

***NORTH DAKOTA
REAL ESTATE COMMISSION***

AUDIT REPORT

JUNE 30, 2018

NORTH DAKOTA REAL ESTATE COMMISSION
June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Governing Board
North Dakota Real Estate Commission
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Dakota Real Estate Commission, Bismarck, North Dakota, for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the North Dakota Real Estate Commission as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 3 through 7, the Commission's share of net pension and OPEB liability and employer contributions on pages 25 through 26, and budgetary comparison information on pages 27 through 28 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2019, on our consideration of the North Dakota Real Estate Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Real Estate Commission's internal control over financial reporting and compliance.

Haga Kommer, Ltd

Haga Kommer, Ltd
Mandan, North Dakota
January 24, 2019

North Dakota Real Estate Commission
Management's Discussion and Analysis
June 30, 2018

This section of the North Dakota Real Estate Commission's annual financial report presents our discussion and analysis of the Commission's financial performance during the year ended June 30, 2018 and provides certain comparative data for the year ended June 30, 2017. Please read it in conjunction with the Commission's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of North Dakota Real Estate Commission exceeded its liabilities at the close of the 2018 fiscal year by \$810,623 (*net position*). Of this amount, \$707,385 (*unrestricted net position*) may be used to meet the Commission's ongoing obligations.
- At June 30, 2018, net position restricted for the recovery fund was \$100,078. These funds may not be used for the Commission's general operations.
- As of the close of the 2018 fiscal year, North Dakota Real Estate Commission's governmental funds reported ending fund balances of \$904,293.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of statements that present different views of the Commission. Because the Commission is engaged in a single governmental program, the statements have been presented in a combined format.

- The *government-wide financial statements* provide both *long-term* and *short-term* information about the Commission's overall finances. These statements are presented in the right column on pages 8 and 10 following the adjustments column.
- The *fund financial statements* focus on *individual parts* of the government, reporting the Commission's operations in *more detail* than the government-wide financial statements. These statements are presented in the three left columns on pages 8 and 10 before the adjustments column. The *governmental funds* statements tell how *general government* services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Government-Wide Statements

The government-wide statements report information about the Commission as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the government's assets and liabilities. The statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

North Dakota Real Estate Commission
Management's Discussion and Analysis
June 30, 2018

The two government-wide statements report the Commission's net position and how they have changed. Net position – the difference between the Commission's assets and liabilities – is one way to measure the Commission's financial health or position. Over time, increases or decreases in the Commission's net position are an indicator of whether its financial health is improving or deteriorating, respectively. But to assess the overall health of the Commission, you also need to consider nonfinancial factors.

The governmental activities of the Commission include licensing real estate salespeople, real estate offices, and real estate brokers doing business in North Dakota and investigating complaints.

Fund Financial Statements

The fund financial statements provide more detailed information about the Commission's most significant *funds* – not the Commission as a whole. Funds are accounting devices that the Commission uses to keep track of specific sources of funding and spending for particular purposes. The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Commission has only one type of funds:

- *Governmental funds* – Most of the Commission's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide a reconciliation at the bottom of each financial statement that explains the differences between the governmental funds total column and the government-wide statement column.

The Commission adopts an annual budget for its general governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As stated earlier, net position may serve over time as a useful indicator of a government's financial position. The Commission's assets exceeded liabilities by \$810,623 at June 30, 2018 and by \$813,511 at June 30, 2017. The net position increased by \$2,480 for the year ended June 30, 2018 and increased by \$102,557 for the year ended June 30, 2017. The Commission implemented GASB Statement No. 75 which required an adjustment to beginning net position of (\$5,638) on July 1, 2017.

At June 30, 2018, 12 percent of the Commission's net position is restricted for use by the Recovery fund. Unrestricted net position may be used to fund Commission activities in the next fiscal year.

