NORTH DAKOTA STATE BOARD OF COSMETOLOGY
BISMARCK, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the North Dakota State Board of Cosmetology as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the North Dakota State Board of Cosmetology's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the North Dakota State Board of Cosmetology, as of June 30, 2016 and 2015, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the North Dakota State Board of Cosmetology adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment to GASB Statement No.68.* As discussed in Note 8 to the financial statements, the Board has retroactively restated the previously reported Net Position in accordance with this statement.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of employer's share of net pension liability, the schedule of employer contributions, and the notes to the required supplementary information, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2017, on our consideration of the North Dakota State Board of Cosmetology's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota State Board of Cosmetology's internal control over financial reporting and compliance.

Brady Martz

BRADY MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

February 3, 2017

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
Current assets	
Cash and cash equivalents	$ 299,165
Certificates of deposit	302,770
Interest receivable	261
Prepaid expenditures	1,128
Total current assets	603,324
Noncurrent assets	
Depreciable property and equipment, net	9,370
Total assets	612,694
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow - pension	5,662
LIABILITIES	
Current liabilities	
Accounts payable	1,415
Payroll taxes and benefits payable	6,474
Current portion - compensated absences	4,441
Current portion - capital lease payable	2,189
Total current liabilities	14,519
Long-term liabilities	
Due after one year:	
Capital lease payable	1,921
Net pension liability	44,831
Compensated absences	5,809
Total long-term liabilities	52,561
Total liabilities	67,080
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow - pension	5,437
Unearned licences	130,763
Total deferred inflows of resources	136,200
NET POSITION	
Net investment in capital assets	5,260
Unrestricted	409,816
Total net position	$ 415,076

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs Governmental Activities:	Expenses	Program Revenues Charges for Services	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Primary government:				
Licensing and oversight	$ 294,006	$ 331,209	$ -	$ 37,203
General revenues:				
Interest income				552
Miscellaneous				730
Total general revenues				1,282
Total change in net position				38,485
Net position, July 1, 2015				376,591
Net position, June 30, 2016				$ 415,076

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
BALANCE SHEET- GOVERNMENTAL FUNDS
JUNE 30, 2016

ASSETS	
Current assets	
Cash and cash equivalents	$ 299,165
Certificates of deposit	302,770
Interest receivable	261
Prepaid expenditures	1,128
Total assets	$ 603,324
LIABILITIES	
Current liabilities	
Accounts payable	$ 1,415
Payroll taxes and benefits payable	6,474
Total liabilities	7,889
DEFERRED INFLOWS OF RESOURCES	
Unearned licences	130,763
FUND BALANCE	
Non-spendable	1,128
Unassigned	463,544
Total fund balance	464,672
Total liabilities, deferred inflows of resources, and fund balance	$ 603,324

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, 2016

Total governmental fund balances	$	464,672
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		31,525
Accumulated depreciation has not been included in the governmental fund financial statements		(22,155)
Deferred outflows relating to the cost sharing defined benefit plan in the governmental activities are not financial resources, and therefore not reported in the governmental funds		5,662
Deferred inflows relating to the cost sharing defined benefit plan in the governmental activities are not financial resources, and therefore are not reported in the governmental funds		(5,437)
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		(44,831)
Capital lease		(4,110)
Compensated absences		(10,250)
Net position of governmental activities	$	415,076

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, 2016

REVENUES	
License renewals	$ 201,432
Original licenses	39,657
Penalty on licenses	42,685
Reciprocity licenses	20,205
Fees	22,350
Duplicate licenses	2,530
Fines	2,350
Interest income	552
Miscellaneous	730
Total revenues	332,491
EXPENDITURES	
Salaries	181,612
Travel	25,506
Professional services	5,036
Retirement	9,346
Payroll taxes	13,830
Employee insurance	15,372
Rent	12,001
Supplies/equipment/repair	11,119
Postage and box rent	9,170
Printing	5,322
Telephone	1,645
Property and risk insurance	153
Capital outlay	3,411
Miscellaneous	697
Debt service:	
Principal retirement	2,076
Interest	524
Total expenditures	296,820
Net change in fund balance	35,671
Fund balance - July 1, 2015	429,001
Fund balance - June 30, 2016	$ 464,672

