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NORTH CAROLINA STATE BOARD
OF COSMETIC ART EXAMINERS

Financial Statements

June 30, 2020 and 2019

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NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Management's Discussion and Analysis
June 30, 2020

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, 2020. 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, 2020, assets exceeded liabilities by \$846,691. At June 30, 2019, assets exceeded liabilities by \$831,115.

Table 1
Condensed Statement of Net Position

	June 30, 2020	June 30, 2019
Current Assets	\$ 2,134,750	\$ 2,038,445
Capital Assets	<u>32,117</u>	<u>46,288</u>
Total Assets	\$ <u>2,166,867</u>	\$ <u>2,084,733</u>
Current Liabilities	\$ 933,419	\$ 906,226
Noncurrent Liabilities	<u>386,757</u>	<u>347,392</u>
Total Liabilities	\$ <u>1,320,176</u>	\$ <u>1,253,618</u>
Invested in Capital Assets	\$ 32,117	\$ 46,288
Unrestricted Net Position	<u>814,574</u>	<u>784,827</u>
Total Net Position	\$ <u>846,691</u>	\$ <u>831,115</u>

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Management's Discussion and Analysis
June 30, 2020

The following table summarizes the revenues and expenses for the Board for the fiscal years ending June 30, 2020 and 2019:

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

	Year Ending June 30, 2020	Year Ending June 30, 2019
Operating Revenues	\$ 2,581,859	\$ 2,581,802
Nonoperating Revenues	<u>69,151</u>	<u>64,176</u>
Total Revenues	<u>2,651,010</u>	<u>2,645,978</u>
 Operating Expenses	 <u>2,635,434</u>	 <u>2,498,347</u>
Change in Net Position	15,576	147,631
Beginning Net Position	<u>831,115</u>	<u>683,484</u>
Ending Net Position	\$ <u><u>846,691</u></u>	\$ <u><u>831,115</u></u>

Net position increased by \$15,576 for the year ended June 30, 2020. Operating revenues increased by \$57 and operating expenses increased by \$137,087 compared to the preceding year. The primary factor for the increase in expenses was an increase in salaries expense.

Net Capital Assets

Net capital assets decreased by \$14,171 during the year ended June 30, 2020. The majority of the decrease was due to depreciation in excess of purchases. The following is a summary of capital assets, net of depreciation:

Table 3
Capital Assets (net of depreciation)

	June 30, 2020	June 30, 2019
Computer Equipment	\$ <u><u>32,117</u></u>	\$ <u><u>46,288</u></u>

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Management's Discussion and Analysis
June 30, 2020

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 a three-year cosmetologist renewal to a rolling renewal in which approximately 1/3 of cosmetologists renew each year. The conversion resulted in more consistent revenue collection and increased operating efficiencies. The Board served 107,711 licensees at June 30, 2020 and 110,870 licensees at June 30, 2019. The Board continues to encourage the renewal of payments by credit card using its website. The Board estimates that 92% of eligible renewals were completed online. The Board also collects license fees from shops, manicurists, estheticians, apprentices, schools, teachers, and natural hair care specialists.

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
121 Edinburgh South Drive, Suite 209
Cary, NC 27511



Koonce, Wooten & Haywood, LLP
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
North Carolina State Board of Cosmetic Art Examiners
Cary, 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, 2020 and 2019, 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 an opinion 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 risk 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 opinion.

Opinion

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, 2020 and 2019, 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 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.

The audit was completed in 109 hours at a cost of \$9,900.

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

Raleigh, North Carolina
October 14, 2020

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS

Statements of Net Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash	\$ 2,109,610	\$ 1,996,085
Accounts Receivable	3,680	3,680
Prepaid Expenses	<u>21,460</u>	<u>38,680</u>
Total Current Assets	<u>2,134,750</u>	<u>2,038,445</u>
CAPITAL ASSETS:		
Furniture and Equipment	1,399	34,840
Computer Equipment	<u>417,965</u>	<u>454,825</u>
Total	419,364	489,665
Less Accumulated Depreciation	<u>387,247</u>	<u>443,377</u>
Net Capital Assets	<u>32,117</u>	<u>46,288</u>
 Total Assets	 <u>\$ 2,166,867</u>	 <u>\$ 2,084,733</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 133,985	\$ 127,142
Accrued Salary and Vacation	105,413	92,382
Unearned Revenue	<u>694,021</u>	<u>686,702</u>
Total Current Liabilities	<u>933,419</u>	<u>906,226</u>
NONCURRENT LIABILITIES:		
Unearned Revenue	<u>386,757</u>	<u>347,392</u>
 Total Liabilities	 <u>\$ 1,320,176</u>	 <u>\$ 1,253,618</u>
NET POSITION:		
Invested in Capital Assets	\$ 32,117	\$ 46,288
Unrestricted Net Position	<u>814,574</u>	<u>784,827</u>
 Total Net Position	 <u>\$ 846,691</u>	 <u>\$ 831,115</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, 2020 and 2019

