

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS

**Financial Statements for the
Years Ended June 30, 2023 and 2022, and
Independent Auditor's Report**

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS

**Financial Statements for the
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BOARD MEMBERS (2022-2023)

Morris Boswell, Chairperson

Erika Moore-Newkirk, First Vice Chairperson

Robert Chandler, Second Vice Chairperson

Traci Farmer

Lisa Forrester

Tana Tucker

EXECUTIVE OFFICER

Lynda Elliott, Executive Director

LEGAL COUNSEL

Smith, Anderson, Blount, Dorsett, Mitchell, & Jernigan, L.L.P.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS

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NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This section of the Board's financial report represents Management's analysis of the Board's financial performance during the years ended June 30, 2023 and 2022. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

During 2023, the Board's net position increased by \$110,322, or 10.10%, due primarily to annual recurrence of revenues exceeding expenses. During 2022, the Board's net position increased by \$154,265, or 16.44%, due primarily to annual recurrence of revenues exceeding expenses.

During 2023, the Board's operating revenues increased by \$128,673, or 4.35%, due primarily to an increase in processing fees, and certificate fees and licenses. During 2022, the Board's operating revenues increased by \$433,256, or 17.17%, due primarily to an increase in civil penalty and forfeiture fund payments received.

During 2023, the Board's non-operating revenues (net of non-operating expense) increased by \$37,611, or 176.25%, due primarily to an increase in interest earnings rate. During 2022, the Board's non-operating revenues (net of non-operating expense) decreased by \$5,150, or 18.80%, due primarily to a decrease in interest earnings rate.

During 2023, the Board's operating expenses increased by \$210,227, or 7.45%, due primarily to an increase in salaries (including accumulated leave and related payroll taxes). During 2022, the Board's operating expenses increased by \$366,586, or 14.91%, due primarily to an increase in civil penalty and forfeiture fund payments remitted.

Overview of the Basic Financial Statements

This financial report consists of two primary sections: Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes to the financial statements that provide detail of the information included in the financial statements.

The financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board. The Statements of Net Position present the current and long-term portions of assets, and the current and long-term portions of liabilities separately. The Statements of Revenues, Expenses, and Changes in Net Position present information on how the Board's assets changed as a result of its operations. The Statements of Cash Flows present information on how the Board's cash changed as a result of its financial activities.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS

MANAGEMENT’S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following presents condensed financial information on the operations of the Board:

	Current Year as of and for the year ended June 30, 2023	Prior Year as of and for the year ended June 30, 2022
Current assets	\$ 2,729,444	\$ 2,513,281
Capital and lease assets, net	72,722	30,584
Total assets	<u>\$ 2,802,166</u>	<u>\$ 2,543,865</u>
Current liabilities	\$ 998,222	\$ 1,082,155
Noncurrent liabilities	601,216	369,304
Total liabilities	<u>\$ 1,599,438</u>	<u>\$ 1,451,459</u>
Net investment in capital assets	\$ 816	\$ 10,004
Unrestricted	1,201,912	1,082,402
Total net position	<u>\$ 1,202,728</u>	<u>\$ 1,092,406</u>
Operating revenues	\$ 3,085,293	\$ 2,956,620
Operating expenses	(3,033,922)	(2,824,628)
Operating income	51,371	131,992
Non-operating revenues and expenses	58,951	22,273
Change in net position	<u>\$ 110,322</u>	<u>\$ 154,265</u>

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$1,202,728 at June 30, 2023, and by \$1,092,406 at June 30, 2022. The largest component of net position was cash and cash equivalents. Cash and cash equivalents represented 226.94% of total net position at June 30, 2023, and 231.66% of total net position at June 30, 2022. Current assets consist of cash and cash equivalents, and prepaid expense; noncurrent assets consist of capital assets (net of accumulated depreciation), and right-to-use lease assets (net of amortization); current liabilities consist of accounts payable, accrued vacation leave, lease liability (and related accrued interest payable), and unearned revenue; noncurrent liabilities consist of accrued vacation leave, lease liability, and unearned revenue; and net position consists of net assets invested in capital and lease assets (net of depreciation and amortization), and unrestricted net position. The following is a summary of the Statements of Net Position.