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, 2016

Net change in governmental fund balance	$ 35,671
Amounts reported for the governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Expenditures for capital assets	3,411
Less: current year depreciation	(3,644)
Changes in deferred inflows relating to net pension liability	2,785
Changes in deferred outflows relating to net pension liability	114
Some expenses reported in the statement of activities do not require the use of current financial resources and, therfore, are not reported as expenditures in governmental funds	
Net change in compensated absences	783
Net change in net pension liability	(2,711)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Capital lease principal payments	2,076
Change in net position of governmental activities	$ 38,485

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS	
Current assets	
Cash and cash equivalents	$ 262,591
Certificates of deposit	302,770
Interest receivable	261
Total current assets	565,622
Noncurrent assets	
Depreciable property and equipment, net	9,603
Total assets	575,225
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow - pension	5,548
LIABILITIES	
Current liabilities	
Accounts payable	2,074
Payroll taxes and benefits payable	4,902
Current portion - compensated absences	5,844
Current portion - capital lease payable	2,077
Total current liabilities	14,897
Long-term liabilities	
Due after one year:	
Capital lease payable	4,109
Net pension liability	42,120
Compensated absences	5,189
Total long-term liabilities	51,418
Total liabilities	66,315
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow - pension	8,222
Unearned licences	129,645
Total deferred inflows of resources	137,867
NET POSITION	
Net investment in capital assets	3,417
Unrestricted	373,174
Total net position	$ 376,591

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs Governmental Activities:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Primary government:				
Licensing and oversight	$ 305,396	$ 299,701	$ -	$ (5,695)
General revenues:				
Interest income				540
Miscellaneous				2,120
Total general revenues				2,660
Total change in net position				(3,035)
Net position, July 1, 2014, as originally stated				424,640
GASB 68 and 71 adjustment (see note 8)				(45,014)
Net position, July 1, 2014, as restated				379,626
Net position, June 30, 2015				$ 376,591

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2015

ASSETS		
Current assets		
Cash and cash equivalents	$	262,591
Certificates of deposit		302,770
Interest receviable		261
Total assets	$	565,622
LIABILITIES		
Current liabilities		
Accounts payable	$	2,074
Payroll taxes and benefits payable		4,902
Total liabilities		6,976
DEFERRED INFLOWS OF RESOURCES		
Unearned licences		129,645
FUND BALANCE		
Unassigned		429,001
Total liabilities, deferred inflows of resources, and fund balance	$	565,622

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATMENT OF NET POSITION
JUNE 30, 2015

Total governmental fund balances	$	429,001
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		28,114
Accumulated depreciation has not been included in the governmental fund financial statements		(18,511)
Deferred outflows relating to the cost sharing defined benefit plan in the governmental activities are not financial resources, and therefore not reported in the governmental funds		5,548
Deferred inflows relating to the cost sharing defined benefit plan in the governmental activities are not financial resources, and therefore are not reported in the governmental funds		(8,222)
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		(42,120)
Capital lease		(6,186)
Compensated absences		(11,033)
Net position of governmental activities	$	376,591

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, 2015

REVENUES	
License renewals	$ 197,133
Original licenses	36,968
Penalty on licenses	15,020
Reciprocity licenses	18,000
Fees	21,665
Duplicate licenses	2,390
Fines	8,525
Interest income	540
Miscellaneous	2,120
Total revenues	302,361
EXPENDITURES	
Salaries	170,635
Travel	31,522
Professional services	16,966
Retirement	8,882
Payroll taxes	13,181
Employee insurance	12,696
Rent	10,664
Supplies/equipment/repair	11,164
Postage and box rent	11,828
Printing	7,281
Telephone	1,771
Property and risk insurance	734
Seminar	1,967
Capital outlay	6,097
Miscellaneous	832
Debt service:	
Principal retirement	1,704
Interest	686
Total expenditures	308,610
OTHER FINANCING SOURCES (USES)	
Proceeds from capital lease	3,684
Net change in fund balance	(2,565)
Fund balance - July 1, 2014	431,566
Fund balance - June 30, 2015	$ 429,001

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, 2015

Net change in governmental fund balance	$	(2,565)
Amounts reported for the governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets		6,097
Less: current year depreciation		(3,486)
Changes in deferred inflows relating to net pension liability		(8,222)
Changes in deferred outflows relating to net pension liability		1,846
Some expenses reported in the statement of activities do not require the use of current financial resources and, therfore, are not reported as expenditures in governmental funds		
Net change in compensated absences		(1,321)
Net change in net pension liability		6,596
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Proceeds from capital lease		(3,684)
Capital lease principal payments		1,704
Change in net position of governmental activities	$	(3,035)

See Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For financial reporting purposes, the North Dakota State Board of Cosmetology includes all funds, programs, and activities over which it is financially accountable. The North Dakota State Board of Cosmetology does not have any component units as defined by the Government Accounting Standards Board, and is not a component unit of another reporting entity.

