lease liability		(44,088)
Interest payable		(40)
Compensated absences		<u>(1,680)</u>

Net position of governmental activities	\$	<u><u>230,848</u></u>
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See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2023

	<u>General Fund</u>
REVENUES	
License renewals	\$ 208,226
Original licenses	40,718
Penalty on licenses	51,500
Reciprocity licenses	14,805
Fees	19,800
Duplicate licenses	2,120
Fines	3,000
Interest income	1,045
Miscellaneous	<u>8,021</u>
Total revenues	<u>349,235</u>
EXPENDITURES	
Salaries	188,072
Travel	24,493
Professional services	29,610
Retirement	12,319
Payroll taxes	22,655
Employee insurance	19,950
Supplies/equipment/repair	11,951
Postage and box rent	9,415
Printing	4,390
Telephone	2,364
Seminar	400
Miscellaneous	10,265
Debt service:	
Principal retirement	24,900
Interest	<u>628</u>
Total expenditures	<u>361,412</u>
Net change in fund balance	(12,177)
Fund balance - July 1, 2022	<u>421,711</u>
Fund balance - June 30, 2023	<u><u>\$ 409,534</u></u>

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, 2023

Net change in governmental fund balance	\$	(12,177)
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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	(468)	
Current year amortization	<u>(25,093)</u>	
Total		(25,561)

Changes in deferred inflows relating to net pension liability	75,243
Changes in deferred inflows relating to net OPEB liability	1,073
Changes in deferred outflows relating to net pension liability	15,190
Changes in deferred outflows relating to net OPEB liability	2,378

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	31,584
Net change in net pension liability	(110,643)
Net change in net OPEB liability	(4,341)
Net change in interest payable	23

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>24,900</u>
Change in net position of governmental activities	<u><u>\$ (2,331)</u></u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

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 three categories.

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, 2023

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, 2023

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, 2023, 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, 2023

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.

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.

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.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

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 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.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts 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, 2023, the Board had \$451,698 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.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

NOTE 4 CAPITAL ASSETS

A summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2023 is as follows:

	<u>7/1/2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>6/30/2023</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 26,296	\$ -	\$ 18,303	\$ 7,993
Right-of-use office space	91,008	-	-	91,008
Right-of-use equipment	1,237	-	-	1,237
Total capital assets being depreciated	<u>118,541</u>	<u>-</u>	<u>18,303</u>	<u>100,238</u>
Less accumulated depreciation for:				
Furniture and equipment	25,087	468	18,303	7,252
Right-of-use office space	24,269	24,269	-	48,538
Right-of-use equipment	69	824	-	893
Total accumulated depreciation	<u>49,425</u>	<u>25,561</u>	<u>18,303</u>	<u>56,683</u>
Total capital assets, net	<u>\$ 69,116</u>	<u>\$ (25,561)</u>	<u>\$ -</u>	<u>\$ 43,555</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, 2023, the following changes occurred in liabilities reported in long-term liabilities:

	<u>Balance July 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2023</u>	<u>Due Within One Year</u>
Compensated absences	\$ 33,264	\$ 6,048	\$ (37,632)	\$ 1,680	\$ 1,680
Lease liability	68,988	-	(24,900)	44,088	25,242
Total	<u>\$ 102,252</u>	<u>\$ 6,048</u>	<u>\$ (62,532)</u>	<u>\$ 45,768</u>	<u>\$ 26,922</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 25,242	\$ 348	\$ 25,590
2025	<u>18,846</u>	<u>84</u>	<u>18,930</u>
Total	<u>\$ 44,088</u>	<u>\$ 432</u>	<u>\$ 44,520</u>

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

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 NDCC 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. The Main Plan will be closed to new employees with the passage of House Bill 1040. The effective date is dependent upon NDPERS implementing the changes to set up a new defined contribution (DC) plan. If the DC plan is set up by December 31, 2023, then the effective date of the Main Plan closure will be January 1, 2024. If the changes cannot be accomplished by then, the effective date will be January 1, 2025.