	Current Year as of June 30, 2023	Prior Year as of June 30, 2022	Amount of Change	Percentage Change
Current assets	\$ 2,729,444	\$ 2,513,281	\$ 216,163	8.60%
Capital and lease assets, net	72,722	30,584	42,138	137.78%
Total assets	<u>\$ 2,802,166</u>	<u>\$ 2,543,865</u>	<u>\$ 258,301</u>	<u>10.15%</u>
Current liabilities	\$ 998,222	\$ 1,082,155	\$ (83,933)	-7.76%
Long-term liabilities	601,216	369,304	231,912	62.80%
Total liabilities	<u>\$ 1,599,438</u>	<u>\$ 1,451,459</u>	<u>\$ 147,979</u>	<u>10.20%</u>
Net investment in capital assets	\$ 816	\$ 10,004	\$ (9,188)	-91.84%
Unrestricted net position	1,201,912	1,082,402	119,510	11.04%
Total net position	<u>\$ 1,202,728</u>	<u>\$ 1,092,406</u>	<u>\$ 110,322</u>	<u>10.10%</u>

The following is a summary of the Statements of Revenues, Expenses, and Changes in Net Position. Further discussion of this is included in the preceding section entitled "Financial Highlights."

	The year ended June 30, 2023	The year ended June 30, 2022	Amount of Change	Percentage Change
Operating revenues	\$ 3,085,293	\$ 2,956,620	\$ 128,673	4.35%
Operating expenses	(3,033,922)	(2,824,628)	(209,294)	-7.41%
Non-operating rev/exp	58,951	22,273	36,678	164.67%
Change in net position	<u>\$ 110,322</u>	<u>\$ 154,265</u>	<u>\$ (43,943)</u>	<u>-28.49%</u>
Ending net position	<u>\$ 1,202,728</u>	<u>\$ 1,092,406</u>	<u>\$ 110,322</u>	<u>10.10%</u>

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

The following is a breakdown of operating revenues by source. Further discussion of this is included in the preceding section entitled "Financial Highlights."

	The year ended June 30, 2023	The year ended June 30, 2022	Amount of Change	Percentage Change
Business fees, licenses and exams	\$ 1,281,675	\$ 1,256,442	\$ 25,233	2.01%
Certification fees and licenses	384,480	346,491	37,989	10.96%
Fines, penalties and assessments	634,989	602,195	32,794	5.45%
Processing fees	783,539	713,243	70,296	9.86%
Other income	610	38,249	(37,639)	100.00%
Total	\$ 3,085,293	\$ 2,956,620	\$ 128,673	4.35%

The following is a breakdown of non-operating revenues and expenses by source. Further discussion of this is included in the preceding section entitled "Financial Highlights."

	The year ended June 30, 2023	The year ended June 30, 2022	Amount of Change	Percentage Change
Interest income	\$ 59,737	\$ 4,458	\$ 55,279	1240.00%
Rental reimbursements		17,815	(17,815)	100.00%
Interest exp on right-to-use lease asset	(786)	(933)	147	100.00%
Total	\$ 58,951	\$ 21,340	\$ 37,611	176.25%

The following is a schedule that compares capital assets (net of accumulated depreciation) and right-to-use lease assets (net of accumulated amortization) for the fiscal years 2023 and 2022. There were no significant changes in capital asset balances.

	The year ended June 30, 2023	The year ended June 30, 2022	Amount of Change	Percentage Change
Computer equipment	\$ 254,452	\$ 357,059	\$ (102,607)	-28.74%
Furniture and equipment	931	931	0	0.00%
Right-to-use lease-office	78,347	72,273	6,074	100.00%
Total	\$ 333,730	\$ 430,263	\$ (96,533)	-22.44%

Events Affecting Future Operations

The Board is not aware of any significant events that may affect future operations of the Board which are reportable pursuant to GASB reporting requirements, except as follows. The Board anticipates that revenues and expenses of the Board in the upcoming year will be comparable to the current year.

