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NORTH CAROLINA STATE BOARD
OF COSMETIC ART EXAMINERS

Financial Statements

June 30, 2014 and 2013

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NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Management's Discussion and Analysis
June 30, 2014

This section of the North Carolina State Board of Cosmetic Art Examiners' (the Board) financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2014. This information should be read in conjunction with the audited financial statements included in this report.

Overview of the Financial Statements

The audited financial statements of the Board consist of the following components:

- Management's Discussion and Analysis
- Financial Statements
- Notes to Financial Statements

The financial statements include comparative statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows.

Financial Highlights and Analysis

Net position is an indicator of the financial health of the Board. As of June 30, 2014, assets exceeded liabilities by \$238,854. At June 30, 2013, assets exceeded liabilities by \$283,631.

Table 1
Condensed Statement of Net Position

	June 30, 2014	June 30, 2013
Current Assets	\$ 1,180,069	\$ 1,169,717
Capital Assets	<u>174,342</u>	<u>137,382</u>
Total Assets	\$ <u>1,354,411</u>	\$ <u>1,307,099</u>
Current Liabilities	\$ 748,788	\$ 432,319
Long-Term Liabilities	<u>366,769</u>	<u>591,149</u>
Total Liabilities	\$ <u>1,115,557</u>	\$ <u>1,023,468</u>
Invested in Capital Assets	\$ 174,342	\$ 137,382
Unrestricted Net Position	<u>64,512</u>	<u>146,249</u>
Total Net Position	\$ <u>238,854</u>	\$ <u>283,631</u>

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Management's Discussion and Analysis
June 30, 2014

The following table summarizes the revenues and expenses for the Board for the fiscal years ending June 30, 2014 and 2013:

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Position

	Year Ending June 30, 2014	Year Ending June 30, 2013
Operating Revenues	\$ 2,119,640	\$ 2,161,376
Nonoperating Revenues	<u>25,954</u>	<u>26,403</u>
Total Revenues	<u>2,145,594</u>	<u>2,187,779</u>
Operating Expenses	<u>2,190,371</u>	<u>2,249,373</u>
Change in Net Position	(44,777)	(61,594)
Beginning Net Position	<u>283,631</u>	<u>345,225</u>
Ending Net Position	\$ <u><u>238,854</u></u>	\$ <u><u>283,631</u></u>

Net position decreased by \$44,777 for the year ended June 30, 2014. Revenues decreased by \$42,185 and expenses decreased by \$59,002 during the year. The primary factor in the decreased revenue was a decrease in fines, penalties, and assessments. The decrease in expenses was primarily a result of a decrease in salaries expense.

Net Capital Assets

Net capital assets increased by \$36,960 during the year ended June 30, 2014. The majority of the increase was due to the purchase of a new online system that consolidates the Board's legacy software and databases into a modern web-based application. The following is a summary of capital assets, net of depreciation:

Table 3
Capital Assets (net of depreciation)

	June 30, 2014	June 30, 2013
Electronic and Data Processing Equipment	\$ 174,202	\$ 136,908
Office Furniture and Equipment	<u>140</u>	<u>474</u>
Net Capital Assets	\$ <u><u>174,342</u></u>	\$ <u><u>137,382</u></u>

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Management's Discussion and Analysis
June 30, 2014

Factors Impacting Future Periods

The majority of the Board's revenue results from the renewal and collection of license fees from cosmetologists. The Board has converted from the three year cosmetologist renewal to a rolling renewal in which approximately 1/3 of cosmetologists renew each year. It is expected that the conversion will result in more consistent revenue collection and increased operating efficiencies. The Board served 89,896 licensees at June 30, 2014 and 86,484 at June 30, 2013. The Board continues to encourage the renewal of payments by credit card using its website. The Board estimates that 66% of eligible renewals were completed online. The Board also collects license fees from shops, manicurists, estheticians, cosmetologist apprentices, and schools.

Requests for Information

This report is intended to provide a summary of the financial position of North Carolina State Board of Cosmetic Art Examiners. Questions or requests for additional information should be addressed to:

Lynda Elliott, Executive Director
North Carolina State Board of Cosmetic Art Examiners
1207 Front Street, Suite 110
Raleigh, NC 27609



To the Board of Directors
North Carolina State Board of Cosmetic Art Examiners
Raleigh, North Carolina

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of North Carolina State Board of Cosmetic Art Examiners, an agency of the State of North Carolina, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Board's 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 financial position of North Carolina State Board of Cosmetic Art Examiners, an agency of the State of North Carolina, as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 3 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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.

Koonce, Wooten & Haywood, L.L.P.