Government-Wide and Fund Financial Statements

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

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

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

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

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

Fund Accounting Structure

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

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

Fund Balance Classifications

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

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

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

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

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

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

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 all cash and money market accounts to be cash and cash equivalents. 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 secured with pledges of securities equal to 110% of the uninsured balance.

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, 2016 and 2015, consisted of certificates of deposit. For risk analysis purposes, the certificates of deposit are classified as deposits.

Capital Assets

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

Capital assets are defined by the Board as assets with an initial, individual cost of over $250 and a useful life of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The Board has one item that qualifies for reporting in this category named *Deferred outflow – pension* which represents actuarial differences within NDPERS pension plans as well as amounts paid to the plans after the measurement date. See note 5 for further details.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Board has two types of items that qualify for reporting in this category. Accordingly, the item, *Deferred inflow – unearned licenses*, is reported as deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent unearned license revenue as of June 30, 2016 and 2015. The unearned license revenues are the result of the license period overlapping two fiscal years. The portion applicable to the next fiscal year is unearned license revenue in the current fiscal year. The second item, *Deferred Inflow – pension*, represents actuarial differences within NDPERS pension plans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. See note 5 for further details.

Compensated Absences

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

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

Long-Term Obligations

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

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

Revenue Recognition

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

Pensions

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Implementation of New Standard

The Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* during the year ended June 30, 2015. These statements required the Board to change the accounting for the pension costs related to the Board's participation in the Public Employees Retirement System. In addition, the Board also recognized a net pension liability, deferred outflow of resources, and deferred inflows of resources related to the Board's proportionate share of the collective amounts in PERS. See notes 5 and 8 for further details.

NOTE 2 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.

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, 2016, the Board had $507,171 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 3 CAPITAL ASSETS

A summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2016 is as follows:

	7/1/2015	Additions	Disposals	6/30/2016
Capital assets being depreciated:				
Equipment	$ 28,114	$ 3,411	$ -	$ 31,525
Total capital assets being depreciated	28,114	3,411	-	31,525
Less accumulated depreciation for:				
Equipment	18,511	3,644	-	22,155
Total accumulated depreciation	18,511	3,644	-	22,155
Total capital assets, net	$ 9,603	$ (233)	$ -	$ 9,370

A summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2015 is as follows:

	7/1/2014	Additions	Disposals	6/30/2015
Capital assets being depreciated:				
Equipment	$ 22,802	$ 6,097	$ 785	$ 28,114
Total capital assets being depreciated	22,802	6,097	785	28,114
Less accumulated depreciation for:				
Equipment	15,810	3,486	785	18,511
Total accumulated depreciation	15,810	3,486	785	18,511
Total capital assets, net	$ 6,992	$ 2,611	$ -	$ 9,603

As of June 30, 2016 and 2015, equipment capitalized under a capital lease and the accumulated depreciation is as follows:

	2016	2015
Equipment	$ 10,085	$ 10,085
Less: accumulated amortiztion shown as depreciation	(6,418)	(4,401)
Total	$ 3,667	$ 5,684

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

NOTE 4 LONG TERM OBLIGATIONS

During the year ended June 30, 2016, the following changes occurred in liabilities reported in long-term liabilities:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
Compensated absences	$ 11,033	$ 5,891	$ (6,674)	$ 10,250	$ 4,441
Capital lease payable	6,186	-	(2,076)	4,110	2,189
Total	$ 17,219	$ 5,891	$ (8,750)	$ 14,360	$ 6,630

During the year ended June 30, 2015, the following changes occurred in liabilities reported in long-term liabilities:

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Due Within One Year
Compensated absences	$ 9,712	$ 5,891	$ (4,570)	$ 11,033	$ 5,844
Capital lease payable	4,206	3,684	(1,704)	6,186	2,077
Total	$ 13,918	$ 9,575	$ (6,274)	$ 17,219	$ 7,921

The obligations for capital leases as of the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
$3,684 lease dated September 24, 2014 for the purchase of a mailing solution machine. Due in monthly principal and interest payments of $70 through December 2019 with interest at 0.58%.	$ 2,601	$ 3,236
$6,401 lease dated July 17, 2012 for the purchase of a copier. Due in monthly principal and interest payments of $147 through April 2017 with interest at 1.15%.	1,509	2,950
Total	$ 4,110	$ 6,186

NOTE 5 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

At June 30, 2016 and 2015, the Board reported a liability of $44,831 and $42,120 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, 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, 2015, the Board's proportion was 0.006593 percent, which was a decrease of 0.000043 percent from its proportion measured of 0.006636 as of June 30, 2014.

