

EDUCATION STANDARDS AND PRACTICES BOARD

AUDIT REPORT

JUNE 30, 2022

Education Standards and Practices Board
June 30, 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Education Standards and Practices Board
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Education Standards and Practices Board, Bismarck, North Dakota, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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 Education Standards and Practices Board as of June 30, 2022 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Education Standards and Practices Board and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Education Standards and Practices Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards* we:

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

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

Emphasis of Matter

As discussed in Note 1 of the financial statements, the Education Standards and Practices Board adopted GASB statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

As discussed in Note 1 of the financial statements, the Education Standards and Practices Board recognizes revenue received from licensing fees, services, and fines and penalties in the current fiscal year, this includes revenue collected in advance for multi-year licenses which should be deferred as required by generally accepted accounting principles in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Board's share of net pension and OPEB liability and employer contributions on page 23 and 24, the budgetary comparison schedules – general fund and special revenue fund on pages 25 and 26, and the notes to the required supplementary information on page 27 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2025, on our consideration of the Education Standards and Practices Board'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 solely 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 the effectiveness of the Education Standards and Practices Board's 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 Education Standards and Practices Board's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
June 30, 2025

Education Standards and Practices Board
Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2022

	Governmental Funds Balance Sheet				
	Special Revenue				Statement of Net
	General Fund	Fund	Total	Adjustments	Position
ASSETS					
Cash and Cash Equivalents	\$ 1,095,728	\$ 480,015	\$ 1,575,743	\$ -	\$ 1,575,743
Certificates of Deposit	289,586	-	289,586	-	289,586
Accounts Receivable	-	1,000	1,000	-	1,000
Due from Teacher Support Fund	182,004	-	182,004	(182,004)	-
Prepaid Expenses	9,918	1,302	11,220	-	11,220
Furniture & Equipment, Net of					
Accumulated Depreciation	-	-	-	2,031	2,031
Right-of-Use Asset, Net of					
Accumulated Amortization	-	-	-	26,815	26,815
Total Assets	<u>\$ 1,577,236</u>	<u>\$ 482,317</u>	<u>\$ 2,059,553</u>	(153,158)	1,906,395
DEFERRED OUTFLOWS OF RESOURCES					
Derived from Pension and OPEB				631,337	631,337
LIABILITIES					
Accounts Payable	\$ 4,984	\$ -	\$ 4,984	-	4,984
Due to General Fund	-	182,004	182,004	(182,004)	-
Payroll Taxes Payable	10,010	3,205	13,215	-	13,215
Lease Liability	-	-	-	26,843	26,843
Long-Term Liabilities:					
Due within One Year					
Compensated Absences	-	-	-	49,333	49,333
Due after One Year:					
Net Pension and OPEB Liability	-	-	-	504,249	504,249
Total Liabilities	<u>14,994</u>	<u>185,209</u>	<u>200,203</u>	398,421	598,624
DEFERRED INFLOWS OF RESOURCES					
Derived from Pension and OPEB				943,308	943,308
FUND BALANCES/NET POSITION					
Fund Balances:					
Restricted for Grant	-	295,806	295,806	(295,806)	-
Nonspendable - Prepaid Expenses	9,918	1,302	11,220	(11,220)	-
Unassigned	1,552,324	-	1,552,324	(1,552,324)	-
Total Fund Balances	<u>1,562,242</u>	<u>297,108</u>	<u>1,859,350</u>	(1,859,350)	-
Total Liabilities and Fund Balances	<u>\$ 1,577,236</u>	<u>\$ 482,317</u>	<u>\$ 2,059,553</u>		
Net Position:					
Invested in Capital Assets and Right-of-Use Asset				2,003	2,003
Restricted for Teacher Support Program				297,108	297,108
Unrestricted				696,689	696,689
Total Net Position				<u>\$ 995,800</u>	<u>\$ 995,800</u>

Explanation of adjustments between the governmental funds balance sheet and the government-wide statement of net position:	
Total Fund Balances - Governmental Funds	\$ 1,859,350
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$86,507 and the accumulated depreciation is \$84,476.	2,031
Right-of-use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the right-to-use lease assets is \$53,631 and the accumulated amortization is \$26,816.	26,815
Lease liabilities used in governmental activities are not financial resources and therefore are not reported in the funds.	(26,843)
Compensated absences are not due and payable until an employee terminates employment and therefore are not reported in the governmental funds balance sheet.	(49,333)
Deferred outflows of resources are not a financial resource available in the current period and therefore are not reported in the governmental funds balance sheet.	631,337
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.	(504,249)
Deferred inflows of resources are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.	(943,308)
Net Position - Governmental Activities	<u>\$ 995,800</u>

