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NORTH CAROLINA STATE BOARD
OF COSMETIC ART EXAMINERS

Financial Statements

June 30, 2016 and 2015

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NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Management's Discussion and Analysis
June 30, 2016

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, 2016. 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, 2016, assets exceeded liabilities by \$390,533. At June 30, 2015, assets exceeded liabilities by \$406,438.

Table 1
Condensed Statement of Net Position

	June 30, <u>2016</u>	June 30, <u>2015</u>
Current Assets	\$ 1,452,256	\$ 1,468,020
Capital Assets	<u>112,019</u>	<u>148,569</u>
Total Assets	\$ <u>1,564,275</u>	\$ <u>1,616,589</u>
Current Liabilities	\$ 849,428	\$ 861,498
Long-Term Liabilities	<u>324,314</u>	<u>348,653</u>
Total Liabilities	\$ <u>1,173,742</u>	\$ <u>1,210,151</u>
Invested in Capital Assets	\$ 112,019	\$ 148,569
Unrestricted Net Position	<u>278,514</u>	<u>257,869</u>
Total Net Position	\$ <u>390,533</u>	\$ <u>406,438</u>

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Management's Discussion and Analysis
June 30, 2016

The following table summarizes the revenues and expenses for the Board for the fiscal years ending June 30, 2016 and 2015:

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

	Year Ending June 30, <u>2016</u>	Year Ending June 30, <u>2015</u>
Operating Revenues	\$ 2,382,641	\$ 2,307,448
Nonoperating Revenues	<u>32,384</u>	<u>27,586</u>
Total Revenues	<u>2,415,025</u>	<u>2,335,034</u>
Operating Expenses	<u>2,430,930</u>	<u>2,167,450</u>
Change in Net Position	(15,905)	167,584
Beginning Net Position	<u>406,438</u>	<u>238,854</u>
Ending Net Position	<u>\$ 390,533</u>	<u>\$ 406,438</u>

Net position decreased by \$15,905 for the year ended June 30, 2016. Revenues increased by \$79,991 and expenses increased by \$263,480 during the year. The primary factor in the increased revenue was an increase in licensee collections due to GS 88B implementations for Natural Hair Care Specialists licensure. The increase in expenses is primarily due from increases in salaries, health insurance contributions, and transportation.

Net Capital Assets

Net capital assets decreased by \$36,550 during the year ended June 30, 2016. 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, <u>2016</u>	June 30, <u>2015</u>
Electronic and Data Processing Equipment	\$ 112,019	\$ 148,502
Office Furniture and Equipment	<u> </u>	<u>67</u>
Net Capital Assets	<u>\$ 112,019</u>	<u>\$ 148,569</u>

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Management's Discussion and Analysis
June 30, 2016

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. The conversion resulted in more consistent revenue collection and increased operating efficiencies. The Board served 107,726 licensees at June 30, 2016 and 99,949 licensees at June 30, 2015. The Board continues to encourage the renewal of payments by credit card using its website. The Board estimates that 85% of eligible renewals were completed online. The Board also collects license fees from shops, manicurists, estheticians, apprentices, schools 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
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, 2016 and 2015, 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 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 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, 2016 and 2015, 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 94.5 hours at a cost of \$9,950.

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

Raleigh, North Carolina
October 18, 2016

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Statements of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash	\$ 1,413,676	\$ 1,445,025
Accounts Receivable	4,919	4,919
Prepaid Expenses	33,661	18,076
Total Current Assets	<u>1,452,256</u>	<u>1,468,020</u>
CAPITAL ASSETS:		
Furniture and Equipment	39,144	39,144
Computer Equipment	420,558	410,453
Total	<u>459,702</u>	<u>449,597</u>
Less Accumulated Depreciation	347,683	301,028
Net Capital Assets	<u>112,019</u>	<u>148,569</u>
 Total Assets	 <u>\$ 1,564,275</u>	 <u>\$ 1,616,589</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 143,831	\$ 118,043
Accrued Salary and Vacation	67,168	66,853
Unearned Revenue	638,429	676,602
Total Current Liabilities	<u>849,428</u>	<u>861,498</u>
LONG-TERM LIABILITIES:		
Unearned Revenue	<u>324,314</u>	<u>348,653</u>
 Total Liabilities	 <u>\$ 1,173,742</u>	 <u>\$ 1,210,151</u>
NET POSITION:		
Invested in Capital Assets	\$ 112,019	\$ 148,569
Unrestricted	<u>278,514</u>	<u>257,869</u>
 Total Net Position	 <u>\$ 390,533</u>	 <u>\$ 406,438</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, 2016 and 2015