Contacting the Board's Management

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional information, contact: North Carolina State Board of Cosmetic Art Examiners, 121 Edinburgh South Drive, Suite 209, Cary NC 27511.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
North Carolina State Board of Cosmetic Art Examiners
Cary, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the North Carolina State Board of Cosmetic Art Examiners (Board), an independent state board which is a nonmajor enterprise fund of the primary government of the State of North Carolina, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which comprise the Board's basic financial statements as listed in the table of contents.

In our opinion, based on our audit, the accompanying financial statements present fairly, in all material respects, the respective financial position of the North Carolina State Board of Cosmetic Art Examiners as of June 30, 2023, and the results of its operations, changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the North Carolina State Board of Cosmetic Art Examiners for the year ended June 30, 2022, were audited by another auditor, who expressed an unmodified opinion on those statements on October 20, 2022.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

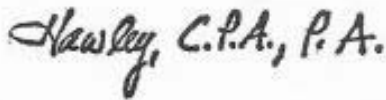
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining,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

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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Required Supplementary Information

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

A handwritten signature in black ink that reads "Hawley, C.P.A., P.A." The signature is written in a cursive, slightly slanted style.

Hawley, C.P.A., P.A.

Angier, NC

October 11, 2023

NORTH CAROLINA STATE STATE BOARD OF COSMETIC ART EXAMINERS
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2023 AND 2022

	Proprietary -Enterprise Funds	
	June 30, 2023	June 30, 2022
ASSETS		
Current assets:		
Cash in State Treasurer (Notes 1 and 2)	\$ 2,729,444	\$ 2,507,519
Accounts receivable (Note 1)		3,680
Prepaid expenses (Note 1)		2,082
Total current assets	<u>2,729,444</u>	<u>2,513,281</u>
Capital assets:		
Right-to-use lease - office (Notes 1 and 3)	78,347	72,273
Furniture and equipment (Notes 1 and 3)	931	931
Computer Equipment (Notes 1 and 3)	254,452	357,059
Total capital assets	<u>333,730</u>	<u>430,263</u>
Accumulated depreciation and amortization (Notes 1 and 3)	(261,008)	(399,679)
Capital assets, net	<u>72,722</u>	<u>30,584</u>
TOTAL ASSETS	<u>\$ 2,802,166</u>	<u>\$ 2,543,865</u>
LIABILITIES		
Current liabilities:		
Accounts payable (Note 4)	\$ 151,225	\$ 211,329
Due to other state agencies (Note 4)	33,944	
Accrued vacation - current portion (Notes 1 and 5)	31,495	117,063
Lease liability - current portion (Notes 1, 5 and 6)	26,504	20,580
Accrued interest on lease liability (Notes 1 and 6)	365	
Unearned revenue (Note 1)	754,689	733,183
Total current liabilities	<u>998,222</u>	<u>1,082,155</u>
Non-current liabilities:		
Accrued vacation - long-term portion (Notes 1 and 5)	178,470	
Lease liability - long-term portion (Notes 1, 5 and 6)	45,402	
Unearned revenue (Note 1)	377,344	369,304
Total non-current liabilities	<u>601,216</u>	<u>369,304</u>
TOTAL LIABILITIES	<u>\$ 1,599,438</u>	<u>\$ 1,451,459</u>
NET POSITION (NOTE 1)		
Net investment in capital assets	\$ 816	\$ 10,004
Unrestricted net position	<u>1,201,912</u>	<u>1,082,402</u>
TOTAL NET POSITION	<u>\$ 1,202,728</u>	<u>\$ 1,092,406</u>