	2020	2019
OPERATING REVENUES:		
Business Fees, Licenses and Exams	\$ 1,158,664	\$ 1,172,772
Certification Fees and Licenses	289,981	279,295
Fines, Penalties and Assessments	473,963	484,816
Processing Fee	658,375	643,109
Miscellaneous	876	1,810
Total Operating Revenues	<u>2,581,859</u>	<u>2,581,802</u>
OPERATING EXPENSES:		
Salaries	1,303,920	1,193,513
Health Insurance Contributions	275,610	255,955
Civil Penalty and Forfeiture Fund Payment	240,519	253,982
Office Rent	122,958	130,424
Retirement Contributions	117,465	90,059
Social Security Contributions	96,568	89,693
Telephone and Communications	82,899	76,183
Transportation	78,883	106,946
Postage	50,064	53,842
Miscellaneous	39,012	14,310
Electronic Payment Processing Fee	36,132	40,993
Legal and Other Professional Services	35,562	76,152
Contracted Services	34,770	21,585
Supplies and Materials	34,307	13,045
Printing	21,496	8,612
Workmen's Compensation Insurance	20,520	15,566
Depreciation	20,113	30,472
Computer and Data Processing Expense	12,347	15,304
Life and Disability Insurance	8,681	6,993
Meals and Lodging	3,279	3,068
Compensation--Board Members	329	1,650
Total Operating Expenses	<u>2,635,434</u>	<u>2,498,347</u>
INCOME (LOSS) FROM OPERATIONS	<u>(53,575)</u>	<u>83,455</u>
NONOPERATING REVENUES:		
Rental Income	23,771	22,971
Interest Income	45,380	41,205
Total Nonoperating Revenues	<u>69,151</u>	<u>64,176</u>
CHANGE IN NET POSITION	15,576	147,631
NET POSITION--Beginning of Year	<u>831,115</u>	<u>683,484</u>
NET POSITION--End of Year	<u>\$ 846,691</u>	<u>\$ 831,115</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, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Licensees and Applicants	\$ 2,628,543	\$ 2,559,841
Cash Payments to Employees for Services	(1,290,889)	(1,176,972)
Cash Paid for Operating Expenses	(1,287,338)	(1,279,867)
Net Cash Provided by Operating Activities	<u>50,316</u>	<u>103,002</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Capital Assets	(5,942)	
Receipt of Rental Income	23,771	22,971
Receipt of Interest Income	45,380	41,205
Net Cash Provided by Investing Activities	<u>63,209</u>	<u>64,176</u>
NET INCREASE IN CASH	113,525	167,178
CASH--Beginning of Year	<u>1,996,085</u>	<u>1,828,907</u>
CASH--End of Year	<u>\$ 2,109,610</u>	<u>\$ 1,996,085</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income (Loss) From Operations	\$ (53,575)	\$ 83,455
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by Operating Activities:		
Depreciation	20,113	30,472
Changes in Assets and Liabilities:		
Prepaid Expenses	17,220	(7,438)
Accounts Payable	6,843	1,933
Accrued Salary and Vacation	13,031	16,541
Unearned Revenue	46,684	(21,961)
Net Cash Provided by Operating Activities	<u>\$ 50,316</u>	<u>\$ 103,002</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, 2020 and 2019

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.

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.

The financial statements report all activities of the Board using the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized when incurred, if measurable.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of license fees. Nonoperating revenues consist of those revenues that are related to investing types of activities and are classified as nonoperating in the financial statements.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Notes to Financial Statements
June 30, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

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.