North Dakota Real Estate Commission
Management's Discussion and Analysis
June 30, 2018

	Governmental Activities	
	6/30/2018	6/30/2017
ASSETS		
Current assets	\$ 331,903	\$ 307,208
Non-current assets	595,723	589,448
Capital assets	3,160	4,761
Total Assets	930,786	901,417
DEFERRED OUTFLOWS OF RESOURCES	91,134	61,084
LIABILITIES		
Current liabilities	23,333	4,643
Long-term liabilities	156,843	129,634
Total Liabilities	180,176	134,277
DEFERRED INFLOWS OF RESOURCES	31,121	14,713
NET POSITION		
Net investment in capital assets	3,160	4,761
Restricted for recovery	100,078	93,597
Unrestricted	707,385	715,153
Total Net Position	\$ 810,623	\$ 813,511

	Governmental Activities	
	FYE 6/30/2018	FYE 6/30/2017
Revenues:		
Program revenues:		
Fees	\$ 385,530	\$ 388,480
Fines & late penalties	24,875	24,150
Sales, net of costs	100	50
General revenues:		
Interest income	6,559	7,227
Total Revenues	417,064	419,907
Expenses:		
Licensing & regulation	414,584	317,350
Total Expenses	414,584	317,350
Change in Net Position	2,480	102,557
Net Position, Beginning of the Year	813,511	710,954
Adjustment to Beginning Net Position	(5,368)	-
Beginning of the Year as Restated	808,143	710,954
Net Position, End of the Year	\$ 810,623	\$ 813,511

North Dakota Real Estate Commission
Management's Discussion and Analysis
June 30, 2018

The Commission's total revenues were \$417,064 and \$419,907, for the years ended June 30, 2018 and 2017, respectively. Almost all of the Commission's revenues come from licensing fees.

The total cost of all programs and services was \$414,584 and \$317,350, for the years ended June 30, 2018 and 2017, respectively.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Commission's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

- Revenues from governmental fund types totaled \$417,064 and \$419,907 for the years ended June 30, 2018 and 2017, respectively. (Note that these amounts are the same as in the government-wide statements as there are no adjustments to revenues.)
- Expenditures totaled \$404,784 and \$342,975, for the years ended June 30, 2018 and 2017, respectively.
- Total fund balances increased by \$12,280 and \$76,932 for the years ended June 30, 2018 and 2017, respectively.
- The general fund balance increased by \$5,799 and \$70,731 for the years ended June 30, 2018 and 2017, respectively.

GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

General Fund:

- For the year ended June 30, 2018, actual revenues were \$1,447 less than budgeted. The Commission generally budgets revenues conservatively as it is difficult to predict the number of renewals and new licensees.
- Actual expenditures were \$1,364 more than budgeted:
 - Auditing costs were over budget by \$17,060 due to timing of when the trust account audits were scheduled.
 - Commissioners' fees and expenses were under budget by \$4,198 due to fewer commissioners attending the national meetings than budgeted.
 - Legal fees & investigation costs were under budget by \$6,239 due to fewer complaints filed than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018, the Commission's investment in capital assets was \$3,160 (net of accumulated depreciation). The investment in capital assets at the end of fiscal year 2017 was \$4,761. This investment includes furniture, fixtures and office equipment. Additional information on the Commission's capital assets can be found in Note 3 in the notes to the financial statements.

North Dakota Real Estate Commission
Management's Discussion and Analysis
June 30, 2018

Long Term Debt

The Commission has recorded a liability for compensated absences. The Commission is liable for compensated absences in the event an employee leaves employment. The liabilities recorded at June 30, 2018 and 2017 were \$3,616 and \$6,737, respectively.

Additional information on the Commission's long-term debt can be found in Note 4 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For 2019,

- Revenues were budgeted at \$392,600.
- The Commission continues to budget conservatively for revenue income from license fees.
- Budgeted expenditures of \$481,225 reflect the conservative stance the Commission has taken as well.

These indicators were taken into account when adopting the Commission budget for 2019. The Commission has added no major new programs to the 2019 budget. If these estimates are realized, the Commission expects to utilize \$88,625 of savings to balance the budget.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director at 1110 College Drive, Suite 207, PO Box 727, Bismarck, North Dakota 58502-0727.