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022

	Proprietary-Enterprise Fund	
	Year Ended June 30, 2023	Year Ended June 30, 2022
OPERATING REVENUES:		
Fees, licenses and fines:		
Business fees, licenses and exams	\$ 1,281,675	\$ 1,256,442
Certification fees and licenses	384,480	346,491
Fines, penalties and assessments	634,989	602,195
Processing fees	783,539	713,243
Other income	610	38,249
Total operating revenues	<u>\$ 3,085,293</u>	<u>\$ 2,956,620</u>
OPERATING EXPENSES:		
Personal services (and board members expenses):		
Salaries-staff (including accumulated leave and payroll taxes)	\$ 1,748,037	\$ 1,526,846
Retirement (Note 8)	135,619	140,395
Employee benefits (health, life and disability insurance)	275,312	281,998
Supplies and materials:		
Office supplies and expenses	63,335	82,347
Services:		
Legal and other professional fees	55,327	37,704
Other admin expenses (including retirement admin fees)	19,284	18,700
Computer and data processing expenses	11,912	18,840
Travel expenses (transportation)	111,967	106,559
Travel expenses (meals and lodging)	4,613	1,534
Printing expenses	27,820	26,475
Postage and reproduction	74,255	77,059
Telephone and communications	48,791	50,855
Electronic payment processing	47,734	43,536
Depreciation and amortization (Notes 1 and 3)	36,209	47,500
Insurance (workers compensation)	19,964	20,541
Insurance (property)	1,343	1,351

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022

	Proprietary-Enterprise Fund	
	Year Ended June 30, 2023	Year Ended June 30, 2022
OPERATING EXPENSES (CONTINUED):		
Other expenses:		
Civil penalties and forfeiture fund payments	352,160	341,455
Miscellaneous expenses	240	933
Total operating expenses	<u>\$ 3,033,922</u>	<u>\$ 2,824,628</u>
Operating income	\$ 51,371	\$ 131,992
NON-OPERATING INCOME (EXPENSES):		
Interest income	\$ 59,737	\$ 4,458
Rental reimbursements		17,815
Interest expense on right-to-use lease asset (Notes 1 and 6)	<u>(786)</u>	
Total net non-operating revenues	<u>\$ 58,951</u>	<u>\$ 22,273</u>
Change in net position	\$ 110,322	\$ 154,265
Net position - beginning of year	<u>1,092,406</u>	<u>938,141</u>
Net position - end of year	<u><u>\$ 1,202,728</u></u>	<u><u>\$ 1,092,406</u></u>

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	Proprietary - Enterprise Funds	
	Year Ended June 30, 2023	Year Ended June 30, 2022
Cash flows from operating activities:		
Cash received from fees	\$ 3,118,519	\$ 2,942,451
Cash payments to employees for services	(1,655,135)	(1,408,368)
Cash payments for operating expenses	(1,273,754)	(1,295,625)
Net cash provided (used) by operating activities	\$ 189,630	\$ 238,458
Cash flows from capital and related financing activities:		
Principal and interest paid on right-to-use lease-office equip	\$ (27,442)	\$ (36,470)
Acquisition of capital assets		(6,905)
Receipt of rental reimbursements		17,815
Net cash provided (used) in capital and related financing activities:	\$ (27,442)	\$ (25,560)
Cash flows from investing activities:		
Interest on investments	\$ 59,737	\$ 4,458
Net cash provided (used) by investing activities	\$ 59,737	\$ 4,458
Net increase in cash	\$ 221,925	\$ 217,356
Cash - beginning of year	2,507,519	2,290,163
Cash - end of year	\$ 2,729,444	\$ 2,507,519
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 51,371	\$ 131,992
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	\$ 36,209	\$ 47,500
Changes in assets and liabilities:		
Accounts receivable	3,680	26,628
Prepaid expense	2,082	2,070
Accounts payable	(26,160)	34,031
Accrued vacation	92,902	10,406
Unearned revenue	29,546	(14,169)
Total adjustments	\$ 138,259	\$ 106,466
Net cash provided (used) by operating activities	\$ 189,630	\$ 238,458

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

Note 1 - Nature of Activities and Significant Accounting Policies

Description of Organization and Purpose

The North Carolina State Board of Cosmetic Art Examiners (the "Board") is an independent State board. It is an occupational licensing board and is authorized by Chapter 88B of the North Carolina General Statutes. The Board is composed of six members appointed as follows: (1) the General Assembly, upon the recommendation of the President ProTempore of the Senate, shall appoint a cosmetologist, (2) the General Assembly, upon the recommendation of the Speaker of the House of Representatives, shall appoint a cosmetologist, (3) the Governor shall appoint two cosmetologists, a cosmetology teacher, and a member of the public who is not licensed under this Chapter. 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 Annual Comprehensive Financial Report (ACFR).