Education Standards and Practices Board
Statement of Activities and
Governmental Fund Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2022

	Governmental Fund Revenues, Expenditures, and Changes in Fund Balances				Statement of Activities
	General Fund	Special Revenue Fund	Total	Adjustments	
Expenditures/Expenses:					
Licensing & Regulation	\$ 881,580	\$ -	\$ 881,580	\$ 49,685	\$ 931,265
Teacher Support System	-	1,242,381	1,242,381	-	1,242,381
Total Expenditures/Expenses	881,580	1,242,381	2,123,961	49,685	2,173,646
Program Revenues:					
Licensing Fees	816,991	-	816,991	-	816,991
Teacher Support System Grant	-	1,206,235	1,206,235	-	1,206,235
Fingerprinting & Portfolio	92,895	-	92,895	-	92,895
Fines/Late Fees	28,100	-	28,100	-	28,100
Other Income	60,935	-	60,935	-	60,935
Total Program Revenues	998,921	1,206,235	2,205,156	-	2,205,156
Net Program Revenue					31,510
General Revenues:					
Investment Earnings	7,113	1,570	8,683	-	8,683
Interfund Transfers	66,901	(66,901)	-	-	-
Total General Revenues and Transfers	74,014	(65,331)	8,683	-	8,683
Excess of Revenues Over (Under) Expenditures	191,355	(101,477)	89,878	(89,878)	-
Change in Net Position	-	-	-	40,193	40,193
Fund Balance/Net Position:					
Beginning of the Year	1,370,887	398,585	1,769,472	(813,865)	955,607
End of the Year	\$ 1,562,242	\$ 297,108	\$ 1,859,350	\$ (863,550)	\$ 995,800
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 (Under) Expenditures				\$	89,878
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.					(1,737)
The increase in accrued leave payable does not provide current financial resources; therefore is not reported as an expenditure in the governmental funds.					(1,234)
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 expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions.					(46,686)
Right-of-use lease assets used in governmental activities are not financial resources and are not reported in the governmental funds. The cost of those assets is allocated over their estimated useful lives and reported as amortization expense.					26,815
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these difference in the treatment of long-term debt and related items.					(26,843)
Statement of Activities - Change in Net Position				\$	40,193

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity

In 1995, the North Dakota Legislature created the Education Standards and Practices Board. The Board had previously functioned as an administrative division of the North Dakota Department of Public Instruction. The Board became an autonomous entity on July 1, 1997.

The Education Standards and Practices Board is a governmental organization. The ten-member Board of Directors, which is appointed by the Governor of North Dakota, must include four classroom teachers from public schools, two school board members, one non-public classroom teacher, two school administrators and one dean or chair of a college of education. Members are appointed to three-year terms and may not serve more than two consecutive terms.

The Board supervises the licensure of teachers; sets standards for and approves teacher preparation programs; issues minor equivalency endorsements, develops and revises, consistent with state law, professional codes or standards relating to ethics, conduct, and professional performance and practices; and provides recommendations for in-service education of persons engaged in the profession of teaching in public schools.

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 Education Standards and Practices Board 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).

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Governmental Funds

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

Special Revenue Fund – This fund reports the activities of the Teacher Support System Grant.

As a rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. 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.

Amounts reported as program revenues include (1) charges to applicants for goods, services, and privileges provided, (2) fines and penalties, and (3) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenues. General revenues include all investment earnings.

Revenue Recognition

Revenue received from licensing fees, services, and fines and penalties in the current fiscal period are all considered to be susceptible to accrual and accordingly have been recognized as revenues in the current fiscal period, this includes revenue collected in advance for multi-year licenses which is not deferred. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 30 days of year-end). All other revenue items are considered to be measurable and available when cash is received.

Budgets

Budgets for revenues and expenditures are adopted on a basis consistent with generally accepted accounting principles. The Board is required to adopt a budget for the General Fund and each Special Revenue Fund. Each year the Board estimates and itemizes all administrative expenses and obligations of the Board, 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.