North Dakota Real Estate Commission
Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2018

	Governmental Funds Balance Sheet			Adjustments	Statement of Net Position
	General Fund	Special Revenue Fund	Total		
ASSETS					
Cash and Cash Equivalents	\$ 296,684	\$ 31,234	\$ 327,918	\$ -	\$ 327,918
Accounts Receivable	2,500	-	2,500	-	2,500
Prepaid Rent	1,485	-	1,485	-	1,485
Investments	526,879	68,844	595,723	-	595,723
Furniture & Equipment, Net of Accumulated Depreciation	-	-	-	3,160	3,160
Total Assets	<u>\$ 827,548</u>	<u>\$ 100,078</u>	<u>\$ 927,626</u>	3,160	930,786
DEFERRED OUTFLOWS OF RESOURCES					
Derived from Pensions and OPEB				91,134	91,134
LIABILITIES					
Accounts Payable	\$ 23,263	\$ -	\$ 23,263	-	23,263
Salaries and Benefits Payable	70	-	70	-	70
Long-Term Liabilities:					
Due after One Year					
Compensated Absences	-	-	-	3,616	3,616
Net Pension and OPEB Liability	-	-	-	153,227	153,227
Total Liabilities	<u>23,333</u>	<u>-</u>	<u>23,333</u>	<u>156,843</u>	<u>180,176</u>
DEFERRED INFLOWS OF RESOURCES					
Derived from Pensions and OPEB				31,121	31,121
FUND BALANCES/NET POSITION					
Fund Balances:					
Restricted for Recovery	-	100,078	100,078	(100,078)	-
Unassigned	804,215	-	804,215	(804,215)	-
Total Fund Balances	<u>804,215</u>	<u>100,078</u>	<u>904,293</u>	<u>(904,293)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 827,548</u>	<u>\$ 100,078</u>	<u>\$ 927,626</u>		
Net Position:					
Net Investment in Capital Assets				3,160	3,160
Restricted for Recovery				100,078	100,078
Unrestricted				707,385	707,385
Total Net Position				<u>\$ 810,623</u>	<u>\$ 810,623</u>

North Dakota Real Estate Commission
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018

Total Fund Balances - Governmental Funds	\$ 904,293
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$20,050 and the accumulated depreciation is \$16,890.	3,160
Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet.	91,134
Long term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	(3,616)
The net pension and OPEB liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.	(153,227)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	<u>(31,121)</u>
Net Position - Governmental Activities	<u>\$ 810,623</u>

North Dakota Real Estate Commission
Statement of Activities and Governmental Fund Statement
of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2018

	<u>Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances</u>				Statement of Activities
	General Fund	Special Revenue Fund	Total	Adjustments	
Expenditures/Expenses:					
Licensing & Regulation	\$ 404,784	\$ -	\$ 404,784	\$ 9,800	\$ 414,584
Total Expenditures/Expenses	<u>404,784</u>	<u>-</u>	<u>404,784</u>	<u>9,800</u>	<u>414,584</u>
Program Revenues:					
Fees	380,390	5,140	385,530	-	385,530
Fines & Late Penalties	24,875	-	24,875	-	24,875
Sales, Net of Costs	<u>100</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>100</u>
Total Program Revenues	<u>405,365</u>	<u>5,140</u>	<u>410,505</u>	<u>-</u>	<u>410,505</u>
Net Program Revenue					<u>(4,079)</u>
General Revenues:					
Interest Income	<u>5,218</u>	<u>1,341</u>	<u>6,559</u>	<u>-</u>	<u>6,559</u>
Total General Revenues	<u>5,218</u>	<u>1,341</u>	<u>6,559</u>	<u>-</u>	<u>6,559</u>
Excess of Revenues Over Expenditures	5,799	6,481	12,280	(12,280)	-
Change in Net Position	-	-	-	2,480	2,480
Fund Balance/Net Position:					
Beginning of the Year	798,416	93,597	892,013	(78,502)	813,511
Adjustment to Beginning Net Position, (See Note 10)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,368)</u>	<u>(5,368)</u>
Beginning of the Year as Restated	<u>798,416</u>	<u>93,597</u>	<u>892,013</u>	<u>(83,870)</u>	<u>808,143</u>
End of the Year	<u>\$ 804,215</u>	<u>\$ 100,078</u>	<u>\$ 904,293</u>	<u>\$ (93,670)</u>	<u>\$ 810,623</u>