For the year ended June 30, 2016, the Board recognized pension expense of $4,174. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,301	$ -
Changes of assumptions	-	(3,994)
Net difference between projected and actual earnings on pension plan investments	-	(947)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(496)
Employer contributions subsequent to the measurement date	4,361	-
Total	$ 5,662	$ (5,437)

$4,361 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Year ended June 30:	
2017	$ (1,314)
2018	(1,314)
2019	(1,314)
2020	642
2021	(836)

For the year ended June 30, 2015, the Board recognized pension expense of $4,168. At June 30, 2015, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,366	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(8,222)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date	4,182	-
Total	$ 5,548	$ (8,222)

$4,182 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Actuarial Assumptions

The total pension liability in the July 1, 2015 and 2014 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	July 1, 2015 Actuarial Valuation	July 1, 2014 Actuarial Valuation
Inflation	3.50%	3.50%
Salary increases	4.50% per annum	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses	8.00%, net of investment expenses
Cost-of-living adjustments	None	None

July 1, 2015 Actuarial Valuation: For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

July 1, 2014 Actuarial Valuation: For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

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

	2016		2015	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%	31%	6.90%
International Equity	21%	7.55%	21%	7.55%
Private Equity	5%	11.30%	5%	11.30%
Domestic Fixed Income	17%	1.52%	17%	1.55%
International Fixed Income	5%	0.45%	5%	0.90%
Global Real Assets	20%	5.38%	20%	5.38%
Cash Equivalents	1%	0.00%	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015 and 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015 and 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015 and 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015 and 2014.

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

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

At June 30, 2016:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	$ 68,747	$ 44,831	$ 25,264

At June 30, 2015:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	$ 64,962	$ 42,120	$ 23,008

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 6 OPERATING LEASE

The Board signed a three-year lease that commenced on September 1, 2013 and is set to terminate on August 31, 2016. Rental expense was $10,200 in both the years ended June 30, 2016 and 2015. Minimum lease payments on the lease are as follows for the years ending June 30:

2017	$ 1,700

The Board entered into a lease subsequent to year end which does not yet have a defined start date. See Note 10 for further details on this subsequent event.

NOTE 7 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 8 GASB 68 AND 71 ADJUSTMENT

The Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* during the year ended June 30, 2015. As a result, a prior period adjustment was recorded to recognize net pension liability, deferred outflows, and deferred inflows as of July 1, 2014. The cumulative effect of implementing this GASB statement was an increase in deferred outflows of $3,702 and an increase in net pension liability of $48,716 on the Statement of Net Position. The adjustments resulted in a net decrease to net position of $45,014 in the Statement of Activities.

NOTE 9 NEW ACCOUNTING PRONOUNCEMENTS

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

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on their financial statements.

NOTE 10 SUBSEQUENT EVENT

The Board has signed a new lease for office space subsequent to year end. The lease commitment is a for a two year span, with a total rental commitment of $46,188 paid equally over 24 months. The start date of this lease has not yet been determined, as the building construction has not yet been completed.

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, 2016

	Budgeted, Original and Final	Actual	Variances with Final Budget, Positive (Negative)
REVENUES			
License renewals	$ 196,435	$ 201,432	$ 4,997
Original licenses	37,000	39,657	2,657
Penalty on licenses	30,000	42,685	12,685
Reciprocity licenses	18,000	20,205	2,205
Fees	21,000	22,350	1,350
Duplicate licenses	2,000	2,530	530
Fines	5,000	2,350	(2,650)
Interest income	1,000	552	(448)
Miscellaneous	-	730	730
Total revenues	310,435	332,491	22,056
EXPENDITURES			
Salaries	185,000	181,612	3,388
Travel	32,000	25,506	6,494
Professional services	21,000	5,036	15,964
Retirement	9,000	9,346	(346)
Payroll taxes	13,000	13,830	(830)
Employee insurance	14,000	15,372	(1,372)
Rent	10,200	12,001	(1,801)
Supplies/equipment/repair	15,500	11,119	4,381
Postage and box rent	12,000	9,170	2,830
Printing	7,000	5,322	1,678
Telephone	1,800	1,645	155
Property and risk insurance	1,500	153	1,347
Seminar	2,500	-	2,500
Capital outlay	-	3,411	(3,411)
Miscellaneous	1,000	697	303
Debt service:			
Principal retirement	-	2,076	(2,076)
Interest	-	524	(524)
Total expenditures	325,500	296,820	28,680
Net change in fund balance	(15,065)	35,671	50,736
Fund balance - July 1, 2015	429,001	429,001	-
Fund balance - June 30, 2016	413,936	$ 464,672	$ 50,736