F. Accounts Receivable:

Accounts receivable consists of an amount due from the Office of the State Controller. No reserve for doubtful accounts is necessary.

G. Capital Assets:

Capital assets are recorded at original cost using a capitalization threshold of \$1,000. 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. Accrued Vacation:

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 \$105,413 and \$92,382 at June 30, 2020 and 2019, respectively.

I. Net Position:

Net position is classified as invested in capital assets; 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, 2020 and 2019, 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.

2. Deposits

The Board's portion of the State Treasurer's Cash and Investment Pool was \$2,109,610 at June 30, 2020 and \$1,996,085 at June 30, 2019. 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, 2020 and 2019

3. Capital Assets

Changes in capital assets for the year ended June 30, 2020 were as follows:

	June 30, 2019	Additions	Retirements	June 30, 2020
Furniture and Equipment	\$ 34,840	\$	\$ 33,441	\$ 1,399
Computer Equipment	<u>454,825</u>	<u>5,942</u>	<u>42,802</u>	<u>417,965</u>
Total Assets Being Depreciated	<u>489,665</u>	<u>5,942</u>	<u>76,243</u>	<u>419,364</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	34,840		33,441	1,399
Computer Equipment	<u>408,537</u>	<u>20,113</u>	<u>42,802</u>	<u>385,848</u>
Total Accumulated Depreciation	<u>443,377</u>	<u></u>	<u>76,243</u>	<u>387,247</u>
Capital Assets, Net	<u>\$ 46,288</u>	<u>\$ (14,171)</u>	<u>\$</u>	<u>\$ 32,117</u>

Changes in capital assets for the year ended June 30, 2019 were as follows:

	June 30, 2018	Additions	Retirements	June 30, 2019
Furniture and Equipment	\$ 36,997	\$	\$ 2,157	\$ 34,840
Computer Equipment	<u>484,100</u>	<u></u>	<u>29,275</u>	<u>454,825</u>
Total Assets Being Depreciated	<u>521,097</u>	<u></u>	<u>31,432</u>	<u>489,665</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	36,997		2,157	34,840
Computer Equipment	<u>407,340</u>	<u>30,472</u>	<u>29,275</u>	<u>408,537</u>
Total Accumulated Depreciation	<u>444,337</u>	<u>30,472</u>	<u>31,432</u>	<u>443,377</u>
Capital Assets, Net	<u>\$ 76,760</u>	<u>\$ (30,472)</u>	<u>\$</u>	<u>\$ 46,288</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 made 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. During the year ended June 30, 2019, the Board ended the 401(k) retirement plan and established a 457(b) plan for all eligible employees. The Board's total payroll was \$1,303,920 and \$1,193,513 for the years ended June 30, 2020 and 2019, respectively. The Board's payroll for eligible employees under the plans was \$1,217,883 and \$979,500 for the years ended June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, the Board contributed between 8% and 11.5% of eligible employees' gross pay. Total Board contributions for the year ended June 30, 2020 were \$117,465. Total Board contributions for the year ended June 30, 2019 were \$90,059.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Notes to Financial Statements
June 30, 2020 and 2019

5. Lease Commitment

During the year ended June 30, 2020, the Board moved its office location to Cary, North Carolina. The term of the Cary lease is for three years beginning May 1, 2020 and ending April 30, 2023. The Board continues to lease office space in Raleigh, North Carolina for testing. That lease expires on December 31, 2021. The Board also leases a printer and two copiers, which expense is included in operating expenses, through an operating lease which expires in October 2022. Rent expense for these leases was \$134,785 and \$143,304 for the years ended June 30, 2020 and 2019, respectively.

Future minimum payments under the leases in effect at June 30, 2020 are as follows:

<u>Year Ending</u>	<u>Commitment</u>
2021	\$ 53,448
2022	38,731
2023	<u>20,817</u>
	<u>\$ 112,996</u>

The Board subleases a portion of its leased premises to a licensing exam administrator. The term of the sublease is from January 1, 2019 to December 31, 2021. Rent income under this sublease for the years ended June 30, 2020 and 2019 was \$23,771 and \$22,971, respectively. Future minimum payments to be received under this lease are \$36,925.

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. Subsequent Events

Subsequent events have been evaluated through October 14, 2020, which is the date the financial statements were available to be issued.