Explanation of the adjustments between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities:

Governmental Funds - Excess of Revenues Over Expenditures	\$ 12,280
Governmental funds report the pension and OPEB expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension and OPEB expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions. This is the difference between the actual amount paid and the actuarial expense.	(11,321)
Depreciation expense on capital assets is reported in the government-wide statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(1,601)
The decrease in accrued leave payables does not require the use of current financial resources; therefore is not reported as an expenditure in the governmental funds.	<u>3,122</u>
Statement of Activities - Change in Net Position	<u>\$ 2,480</u>

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity

The North Dakota Real Estate Commission is responsible for licensing of real estate offices, salespeople, and brokers doing business in North Dakota. The Commission is composed of five members, three of whom must be active real estate brokers, who are appointed by the governor for a term of five years. The Commission has the authority to refuse, suspend or revoke a real estate license for cause. The Commission conducts audits of real estate brokers trust accounts. The Commission administers the Subdivided Lands Disposition Act which regulates the sale of out-of-state subdivided lands to residents of North Dakota. The Commission provides for registration and licensing of all subdivisions offering for sale more than five lots, parcels, units or interest in land located outside the state and sold to North Dakota residents.

Reporting Entity

Generally accepted accounting principles require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities which should be presented with the North Dakota Real Estate Commission as a reporting entity.

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the full scope of the Commission's activities is considered to be governmental activity.

GOVERNMENTAL FUNDS

General Fund - The general fund is the principal operating fund of the Commission. It is used to account for all financial resources which are not accounted for in other funds.

Special Revenue Fund - The education, research, and recovery fund is used to account for the receipt and disbursement of monies which have been collected for the purpose of providing a reserve whereby aggrieved persons may make application for the payment of unsatisfied judgments against licensees and for the furnishing of education and research in the field of real estate for the benefit of licensees.

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; generally when they are both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The revenues that are determined to be susceptible to accrual are fees, fines and interest.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due and collectible.

When both restricted and unrestricted resources are available for use, it is at the Commission’s discretion to use restricted resources in accordance with North Dakota Century Code 43-23.2-02.

New Accounting Pronouncements

As of July 1, 2017, the Commission adopted GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The implementation of this standard required governments to calculate and report the costs and obligations associated with postemployment benefits other than pensions in their basic financial statements. Employers are required to recognize the entire OPEB liability and a more comprehensive measure of OPEB expense. The effect of the implementation of these standards on beginning net position is disclosed in Note 10 and the additional disclosures required by these standards are included in Note 6 and supplemental schedules.

Cash and Cash Equivalents

Cash and cash equivalents includes non-interest bearing demand deposits and interest-bearing savings deposits deposited with financial institutions with terms of less than three months.

Investments

Investments consist of certificates of deposit carried at cost with a term of more than three months. The certificates of deposit had interest rates of 0.60 – 2.20 percent and terms of 14 to 24 months in 2018.

Capital Assets and Depreciation

Capital assets are reported at cost less accumulated depreciation. Equipment with an original cost of \$750 or more and an estimated useful life in excess of one year are capitalized and reported in the government-wide financial statements. Depreciation is computed on a straight-line basis over the estimated useful life of the assets, generally five years for equipment and seven years for furniture.

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

Annual and sick leave are part of permanent employees' compensation as set forth in section 54-06-14 of the North Dakota Century Code. In general, accrued annual leave cannot exceed 30 days at year-end while sick leave is not limited. Employees earn annual leave at a variable rate based on years of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement, per section 54-06-14 of the North Dakota Century Code. Employees vest in sick leave at ten years of credible service, at which time the employer is liable for 10% of the accumulated unused sick leave.

The government-wide financial statements present the cost of compensated absences as a liability. The governmental fund financial statements recognize compensated absences when the liability is incurred and payable from available expendable resources.