Net Position/Fund Balance

The difference between fund assets and liabilities is “Net Position” on the government-wide statements and “Fund Balance” on the governmental fund statements.

Cash, Cash Equivalents, and Certificates of Deposit

Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit with terms of less than three months.

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 0.65% – 2.95% and terms of 36 to 60 months at June 30, 2022.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets and Depreciation

Capital assets are reported at cost less accumulated depreciation. Equipment with an original cost of \$100 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.

Compensated Absences

Annual and sick leave are part of permanent employees' compensation. 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. Employees vest in sick leave at ten years of credible service, at which time the Board 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.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board – the highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board 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 Board's "intent" to be used for special purposes but are neither restricted nor committed. 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.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 an expenditure has been incurred for purposes for which both restricted and unrestricted fund balance is available, the Board's preference is to first use restricted resources, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Deferred Inflows/Outflows 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 11 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.

New Accounting Pronouncement

The following accounting pronouncement has been implemented for the year ended June 30, 2022:

GASB Statement No. 87, Leases

This statement establishes standards of accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and outflows of resources based on payment provisions of the contract. Under this statement lessees are required to recognize a lease liability and an intangible right-to-use lease asset and lessors are required to recognize a lease receivable and a deferred inflow of resources. This statement increases the usefulness of governments' financial statements by enhancing the relevance and consistency of information about leasing activities.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leases

The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the Board has control of the right-of-use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial term of more than 12 months, or that contain an option to purchase that the Board is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the Board uses its incremental borrowing rate based on the information available at the lease commencement date. The Board has made an accounting policy election to use a risk-free rate based on the US Treasury yield curve rate as of the lease commencement. The Board accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets.

The Board continues to record rent expense for short term leases on a straight-line basis over the lease term. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Board is reasonably certain to exercise.

The amortizable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The Board's lease agreements do not include any material residual value guarantees or restrictive covenants.

Intangible Assets

The Board has recorded right-of-use lease assets as a result of implementing GASB Statement No. 87. The right-of-use lease assets are initially measured at an amount equal to the initial measurement of the related lease liabilities plus any lease payments made prior to the lease terms, less lease incentives, and plus ancillary charges necessary to place the leases into service. The right-of-use lease assets are amortized on a straight-line basis over the lives of the related leases.

NOTE 2 – BOARD OF DIRECTORS

The Board of Directors consisted of the following individuals at June 30, 2022:

Brenda Tufte	Chairperson/Teacher Representative
Sonya Hansana	School Board Representative
Patti Stedman	School Board Representative
Benjamin Johnson	Administrative Representative
Joshua Standing Elk	Teacher Representative
Andrea Fox	Teacher Representative
Kathleen Lentz	Teacher Representative
Siri Coleman	Private School Representative
Cory Steiner	Administrator Representative

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 3 – DEPOSITS

In accordance with North Dakota statutes, the Board maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System. North Dakota laws require all public deposits to be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

At June 30, 2022, the carrying amount of deposits was \$1,865,329, and the bank balances were \$2,053,413. The deposits of the Board can be categorized to indicate the level of risk assumed. Category 1 includes bank balances insured by the Federal Deposit Insurance Corporation or collateralized with securities held by the Board or by its agent in the Board's name. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name. Category 3 includes bank balances uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Board's name. At June 30, 2022, category 1 deposits were \$756,114 and category 3 deposits were \$1,297,299, all funds were covered by Federal Depository Insurance or collateralized per state statute.

The board has not adopted a deposit policy limiting the Board's deposits with any one depositor.

The table below summarizes the Board's deposits by type as of June 30, 2022:

Cash and Cash Equivalents	\$ 1,575,743
Certificates of Deposit	<u>289,586</u>
Total	<u><u>\$ 1,865,329</u></u>

NOTE 4 – LEASES

The Board has entered into a lease agreement with Pinnacle Development II for office space in Bismarck, North Dakota. The lease agreement qualifies as an other than short-term lease under GASB Statement No. 87 and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception. There are no variable payment components in the lease agreement. No option to purchase was included in the agreement. The office lease agreement commenced on July 1, 2021 and requires 24 minimum monthly payments of \$2,240. The office lease agreement expires on June 30, 2023 with no renewal option provided. The lease liability is measured at a risk-free discount rate of 0.25%.