The Board is established 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.

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 Annual Comprehensive Financial Report (ACFR). 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.

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.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Basis of Accounting

The basic financial statements of the Board are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic resource measurement focus measures all assets that are available to the entity, not only cash or soon to be assets. Both long-term assets and long-term liabilities are measured and depreciation and amortization are recorded as a cost of operations. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of cash flows. Fees received for the various licenses are deemed earned when the license period begins.

The Statements of Revenues, Expenses, and Changes in Net Position classifies the Board's revenues as operating or non-operating revenues. 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 and includes activities that have characteristics of exchange transactions. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Nonoperating revenues and expenses consist of those revenues and expenses that are related to investing, capital, and non-capital financing activities; and are classified as non-operating in the financial statements.

Cash in State Treasurer

This classification consists of funds deposited by the Board with the cash accounts of the North Carolina State Treasurer. Because these funds are immediately available for expenditure, they are considered a cash equivalent. Ownership interests of the STIF are determined on a fair market valuation basis as of June 30, 2023 and 2022 in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodial. Pool investments are measured at fair value in accordance with GASB Statement No. 72. The Board's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

Accounts Receivable

Accounts receivable consists of an amount due from the Office of the State Controller. No reserve for doubtful accounts is necessary. The Board had no accounts receivable at June 30, 2023. The Board had accounts receivable in the amount of \$3,680 at June 30, 2022.

Prepaid Expenses

This classification includes expenses which were prepaid at year end. The Board had no prepaid expense at June 30, 2023. The Board had prepaid expense in the amount of \$2,082 at June 30, 2022.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Capital Assets

Capital assets are stated at cost and are being depreciated over their useful lives on a straight-line basis. The Board capitalizes assets that have a value or cost of \$1,000 or greater at the date of acquisition and an estimated useful life of more than one year. Lease liabilities are capitalized as a right-to-use lease asset when the right-to-use lease asset has a cost of \$1,000 or greater and an estimated useful life of more than one year. Depreciation and amortization are computed using the straight-line and units of output method over the estimated useful lives of the assets generally estimated as follows: office furniture, computer and equipment, 5 to 7 years; and right-to-use lease assets-office, 3 years.

Noncurrent Long-Term Liabilities

Noncurrent long-term liabilities include lease liability, unearned revenue and compensated absences (accrued vacation) that will not be paid within the next fiscal year.

Compensated Absences (Accrued Vacation)

Board employees may accumulate earned vacation and such leave is fully vested when earned. Because such leave is payable to employees at termination, a liability for the outstanding balances has been recorded. Accumulated earned vacation payable at June 30, 2023 and 2022 consist of the following:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Current portion	\$ 31,495	\$ 117,063
Long-term portion	178,470	
Total	<u>\$ 209,965</u>	<u>\$ 117,063</u>

Unearned Revenue

The Board's fees are assessed and collected for varying fiscal years for periods of one to three years. License renewal fees, which cover periods subsequent to June 30, 2023 and 2022, 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.

Net Position

Net investment in capital assets - This component of net position consists of total investment in capital assets (net of accumulated depreciation and amortization) and reduced by outstanding liabilities related to those capital assets.

Restricted net position - This component of net position consists of net position which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. The Board had no *restricted net position* at June 30, 2023 and 2022.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of *restricted or net investment in capital assets*.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Use of Estimates

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

Note 2 - Deposits

Cash in State Treasurer

All of the Board's deposits are either insured, or are collateralized under the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's escrow agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Board, these deposits are considered to be held in the Board's name. The amount of pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. Custodial credit risk is the risk that in the event of a bank failure, the Board's funds may not be returned to it. The Board does not have a formal written policy regarding custodial credit risk for its deposits.