Fund Balance Classifications

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

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

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

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

Assigned – This classification reflects the amounts constrained by the Commission's "intent" to be used for special purposes, but are neither restricted nor committed. The Commission members have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the Commission's discretion is used to determine whether to first use restricted resources or unrestricted resources, committed, assigned, and unassigned.

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 5 for additional information.

Pensions

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

Other Post Employment Benefit (OPEB)

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

NOTE 2 DEPOSITS

In accordance with North Dakota statutes, the Commission maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposits, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the state of North Dakota, its boards, agencies, or instrumentalities, or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing entity, and bonds issued by any other state of the United States or such other securities approved by the banking board.

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 2 DEPOSITS (CONTINUED)

At June 30, 2018, the carrying amount of deposits was \$923,641. The bank balance of these deposits as of June 30, 2018 was \$936,538. The difference results from checks outstanding or deposits not yet processed. All of the bank balances were covered by Federal Depository Insurance or guaranteed by the State of North Dakota. The Commission reviews the bank balances at each meeting to ensure deposits are covered by FDIC.

Credit Risk: The Commission may invest idle funds as authorized in North Dakota statutes, as follows:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- c) Certificates of deposit fully insured by the federal deposit insurance corporation.
- d) Obligations of the state.

Concentration of credit risk: The Commission does not have a limit on the amount the Commission may invest in any one issuer.

NOTE 3 CAPITAL ASSETS

Following is a summary of capital assets for the year ended June 30, 2018:

	Capital Assets	Accumulated Depreciation	Net
Balance 6/30/17	\$ 20,050	\$ 15,289	\$ 4,761
Increases	-	1,601	(1,601)
Decreases	-	-	-
Balance 6/30/18	\$ 20,050	\$ 16,890	\$ 3,160

Depreciation expense for the year ended June 30, 2018 was \$1,601.

NOTE 4 LONG-TERM LIABILITIES

A summary of changes in general long-term liabilities for the year ended June 30, 2018 is as follows:

	Compensated Absences	Current Portion
Balance 6/30/17	\$ 6,737	\$ -
Increases	7,231	-
Decreases	(10,352)	-
Balance 6/30/18	\$ 3,616	\$ -

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 5 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (PENSIONS)

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of June 30, 2018 are as follows:

Deferred Outflows of Resources	
Derived from pension - PERS	\$ 89,090
Derived from pension - OPEB	2,044
Total	<u>\$ 91,134</u>
Deferred Inflows of Resources	
Derived from pension - PERS	\$ 30,698
Derived from pension - OPEB	423
Total	<u>\$ 31,121</u>

Note 6 of the financial statements contains details of the pension and OPEB plans.

NOTE 6 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

1. North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

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

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

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 6 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 6 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

At June 30, 2018, the Commission reported a liability of \$146,428 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017, the Commission's proportion was 0.00911 percent, which was a decrease of 0.0035 percent from its proportion measured as of July 1, 2016.

For the year ended June 30, 2018, the Commission recognized pension expense of \$21,495. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 870	\$ 713
Changes of assumptions	60,045	3,303
Net difference between projected and actual earnings on pension plan investments	1,969	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	16,221	26,682
Employer contributions subsequent to the measurement date (see below)	9,985	-
Total	\$ 89,090	\$ 30,698

\$9,985 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

<u>For the year ended June 30,</u>	
2019	\$ 12,096
2020	14,798
2021	12,639
2022	5,168
2023	3,706
Thereafter	-

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 6 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

Actuarial assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary Increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50 +	5.00%

* Age-based salary increase rates apply for employees
with three or more years of service

Investment rate of return	7.75 %, net of investment expenses
Cost-of-living adjustments	None

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.20%
Domestic Fixed Income	17%	1.43%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	0.00%

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 6 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

Discount rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan’s fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

Sensitivity of the Commission's proportionate share of the net pension liability to changes in the discount rate

The following presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Commission's proportionate share of the net pension liability	\$198,780	\$146,428	\$102,873

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 6 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

2. North Dakota Public Employees Retirement System (OPEB)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018 the Employer reported a liability of \$6,800 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the Employer's proportion was 0.008597 percent.