Raleigh, North Carolina
October 8, 2014

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Statements of Net Position
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash	\$ 1,148,035	\$ 1,141,988
Accounts Receivable	4,919	4,919
Prepaid Expenses	27,115	22,810
Total Current Assets	<u>1,180,069</u>	<u>1,169,717</u>
CAPITAL ASSETS:		
Furniture and Equipment	39,144	39,144
Computer Equipment	385,091	328,744
Total	<u>424,235</u>	<u>367,888</u>
Less Accumulated Depreciation	249,893	230,506
Net Capital Assets	<u>174,342</u>	<u>137,382</u>
 Total Assets	 <u>\$ 1,354,411</u>	 <u>\$ 1,307,099</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 68,111	\$ 57,697
Accrued Salary and Vacation	69,315	73,869
Unearned Revenue	611,362	300,753
Total Current Liabilities	<u>748,788</u>	<u>432,319</u>
LONG-TERM LIABILITIES:		
Unearned Revenue	<u>366,769</u>	<u>591,149</u>
 Total Liabilities	 <u>\$ 1,115,557</u>	 <u>\$ 1,023,468</u>
NET POSITION:		
Invested in Capital Assets	\$ 174,342	\$ 137,382
Unrestricted, Restated	<u>64,512</u>	<u>146,249</u>
 Total Net Position	 <u>\$ 238,854</u>	 <u>\$ 283,631</u>

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Business Fees, Licenses and Exams	\$ 1,020,055	\$ 1,026,462
Certification Fees and Licenses	206,745	187,325
Fines, Penalties and Assessments	360,704	445,828
Processing Fee	529,026	498,187
Miscellaneous	3,110	3,574
Total Operating Revenues	<u>2,119,640</u>	<u>2,161,376</u>
OPERATING EXPENSES:		
Salaries	1,064,944	1,118,984
Health Insurance Contributions	207,004	209,631
Civil Penalty and Forfeiture Fund Payment	149,785	189,142
Office Rent	116,465	113,243
Transportation	109,993	130,756
Retirement Contributions	94,834	93,504
Social Security Contributions	80,711	83,379
Telephone and Communications	49,807	46,877
Postage	44,348	41,548
Depreciation	42,853	22,373
Workmen's Compensation--Medical Payments	36,503	
Legal and Other Professional Services	35,010	42,191
Workmen's Compensation Insurance	30,145	12,040
Printing	26,417	24,758
Electronic Payment Processing Fee	25,329	25,051
Supplies and Materials	16,290	17,106
Unemployment Compensation	15,185	20,414
Computer and Data Processing Expense	14,693	13,018
Miscellaneous	13,386	22,105
Contracted Services	6,000	12,390
Life and Disability Insurance	5,200	6,186
Compensation--Board Members	3,600	3,300
Meals and Lodging	1,587	826
Maintenance Agreements and Repairs	282	551
Total Operating Expenses	<u>2,190,371</u>	<u>2,249,373</u>
OPERATING LOSS	<u>(70,731)</u>	<u>(87,997)</u>
NONOPERATING REVENUES:		
Rental Income	19,907	19,328
Interest Income	6,047	7,075
Total Nonoperating Revenues	<u>25,954</u>	<u>26,403</u>
CHANGE IN NET POSITION	(44,777)	(61,594)
NET POSITION--Beginning of Year	<u>283,631</u>	<u>345,225</u>
NET POSITION--End of Year	<u>\$ 238,854</u>	<u>\$ 283,631</u>

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Licensees and Applicants	\$ 2,205,869	\$ 1,970,942
Cash Payments to Employees for Services	(1,069,498)	(1,110,756)
Cash Paid for Operating Expenses	<u>(1,076,465)</u>	<u>(1,118,787)</u>
Net Cash Provided (Used) by Operating Activities	<u>59,906</u>	<u>(258,601)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Capital Assets	(79,813)	(87,308)
Receipt of Rental Income	19,907	19,328
Receipt of Interest Income	<u>6,047</u>	<u>7,075</u>
Net Cash Used by Investing Activities	<u>(53,859)</u>	<u>(60,905)</u>
NET INCREASE (DECREASE) IN CASH	6,047	(319,506)
CASH--Beginning of Year	<u>1,141,988</u>	<u>1,461,494</u>
CASH--End of Year	<u><u>\$ 1,148,035</u></u>	<u><u>\$ 1,141,988</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Loss	\$ (70,731)	\$ (87,997)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation	42,853	22,373
Changes in Assets and Liabilities:		
Prepaid Expense	(4,305)	749
Accounts Payable	10,414	(11,520)
Accrued Salary and Vacation	(4,554)	8,228
Unearned Revenue	<u>86,229</u>	<u>(190,434)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 59,906</u></u>	<u><u>\$ (258,601)</u></u>

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Notes to Financial Statements
June 30, 2014 and 2013

1. Summary of Significant Accounting Policies

A. Organization:

The North Carolina State Board of Cosmetic Art Examiners (the Board) is established by Chapter 88 of the General Statutes of North Carolina to maintain minimum standards for services provided for regulating the practice of cosmetology. The Board's operations are primarily funded through license and inspection fees.

B. Financial Reporting Entity:

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The accompanying financial statements present all funds and activities for which the Board is responsible.