See Notes to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS – BUDGET TO ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted, Original and Final	Actual	Variances with Final Budget, Positive (Negative)
REVENUES			
License renewals	$ 190,435	$ 197,133	$ 6,698
Original licenses	34,000	36,968	2,968
Penalty on licenses	12,000	15,020	3,020
Reciprocity licenses	13,000	18,000	5,000
Fees	23,000	21,665	(1,335)
Duplicate licenses	1,700	2,390	690
Fines	3,000	8,525	5,525
Interest income	3,000	540	(2,460)
Miscellaneous	-	2,120	2,120
Total revenues	280,135	302,361	22,226
EXPENDITURES			
Salaries	174,000	170,635	3,365
Travel	31,000	31,522	(522)
Professional services	13,000	16,966	(3,966)
Retirement	7,000	8,882	(1,882)
Payroll taxes	13,000	13,181	(181)
Employee insurance	11,000	12,696	(1,696)
Rent	10,200	10,664	(464)
Supplies/equipment/repair	20,000	11,164	8,836
Postage and box rent	10,000	11,828	(1,828)
Printing	5,000	7,281	(2,281)
Telephone	1,700	1,771	(71)
Property and risk insurance	1,500	734	766
Seminar	2,000	1,967	33
Capital outlay	-	6,097	(6,097)
Miscellaneous	1,000	832	168
Debt service:			
Principal retirement	-	1,704	(1,704)
Interest	-	686	(686)
Total expenditures	300,400	308,610	(8,210)
OTHER FINANCING SOURCES (USES)			
Proceeds from capital lease	-	3,684	3,684
Net change in fund balance	(20,265)	(2,565)	17,700
Fund balance - July 1, 2014	431,566	431,566	-
Fund balance - June 30, 2015	$ 411,301	$ 429,001	$ 17,700

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
2016	0.006593%	$ 44,831	$ 58,739	76.32%	77.15%
2015	0.006636%	42,120	55,895	75.36%	77.70%

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

See Notes to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF COSMETOLOGY
SCHEDULE OF EMPLOYER CONTRIBUTIONS
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
2016	$ 4,361	$ (4,361)	$ -	$ 61,245	7.12%
2015	4,461	(4,182)	279	58,739	7.59%

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

See Notes to the Required Supplementary Information

NOTE 1 BUDGETS

Budgetary Process

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

Expenditures in Excess of Budget

The Board's general fund had expenditures in excess of budget of $8,210 for the year ended June 30, 2015. No remedial action is required or anticipated in regards to these expenditures.

NOTE 2 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM CHANGES OF ASSUMPTIONS

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the North Dakota State Board of Cosmetology, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise North Dakota State Board of Cosmetology's basic financial statements and have issued our report thereon dated February 3, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items #2 and #3 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses as item #1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Dakota State Board of Cosmetology's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Dakota State Board of Cosmetology's Response to Findings

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

Purpose of this Report

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

Brady Martz

BRADY MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

February 3, 2017

#1 – Significant Deficiency

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

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

Cause
The Board's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

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

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

Views of Responsible Officials and Planned Corrective Actions
Due to the financial, efficiency and time constraints, it has been determined by North Dakota State Board of Cosmetology's management that it is in the best interest of North Dakota State Board of Cosmetology and all interested parties to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.

#2 – Material Weakness

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

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

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

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

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

Views of Responsible Officials and Planned Corrective Actions:
The Board hired a bookkeeper to assist with the budget, quarterlies, monthly bank statements, annual W-2's and W-3's, and other accounting duties when needed.

#3 – Material Weakness

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

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

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

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

Recommendation
Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the Board reviews its current training system to determine if it is cost effective for the Board to obtain this knowledge internally.

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