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 6 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

For the year ended June 30, 2018 the Employer recognized OPEB expense of \$871. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 166
Change of assumptions	659	-
Net difference between projected and actual earnings on OPEB plan investments	-	257
Changes in proportion and differences between employer contributions and proportionate share of contributions	325	-
Employer contributions subsequent to the measurement date (see below)	1,060	-
Total	\$ 2,044	\$ 423

\$1,060 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

	For the year ended June 30,
2019	\$ 64
2020	64
2021	64
2022	128
2023	128
Thereafter	49

Actuarial assumptions.

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 6 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC’s target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.56%

Discount rate. The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net OPEB liability	\$ 8,513	\$ 6,800	\$ 5,332

NOTE 7 OPERATING LEASE

The Commission has a lease for November 1, 2015 through October 31, 2018 with monthly installments of \$1,485. Expenditures for rent for the year ended June 30, 2018 were \$17,822. They entered into a new lease November 1, 2018 through October 31, 2019 with monthly installments of \$1,591. Future payments for fiscal year 2019 is \$18,671 and for fiscal year 2020 is \$6,365.

North Dakota Real Estate Commission
Notes to the Financial Statements
June 30, 2018

NOTE 8 RISK MANAGEMENT

The Commission 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. The following are funds/pools established by the State for risk management issues.

The 1995 legislative session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state and its agencies' employees and the university system. All state agencies participate in the RMF and their fund contribution is determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The Commission participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

The Commission pays an annual premium to a third-party insurance carrier for employee dishonesty coverage in the amount of \$65,000.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9 EXPENDITURES BUDGET

For the fiscal year ended June 30, 2018, certain individual line items were over in the general fund budget due to expense items being coded to a different expense account than planned. No remedial action required.

NOTE 10 PRIOR PERIOD ADJUSTMENT

Due to the adoption of accounting standards the beginning net position was restated to retroactively report the beginning net OPEB liability and deferred outflows of resources related to contributions made after the measurement date as follows:

Net Position - Beginning of Year, as previously reported	\$ 813,511
Restatement of accounting for OPEB	<u>(5,368)</u>
Net Position - Beginning of Year, as restated	<u><u>\$ 808,143</u></u>

***REQUIRED
SUPPLEMENTARY INFORMATION***

North Dakota Real Estate Commission
 Required Supplementary Information
 For the Year Ended June 30, 2018

Schedule of Employer's Share of Net Pension Liability
 ND Public Employees Retirement System
 Last 10 Fiscal Years*

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.009110%	0.012610%	0.013815%	0.009325%
Employer's proportionate share of the net pension liability (asset)	\$146,428	\$122,897	\$93,940	\$59,188
Employer's covered-employee payroll	\$93,003	\$127,077	\$123,076	\$78,558
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	157.44%	96.71%	76.33%	75.34%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	77.15%	77.70%

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

Schedule of Employer Contributions
 ND Public Employees Retirement System
 Last 10 Fiscal Years*

	2018	2017	2016	2015
Statutorily required contribution	\$6,744	\$9,200	\$9,349	\$5,593
Contributions in relation to the statutorily required contribution	\$9,097	(\$9,053)	(\$8,763)	(\$5,593)
Contribution deficiency (excess)	(\$2,353)	\$147	\$586	\$0
Employer's covered-employee payroll	\$93,003	\$127,077	\$123,076	\$78,558
Contributions as a percentage of covered-employee payroll	9.78%	7.12%	7.60%	7.12%

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

Data reported is measured as of 7/1/2017, 7/1/2016, 7/1/2015, and 7/1/2014.

North Dakota Real Estate Commission
 Required Supplementary Information
 For the Year Ended June 30, 2018

Schedule of Employer's Share of Net OPEB Liability
 ND Public Employees Retirement System
 Last 10 Fiscal Years*

	2018
Employer's proportion of the net OPEB liability (asset)	0.008597%
Employer's proportionate share of the net OPEB liability (asset)	\$ 6,800
Employer's covered-employee payroll	\$ 93,003
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.32%
Plan fiduciary net position as a percentage of the total OPEB liability	59.78%

* Complete data for this schedule is not available prior to 2017.