Deposit and investments risks associated with the State Treasurer's Deposits and Investments are included in the State of North Carolina's Annual Comprehensive Financial Report. An electronic version of the financial report is available by accessing the North Carolina Office of the State Controller's internet home page, www.osc.state.nc.us, and clicking on "Financial Reports", or calling the State Controller's Financial Reporting Section at (919) 707-0500.

At June 30, 2023, the Board's deposits with the State Treasurer STIF account had a carrying value and fair market value of \$2,729,444 (including undeposited receipts, if any), and a bank balance of \$2,729,444 which was covered by collateral held under the Pooling Method. At June 30, 2022, the Board's deposits with the State Treasurer STIF account had a carrying value and fair market value of \$2,507,519 (including undeposited receipts, if any), and a bank balance of \$2,507,519 which was covered by collateral held under the Pooling Method.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

Note 3- Capital Assets

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

	Bal 6-30-2022	Increases	Decreases	Bal 6-30-2023
Capital Assets				
Furniture and equipment	\$ 931	\$ -	\$ -	\$ 931
Computer equipment	357,059	-	(102,607)	254,452
Right-to-use lease asset-office	72,273	78,347	(72,273)	78,347
Total capital assets	430,263	78,347	(174,880)	333,730
Less Accumulated Depr/Amort for:				
Furniture and equipment	(931)	-	-	(931)
Computer equipment	(346,551)	(11,780)	102,607	(255,724)
Right-to-use lease asset-office	(52,197)	(24,429)	72,273	(4,353)
Total Accumulate Depr/Amort	(399,679)	(36,209)	174,880	(261,008)
Capital Assets, Net	<u>\$ 30,584</u>	<u>\$ 42,138</u>	<u>\$ 0</u>	<u>\$ 72,722</u>

A summary of changes in capital assets for the year ended June 30, 2022 is presented as follows:

	Bal 6-30-2021	Increases	Decreases	Bal 6-30-2022
Capital Assets				
Furniture and equipment	\$ 931	\$ -	\$ -	\$ 931
Computer equipment	350,154	6,905	-	357,059
Right-to-use lease asset-office	142,048	-	(69,775)	72,273
Total capital assets	493,133	6,905	(69,775)	430,263
Less Accumulated Depr/Amort for:				
Furniture and equipment	(931)	-	-	(931)
Computer equipment	(334,771)	(11,780)	-	(346,551)
Right-to-use lease asset-office	(86,252)	(35,720)	69,775	(52,197)
Total Accumulate Depr/Amort	(421,954)	(47,500)	69,775	(399,679)
Capital Assets, Net	<u>\$ 71,179</u>	<u>\$ (40,595)</u>	<u>\$ 0</u>	<u>\$ 30,584</u>

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in earnings for the period. Depreciation expense was \$11,780 for the fiscal year ended June 30, 2023, and \$11,780 for the fiscal year ended June 30, 2022. Amortization expense was \$24,429 for the fiscal year ended June 30, 2023, and \$35,720 for the fiscal year ended June 30, 2022.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
NOTES TO FINANCIAL STATEMENTS
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Note 4 - Accounts Payable

Accounts payable consists of amounts due to vendors in the ordinary operations of the Board. Accounts payable due in the ordinary operations of the Board which are due to other state agencies (if any) are reported separately.