	2016	2015
OPERATING REVENUES:		
Business Fees, Licenses and Exams	\$ 1,134,428	\$ 1,099,154
Certification Fees and Licenses	238,842	229,276
Fines, Penalties and Assessments	430,421	371,821
Processing Fee	576,050	604,527
Miscellaneous	2,900	2,670
Total Operating Revenues	2,382,641	2,307,448
OPERATING EXPENSES:		
Salaries	1,121,087	1,068,926
Health Insurance Contributions	235,376	198,934
Civil Penalty and Forfeiture Fund Payment	204,945	175,173
Transportation	168,235	117,315
Office Rent	120,807	117,755
Retirement Contributions	88,124	83,498
Social Security Contributions	84,965	80,719
Workmen's Compensation--Medical Payments	84,523	11,393
Telephone and Communications	61,322	50,712
Depreciation	52,604	51,135
Postage	40,783	52,558
Electronic Payment Processing Fee	33,966	32,788
Legal and Other Professional Services	30,536	30,300
Printing	23,302	19,718
Workmen's Compensation Insurance	16,229	12,774
Computer and Data Processing Expense	14,864	13,959
Supplies and Materials	14,833	10,084
Miscellaneous	13,791	14,047
Meals and Lodging	5,830	4,713
Contracted Services	5,788	11,180
Life and Disability Insurance	5,399	5,600
Compensation--Board Members	3,100	3,900
Maintenance Agreements and Repairs	521	269
Total Operating Expenses	2,430,930	2,167,450
OPERATING GAIN (LOSS)	(48,289)	139,998
NONOPERATING REVENUES:		
Rental Income	21,127	20,507
Interest Income	11,257	7,079
Total Nonoperating Revenues	32,384	27,586
CHANGE IN NET POSITION	(15,905)	167,584
NET POSITION--Beginning of Year	406,438	238,854
NET POSITION--End of Year	\$ 390,533	\$ 406,438

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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Licensees and Applicants	\$ 2,320,129	\$ 2,354,572
Cash Payments to Employees for Services	(1,120,772)	(1,071,388)
Cash Paid for Operating Expenses	(1,247,036)	(988,418)
Net Cash Provided (Used) by Operating Activities	(47,679)	294,766
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Capital Assets	(16,054)	(25,362)
Receipt of Rental Income	21,127	20,507
Receipt of Interest Income	11,257	7,079
Net Cash Provided by Investing Activities	16,330	2,224
NET INCREASE (DECREASE) IN CASH	(31,349)	296,990
CASH--Beginning of Year	1,445,025	1,148,035
CASH--End of Year	\$ 1,413,676	\$ 1,445,025
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Gain (Loss)	\$ (48,289)	\$ 139,998
Adjustments to Reconcile Operating Gain (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	52,604	51,135
Changes in Assets and Liabilities:		
Prepaid Expenses	(15,585)	9,039
Accounts Payable	25,788	49,932
Accrued Salary and Vacation	315	(2,462)
Unearned Revenue	(62,512)	47,124
Net Cash Provided (Used) by Operating Activities	\$ (47,679)	\$ 294,766

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, 2016 and 2015

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, 2016 and 2015

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 \$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 \$67,168 and \$66,853 at June 30, 2016 and 2015, 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, 2016 and 2015, 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 18, 2016, 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 \$1,413,676 at June 30, 2016 and \$1,445,025 at June 30, 2015. 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, 2016 and 2015

3. Capital Assets

Changes in capital assets for the year ended June 30, 2016 were as follows:

	June 30, 2015	Additions	Retirements	June 30, 2016
Furniture and Equipment	\$ 39,144	\$	\$	\$ 39,144
Computer Equipment	<u>410,453</u>	<u>16,054</u>	<u>5,949</u>	<u>420,558</u>
Total Assets Being Depreciated	<u>449,597</u>	<u></u>	<u>5,949</u>	<u>459,702</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	39,078	66		39,144
Computer Equipment	<u>261,950</u>	<u>52,538</u>	<u>5,949</u>	<u>308,539</u>
Total Accumulated Depreciation	<u>301,028</u>	<u>52,604</u>	<u>5,949</u>	<u>347,683</u>
Capital Assets, Net	<u>\$ 148,569</u>	<u>\$ (36,550)</u>	<u>\$</u>	<u>\$ 112,019</u>

Changes in capital assets for the year ended June 30, 2015 were as follows:

	June 30, 2014	Additions	Retirements	June 30, 2015
Furniture and Equipment	\$ 39,144	\$	\$	\$ 39,144
Computer Equipment	<u>385,091</u>	<u>25,362</u>	<u></u>	<u>410,453</u>
Total Assets Being Depreciated	<u>424,235</u>	<u>25,362</u>	<u></u>	<u>449,597</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	39,005	73		39,078
Computer Equipment	<u>210,888</u>	<u>51,062</u>	<u></u>	<u>261,950</u>
Total Accumulated Depreciation	<u>249,893</u>	<u>51,135</u>	<u></u>	<u>301,028</u>
Capital Assets, Net	<u>\$ 174,342</u>	<u>\$ (25,773)</u>	<u>\$</u>	<u>\$ 148,569</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, 2016, the Board contributed between 8% and 11.5% of eligible employees' gross pay. Total Board contributions for the year ended June 30, 2016 were \$88,124. For the year ended June 30, 2015, the Board contributed between 8% and 11.5% of eligible employees' gross pay. Total Board contributions for the year ended June 30, 2015 were \$83,498.

NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS
Notes to Financial Statements
June 30, 2016 and 2015

5. Lease Commitment

The Board leases office space under leases which expire through March 31, 2020. Rent expense for these leases was \$120,807 and \$117,755 for the years ended June 30, 2016 and 2015, respectively.

Future minimum payments under the leases in effect at June 30, 2016 are as follows:

<u>Year Ending</u>	<u>Commitment</u>
2017	\$ 123,933
2018	127,136
2019	118,713
2020	<u>82,008</u>
	<u>\$ 451,790</u>

The Board subleases a portion of its leased premises to a licensing exam administrator. The term of the sublease is from January 1, 2016 to December 31, 2018. Rent income under this sublease for the years ended June 30, 2016 and 2015 was \$21,127 and \$20,507, respectively. Future minimum payments to be received under this lease are \$55,542.

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 2015 have been reclassified to conform with the 2016 financial statement presentation. Such reclassifications have no effect on changes in net position or cash flows as previously reported.