Schedule of Employer Contributions
 ND Public Employees Retirement System
 Last 10 Fiscal Years *

	2018
Statutorily required contribution	\$ 1,081
Contributions in relation to the statutorily required contribution	\$ 1,457
Contribution deficiency (excess)	\$ (376)
Employer's covered-employee payroll	\$ 93,003
Contributions as a percentage of covered-employee payroll	1.57%

* Complete data for this schedule is not available prior to 2017.

Data reported is measured as of 7/1/2017.

North Dakota Real Estate Commission
Statement of Revenues, Expenditures, and Changes in Fund Balances
Comparison to Budget - General Fund
For the Year Ended June 30, 2018

	Budget Original	Budget Amended	Actual	Favorable (Unfavorable) Variance
Revenues:				
Fees	\$ 363,200	\$ 381,220	\$ 380,390	\$ (830)
Fines	5,000	4,450	4,450	-
Late Penalties	15,000	20,425	20,425	-
Interest Income	2,500	5,835	5,218	(617)
Sales, Net of Cost	<u>100</u>	<u>100</u>	<u>100</u>	<u>-</u>
Total Revenues	<u>385,800</u>	<u>412,030</u>	<u>410,583</u>	<u>(1,447)</u>
Expenditures:				
Auditing Costs	65,000	49,970	67,030	(17,060)
Credit Card Fees	7,500	7,842	7,841	1
Commissioners' Expenses	54,828	27,535	23,337	4,198
Legal Fees & Investigation Costs	45,000	32,500	26,261	6,239
Miscellaneous Expense	3,000	4,584	4,641	(57)
Office Equipment & Maintenance	4,000	2,086	1,838	248
Office Supplies	3,000	2,512	2,688	(176)
Payroll Taxes	10,714	13,853	11,711	2,142
Postage	6,500	3,974	3,965	9
Printing Costs	8,000	4,500	3,556	944
Professional Fees	5,280	930	930	-
Property & Liability Insurance	1,368	1,362	1,473	(111)
Rent	17,823	17,823	17,822	1
Retirement & Health Insurance	61,725	63,651	62,353	1,298
Salaries	135,473	150,268	150,248	20
Staff Education & Training	1,000	497	497	-
Staff Travel & Expenses	16,301	9,229	7,900	1,329
Technology	25,000	8,712	9,078	(366)
Telephone	<u>1,920</u>	<u>1,592</u>	<u>1,615</u>	<u>(23)</u>
Total Expenditures	<u>473,432</u>	<u>403,420</u>	<u>404,784</u>	<u>(1,364)</u>
Excess of Revenues Over (Under) Expenditures	(87,632)	8,610	5,799	(2,811)
Fund Balance - Beginning of Year	<u>798,416</u>	<u>798,416</u>	<u>798,416</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 710,784</u>	<u>\$ 807,026</u>	<u>\$ 804,215</u>	<u>\$ (2,811)</u>

North Dakota Real Estate Commission
Notes to Required Supplementary Information
June 30, 2018

NOTE 1 CHANGES OF ASSUMPTIONS – ND PUBLIC EMPLOYEES RETIREMENT SYSTEM MAIN AND OPEB

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NOTE 2 LEGAL COMPLIANCE - BUDGETS

Budgets for revenues and expenditures are adopted on a basis consistent with generally accepted accounting principles. The Commission is required to adopt a budget for the General Fund. Each year the Commission estimates and itemizes all administrative expenses and obligations of the Commission, including expenses of directors, management fees, legal and other related expense. Revenues expected to be generated from the renewal of licenses, registration and certification of new licenses, and other related revenues are also estimated. No budget is required for the Special Revenue Fund. The budget may be amended during the year for any receipts and disbursements not anticipated at the time the budget was prepared. Except as provided by North Dakota Century Code Section 40-40-21, the balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

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

Governing Board
North Dakota Real Estate Commission
Bismarck, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of North Dakota Real Estate Commission, Bismarck, North Dakota as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated January 24, 2019.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies 2018-001 and 2018-002 described in the accompanying schedule of findings to be significant deficiencies.