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

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

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. Employer contribution rates increase by 1% beginning January 1, 2024.

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, 2023, the Board reported a liability of \$209,120 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2022, the Board's proportion was 0.007261 percent, which was a decrease of 0.002187 percent from its proportion measured as of June 30, 2021.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

For the year ended June 30, 2023, the Board recognized pension expense of \$25,958. At June 30, 2023, 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	\$ 1,091	\$ (3,995)
Changes of assumptions	125,058	(77,529)
Net difference between projected and actual earnings on pension plan investments	7,654	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,538	(32,237)
Employer contributions subsequent to the measurement date	<u>5,748</u>	<u>-</u>
Total	<u><u>\$ 151,089</u></u>	<u><u>\$ (113,761)</u></u>

\$5,748 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, 2024.

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:

2024	\$ 12,803
2025	12,805
2026	(8,190)
2027	14,162

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

Actuarial Assumptions

The total pension liability in the July 1, 2022 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	5.10%, 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equities	30%	5.75%
International Equities	21%	6.45%
Private Equities	7%	9.20%
Domestic Fixed Income	23%	0.34%
Global Real Assets	19%	4.35%

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, 2023

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 6.50%; the municipal bond rate is 3.69%; and the resulting Single Discount Rate is 5.10%.

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 5.10 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 (4.10 percent) or 1-percentage-point higher (6.10 percent) than the current rate.

	1% Decrease 4.10%	Current Discount Rate 5.10%	1% Increase 6.10%
Employer's proportionate share of the net pension liability	\$ 276,026	\$ 209,120	\$ 154,195

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

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, 2023

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, 2023, the Board reported a liability of \$9,799, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, 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, 2022, the Board's proportion was 0.008164 percent, which was a decrease of 0.001649 percent from its proportion measured as of June 30, 2021.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

For the year ended June 30, 2023, the Board recognized OPEB expense of \$1,810. At June 30, 2023, 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	\$ 232	\$ (84)
Changes of assumptions	2,468	-
Net difference between projected and actual earnings on OPEB plan investments	1,320	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,173	(871)
Employer contributions subsequent to the measurement date	<u>920</u>	<u>-</u>
Total	<u><u>\$ 6,113</u></u>	<u><u>\$ (955)</u></u>

\$920 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, 2024.

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:

2024	\$ 1,207
2025	1,135
2026	935
2027	961

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

Actuarial Assumptions

The total OPEB liability in the July 1, 2022 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	5.75%, 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, 2022 are summarized in the following tables:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad US Equities	39%	5.75%
International Equities	26%	6.00%
Core-Plus Fixed Income	35%	0.22%

Discount Rate

The discount rate used to measure the total OPEB liability was 5.39%. 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, 2023

Sensitivity of the Board'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, 2022, calculated using the discount rate of 5.39%, 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 (4.39 percent) or 1-percentage-point higher (6.39 percent) than the current rate:

	1% Decrease 4.39%	Current Discount Rate 5.39%	1% Increase 6.39%
Employer's proportionate share of the net OPEB liability	\$ 12,508	\$ 9,799	\$ 7,525

NOTE 8 RISK MANAGEMENT

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

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

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

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

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

NOTE 9 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, enhances the accounting and financial reporting requirements for accounting changes and error corrections. The standard is effective for fiscal years beginning after June 15, 2023.

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2023

GASB Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences through aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The standard is effective for fiscal years beginning after December 15, 2023.

GASB Statement No. 102, *Certain Risk Disclosures*, requires entities to disclose critical information about their exposure to risks due to certain concentrations or limitations that could lead to financial distress or operational challenges. This statement is effective for fiscal years beginning after June 15, 2024.