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's *Comprehensive Annual Financial Report* (CAFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

C. Basis of Presentation:

The accompanying 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 accepted standard setting body for establishing governmental accounting principles and reporting standards. The Board applied all applicable Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989.

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or fees.

D. Basis of Accounting:

In accordance with *Statement of Governmental Accounting Standards No. 34*, the Board herewith presents Statements of Net position, Statements of Revenues, Expenses, and Changes in Net position, and Statements of Cash Flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

E. Accounting 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Notes to Financial Statements
June 30, 2014 and 2013

1. Summary of Significant Accounting Policies (Continued)

F. Accounts Receivable:

Accounts receivable consists of amounts due from employees. No reserve for doubtful accounts is necessary.

G. Capital Assets:

Capital assets are recorded at original cost using a capitalization threshold of \$500. Depreciation on furniture and office equipment is computed using the straight-line method over the estimated useful lives of the individual assets, ranging from three to seven years. Expenditures for repairs and maintenance are charged to expense as incurred. The cost and related accumulated depreciation associated with capital assets are removed from the accounts upon retirement or other disposition, and any resulting gain or loss is reflected as nonoperating items.

H. Compensated Absences:

The vacation policy of the Board provides for accumulation of earned vacation with such leave being fully vested when earned. Because such leave is payable to employees at termination, a liability for the outstanding balances has been recorded. Accrued vacation totaled \$69,315 and \$73,869 at June 30, 2014 and 2013, respectively.

I. Net Position:

Net position is classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through state statute. The Board currently has no restricted net position.

J. Unearned Revenue:

License fees are assessed, collected and renewed for varying fiscal years for periods of one to three years. License renewal fees, which cover periods subsequent to June 30, 2014 and 2013, are deferred and recognized as revenue over the period to which they relate. The majority of dues collected result from the renewal of cosmetologist licenses. Dues collected from the three year renewal of cosmetologist licenses are used to fund the administration of licensing and regulating the state's cosmetologists.

K. Subsequent Events:

Subsequent events have been evaluated through October 21, 2014, which is the date the financial statements were available to be issued.

2. Deposits

The Board's portion of the State Treasurer's Cash and Investment Pool was \$1,148,035 at June 30, 2014 and \$1,141,988 at June 30, 2013. It is the State Treasurer's policy and practice for deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Notes to Financial Statements
June 30, 2014 and 2013

3. Capital Assets

Changes in capital assets for the year ended June 30, 2014 were as follows:

	June 30, 2013	Additions	Retirements	June 30, 2014
Furniture	\$ 39,144	\$	\$	\$ 39,144
Electronic and Data Processing	328,744	79,812	23,465	385,091
Total Assets	<u>\$ 367,888</u>	<u>\$ 79,812</u>	<u>\$ 23,465</u>	<u>\$ 424,235</u>

Changes in capital assets for the year ended June 30, 2013 were as follows:

	June 30, 2012	Additions	Retirements	June 30, 2013
Furniture	\$ 39,144	\$	\$	\$ 39,144
Electronic and Data Processing	241,436	87,308		328,744
Total Assets	<u>\$ 280,580</u>	<u>\$ 87,308</u>	<u>\$</u>	<u>\$ 367,888</u>

4. Retirement Plan

Beginning July 1, 2012, the Board established a 401(k) retirement plan for all eligible employees. Eligible employees can make contributions up to the maximum amount allowed each year. The Board makes contributions for eligible employees based on their gross pay. The amount of the Board's contribution is based on the eligible employee's job description and length of service. For the year ended June 30, 2014, the Board contributed between 8% and 11.5% of eligible employees' gross pay. Total Board contributions for the year ended June 30, 2014 were \$94,834. For the year ended June 30, 2013, the Board contributed between 8% and 11.5% of eligible employees' gross pay. Total Board contributions for the year ended June 30, 2013 were \$93,504.

5. Lease Commitment

The Board leases office space under leases which expire through March 31, 2020. Rent expense for these leases was \$116,465 and \$113,243 for the years ended June 30, 2014 and 2013, respectively.

Future minimum payments under the lease in effect at June 30, 2014 are as follows:

<u>Year Ending</u>	<u>Commitment</u>
2015	\$ 117,755
2016	110,086
2017	102,171
2018	104,726
2019	107,344
Thereafter	82,008
	<u>\$ 624,090</u>

The Board subleases a portion of its leased premises to a licensing exam administrator. The term of the sublease is from January 1, 2013 to December 31, 2015. Rent income under this sublease for the years ended June 30, 2014 and 2013 was \$19,907 and \$19,328, respectively. Future minimum payments to be received under this lease are \$30,913.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Notes to Financial Statements
June 30, 2014 and 2013

6. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled through a combination of methods, including participation in various state-administered risk programs, purchase of commercial insurance, and self-retention of certain risks.

7. Reclassifications

Certain amounts for 2013 have been reclassified to conform with the 2014 financial statement presentation. Such reclassifications have no effect on changes in net position or cash flows as previously reported.