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

Compliance and Other Matters

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

North Dakota Real Estate Commission's Response to Findings

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

Purpose of this Report

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

Haga Kommer, Ltd

Haga Kommer, Ltd
Mandan, North Dakota
January 24, 2019

North Dakota Real Estate Commission
Schedule of Findings
For The Year Ended June 30, 2018

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	
Governmental Activities	Unmodified
Major Governmental Funds	Unmodified

Internal control over financial reporting:

Material weaknesses identified?	No
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Control deficiency identified not considered to be a material weakness?	Yes
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Noncompliance material to financial statements noted?	No
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Section II – Financial Statement Findings

Significant Deficiency

Finding 2018-001: Segregation of Duties

Condition – The Commission has a lack of segregation of duties due to a limited number of individuals involved. Considering the size of the Commission, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – Limited staff is available for accounting functions.

Effect – Inadequate segregation of duties could affect the Commission's ability to timely detect misstatements in amounts that would be material to the financial statements. There are a limited number of individuals available to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Recommendation – Due to the size of the Commission, it is not feasible to obtain proper segregation of duties and the degree of internal control is limited. However, the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the board's active review of matters relating to the Commission's operations.

Management Response – The Commission is aware of the limitations; and approved the hiring of a full-time auditor/CPA who will also manage the accounting for the agency. The Commission monitors the condition and actively reviews the internal financial statements prepared by the Executive Director.

North Dakota Real Estate Commission
Schedule of Findings
For The Year Ended June 30, 2018

Significant Deficiency

Finding 2018-002: Preparation of Financial Statements and Adjusting Journal Entries

Condition – The financial statements and related notes are prepared by the Commission’s auditors and adjusting journal entries were required for the year-end accruals as well as for pension liability adjustments following GASB Statement No. 68 and No. 75 requirements.

Criteria – Complete and accurate presentation of the financial statements in conformity with *Governmental Accounting Standards Board* statements is required. This includes preparation of fund and government-wide statements and related reconciliations.

Cause – The preparation of financial statements and related notes is very technical and requires a significant amount of time. The Commission’s staff does prepare monthly financial statements from the QuickBooks software but the software does not generate the fund and government-wide statements required for the audit. GASB Statement No. 68 and No. 75 relating to pensions also requires a significant amount of time and research. The Commission also asks that the auditors prepare the year-end accrual adjustments.

Effect – The auditors were requested to draft the financial statements and the accompanying notes to the financial statements. The auditors were also requested to make the year-end accrual adjustments as well as the adjustments relating to the requirements for GASB Statement No. 68 and No. 75. It would be time-consuming and inefficient for the Commission to prepare the financial statements and required notes to the financial statements in accordance with generally accepted accounting policies. The internal financial statements from QuickBooks are used as the basis for the fund and government-wide financial statements required for the audit.

Recommendation – This is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision as to whether to accept the degree of risk associated with this condition because of cost or other considerations. The Commission should continue to provide the capital asset and accrued compensated leave information to the auditors. The Commission should accumulate year-end accounts payable and enter the bills in QuickBooks with June 30 dates. The Commission should be aware of new standards issued in order to be able to review the financial statements and related notes.

Management Response – The Commission has decided to accept the degree of risk associated with the Commission not preparing its own financial statements or making the adjustments for year-end accruals as well as those relating to the requirements of GASB Statement No. 68 and No. 75 due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

Section III – Prior Audit Findings

Finding 2017-001: Segregation of Duties

Finding 2017-002: Preparation of Financial Statements and Adjusting Journal Entries

Responses to the North Dakota Legislative Audit and Fiscal Review Committee Audit Questions

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

Audit Report Communications:

1. *What type of opinion was issued on the financial statements?*

Unmodified opinion.

2. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

3. *Was internal control adequate and functioning effectively?*

Yes.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

There were no findings and recommendations included in prior audit reports.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and management responses.*

No.

Audit Communications to the North Dakota Legislative Audit and Fiscal Review Committee

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

The Commission adopted GASB Standard No. 75.
No management conflicts of interest were noted.
No contingent liabilities were identified.
There were no significant or unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

None.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

None.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

None.