GASB Statement No. 103, *Financial Reporting Model Improvements*, revises the requirements for management's discussion and analysis with the goal of making it more readable and understandable, requires unusual or infrequent items to be presented separately, defines operating and nonoperating revenues, includes a new section for noncapital subsidies for proprietary funds' statement of revenues, expenses and changes in net position, removes the option to disclose major component information in the notes and requires them to be shown individually or in combine financial statements following the fund financial statements and requires budgetary comparisons to be presented as RSI with new columns for variances between original-to-final budget and final budget-to-actual results. This statement is effective for fiscal years beginning after June 15, 2025.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note. These items include disclosing separately lease assets, intangible right-to-use assets, subscription assets and intangible assets. In addition, additional disclosures will be required for capital assets held for sale. This statement is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

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

NOTE 10 SUBSEQUENT EVENT

No significant events occurred subsequent to the Board's year end. Subsequent events have been evaluated through March 11, 2025, 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, 2023

	Budgeted, Original and Final	Actual	Variance
REVENUES			
License renewals	\$ 207,625	\$ 208,226	\$ 601
Original licenses	33,550	40,718	7,168
Penalty on licenses	45,000	51,500	6,500
Reciprocity licenses	12,000	14,805	2,805
Fees	13,805	19,800	5,995
Duplicate licenses	1,800	2,120	320
Fines	5,000	3,000	(2,000)
Interest income	950	1,045	95
Total revenues	<u>319,730</u>	<u>349,235</u>	<u>29,505</u>
EXPENDITURES			
Salaries	206,500	188,072	18,428
Travel	29,000	24,493	4,507
Professional services	49,300	29,610	19,690
Retirement	13,000	12,319	681
Payroll taxes	16,100	22,655	(6,555)
Employee insurance	20,525	19,950	575
Rent	24,905	-	24,905
Supplies/equipment/repair	9,500	11,951	(2,451)
Postage and box rent	9,000	9,415	(415)
Printing	6,000	4,390	1,610
Telephone	2,500	2,364	136
Property and risk insurance	60	-	60
Seminar	10,500	400	10,100
Miscellaneous	8,133	10,265	(2,132)
Debt service:			
Principal retirement	-	24,900	(24,900)
Interest	-	628	(628)
Total expenditures	<u>405,023</u>	<u>361,412</u>	<u>43,611</u>
Net change in fund balance	<u>\$ (85,293)</u>	<u>(12,177)</u>	<u>\$ 73,116</u>
Fund balance - July 1, 2022		<u>421,711</u>	
Fund balance - June 30, 2023		<u>\$ 409,534</u>	

See Notes to the Required Supplementary Information

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

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered- employee payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2023	0.00726%	\$ 209,120	\$ 87,837	238.08%	54.47%
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
2023	\$ 5,748	\$ (5,748)	\$ -	\$ 80,731	7.12%
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
2023	0.008164%	\$ 9,799	\$ 87,807	11.16%	56.28%
2022	0.009813%	5,458	107,018	5.10%	76.63%
2021	0.009151%	7,698	101,277	7.60%	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
2023	\$ 920	\$ (920)	\$ -	\$ 80,731	1.14%
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, 2023

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 CHANGES OF BENEFIT TERMS

NDPERS Pension

The interest rate earned on member contributions will decrease from 6.50 percent to 6.00 percent effective January 1, 2023 (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.

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, 2019.

NOTE 3 CHANGES OF ASSUMPTIONS

NDPERS Pension

The investment return assumption was updated from 7.00% to 6.50% beginning with the actuarial valuation as of July 1, 2022. All other actuarial assumptions used in the actuarial valuation as of July 1, 2022 were based on an experience review for the period from July 1, 2014 to July 1, 2019, and were adopted for first use commencing with the actuarial valuation as of July 1, 2020.

NDPERS OPEB

The investment return assumption was updated from 6.50% to 5.75% beginning with the actuarial valuation as of July 1, 2022. All actuarial assumptions and the actuarial cost method are un-changed from the last actuarial valuation as of July 1, 2021.

**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, 2023, 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 March 11, 2025.

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 2023-002 and 2023-003 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 2023-001 to be a significant deficiency.

Report 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 responses 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 auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

March 11, 2025

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023

2023-001 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, 2023

2023-002 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

The Board is subject to 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, 2023

2023-003 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.

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.