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Due to Vendors	\$ 151,225	\$ 211,329
Due to Other State	33,944	-
Total Accounts	<u>\$ 185,169</u>	<u>\$ 211,329</u>

Note 5 - Long-Term Liabilities

Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the years ended June 30, 2023 is as follows:

	<u>Bal 6-30-2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Bal 6-30-2023</u>	<u>Current Portion</u>
Lease Liability	\$ 20,580	78,347	(27,021)	71,906	26,504
Compensated Absences	117,063	193,807	(100,905)	209,965	31,495
Total Long-Term Liabilities	<u>\$ 137,643</u>	<u>\$ 272,154</u>	<u>\$ (127,926)</u>	<u>\$ 281,871</u>	<u>\$ 57,999</u>

Note 6 - Leases

During the year ended June 30, 2020, the Board moved its office location to Cary, North Carolina [right-to-use lease asset (office)]. For the fiscal year ended June 30, 2023, the term of the of right-of-use lease (office) is for three years beginning May 1, 2023 and ending April 30, 2026. The Board's leasing arrangements at June 30, 2023 are summarized below:

<u>Classification:</u>	<u>Number of Lease Contracts</u>	<u>Lease Liability at 6-30-2023</u>	<u>Current Portion</u>	<u>Lease Term</u>	<u>Interest Rate</u>
Lessee:					
Right-to-use lease-office	1	\$ 71,906	\$ 26,504	3 years	3%
Total	<u>1</u>	<u>\$ 71,906</u>	<u>\$ 26,504</u>		

Measurement of the lease liability excluded the following variable payment amounts: (1) the increase or decrease in payments after the initial measurement of the lease liability that depend on changes in an index or rate (such as the Consumer Price Index) and (2) payments based on future performance or usage of the underlying assets. During the fiscal years ended June 30, 2023, the Board did not recognize any variable payment amounts.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

Note 6 - Leases (Continued)

For the fiscal year ended June 30, 2023, the Board had a commitment under a lease before the lease term as follows: a three-year lease agreement for the right-to-use lease-office beginning May 2023. Total principal lease payments during the fiscal year ended June 30, 2023 were \$6,441. Future principal and interest lease payments as of June 30, 2023 were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 26,684	\$ 1,820	\$ 26,504
2025	25,435	1,069	26,504
2026	21,787	301	22,088
Total	<u>\$ 71,906</u>	<u>\$ 3,190</u>	<u>\$ 75,096</u>

For the fiscal year ended June 30, 2022, the term of the right-of-use lease (office) is for three years beginning May 1, 2020 and ending April 30, 2023. Total principal lease payments during the fiscal year ended June 30, 2022 were \$20,580. Future principal and interest lease payments as of June 30, 2022 were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	20,580	237	20,817
Total	<u>\$ 20,580</u>	<u>\$ 237</u>	<u>\$ 20,817</u>

For the fiscal year ended June 30, 2022, the Board leased office space that was used by a licensing exam administrator. The term of the lease was from January 1, 2019 to December 31, 2021. The licensing exam administrator reimbursed the Board for exactly the lease payments paid by the Board. Rental reimbursements for the year ended June 30, 2022 was \$17,815. The lease expired on December 31, 2021. The Board no longer continues to lease office space for use by a licensing exam administrator.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
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Note 7 - 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 \$1,630,236, and \$1,418,774 for the years ended June 30, 2023 and 2022, respectively. The Board's payroll for eligible employees under the plans was \$1,552,228 and \$1,276,431 for the years ended June 30, 2023 and 2022, respectively. For the years ended June 30, 2023 and 2022, the Board contributed between 8% and 11.5% of eligible employees' gross pay. Total Board contributions for the year ended June 30, 2023 were \$135,619. Total Board contributions for the year ended June 30, 2022 were \$140,395. The Board assumes no liability for retiree benefits provided by this program other than its required contributions.

Note 8 - Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; and natural disasters. These exposures to loss are handled by participation in certain state-administered risk programs and self retention of certain risks. Additionally, the Board has limited protection from exposure to loss through the purchase of certain commercial insurance coverage. There have been no significant reductions in insurance coverage from coverage in the prior year, and no insurance claims were filed during the past three fiscal years.

Note 9 - Contingencies

Disciplinary Hearings

The Board is involved in occasional disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management of the Board, the results of such actions during the years under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the years herein ended.

Note 10 - Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on the reported results of operations.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
NOTES TO FINANCIAL STATEMENTS
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Note 11- Subsequent Events

Subsequent events have been evaluated through October 11, 2023, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

This audit required approximately 95 audit hours at a cost of \$8,995.