The future minimum lease liability and the net present value of these minimum lease payments as of June 30, 2022 were as follows:

Year Ending	Principal	Interest	
June 30	Payments	Payments	Total
2023	<u>\$ 26,844</u>	<u>\$ 36</u>	<u>\$ 26,880</u>

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 4 – LEASES - CONTINUED

During the year ended June 30, 2022, the following changes occurred in lease liabilities:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022	Current Portion of Balance
Lease Liabilities:					
Pinnacle Development II	\$ -	\$ 53,631	\$ 26,788	\$ 26,843	\$ 26,843
Total Lease Liabilities	<u>\$ -</u>	<u>\$ 53,631</u>	<u>\$ 26,788</u>	<u>\$ 26,843</u>	<u>\$ 26,843</u>

As a result of the lease, the Board has recorded a right-of-use lease asset with a net book value of \$26,815 at June 30, 2022. The right-of-use lease asset is amortized on a straight-line basis over the term of the related lease. Right-of-use lease asset activity for the primary government for the year ended June 30, 2022 is as follows:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Right-of-Use Lease Assets:				
Pinnacle Development II	\$ -	\$ 53,631	\$ -	\$ 53,631
Total Right-of-Use Lease Assets	<u>-</u>	<u>53,631</u>	<u>-</u>	<u>53,631</u>
Less Accumulated Amortization for:				
Pinnacle Development II	-	26,816	-	26,816
Total Accumulated Amortization	<u>-</u>	<u>26,816</u>	<u>-</u>	<u>26,816</u>
Right-of-Use Lease Assets, Net	<u>\$ -</u>	<u>\$ 26,815</u>	<u>\$ -</u>	<u>\$ 26,815</u>

NOTE 5 – CAPITAL ASSETS

Following is a summary of capital assets for the year ended June 30, 2022:

	Capital Assets	Accumulated Depreciation	Net
Balance 6/30/21	\$ 86,507	\$ 82,739	\$ 3,768
Increases	-	1,737	(1,737)
Decreases	-	-	-
Balance 6/30/22	<u>\$ 86,507</u>	<u>\$ 84,476</u>	<u>\$ 2,031</u>

Depreciation expense for the year ended June 30, 2022 was \$1,737.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 6 – LONG-TERM LIABILITIES

A summary of changes in general long-term liabilities for the year ended June 30, 2022 is as follows:

	Compensated Absences	Current Portion
Balance 6/30/21	\$ 48,098	\$ 48,098
Net Increase*	1,235	1,235
Balance 6/30/22	<u>\$ 49,333</u>	<u>\$ 49,333</u>

*The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost. All reported as current as employees may terminate at any time and be owed the accrued leave immediately.

NOTE 7 – INTERFUND TRANSFERS

At June 30, 2022, fund transfers consisted of the following:

Fund	In	Out	Purpose
General Fund	\$ 66,901	\$ -	<i>Grant funds for administrative costs</i>
Special Revenue Fund	-	66,901	<i>Grant funds for administrative costs</i>
	<u>\$ 66,901</u>	<u>\$ 66,901</u>	

NOTE 8 – INTERFUND BALANCES

At June 30, 2022, interfund balances consisted of the following:

Fund	Due To	Due From	Purpose
General Fund	\$ 182,004	\$ -	<i>Due for administrative costs</i>
Special Revenue Fund	-	182,004	<i>Due for administrative costs</i>
	<u>\$ 182,004</u>	<u>\$ 182,004</u>	

NOTE 9 – 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.

The Board is covered by the Risk Management Fund of North Dakota. The Risk Management Fund will pay money damages for (1) an injury caused by the negligence or wrongful act or omission of a State employee acting within the employee's scope of employment which the employee would be personally liable to pay a claimant under state law and (2) an injury caused from some condition or use of tangible property under circumstances in which the State, if it were a private person, would be liable to the claimant. Coverage includes claims for damages resulting from an occurrence, accident, wrongful act, error or omission or claim made because of bodily injury, personal injury, property damage, professional liability, or public officials' professional liability or any combination thereof. The Board makes an annual payment for this insurance coverage.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 9 – RISK MANAGEMENT – CONTINUED

The coverage the Risk Management Fund may pay is limited to a total of \$375,000 per person and \$1,000,000 per occurrence. The Risk Management Fund will not be held liable or indemnify a State employee held liable for punitive or exemplary damages.

The Board 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.

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 10 – EXPENDITURES IN EXCESS OF BUDGET

For the year ended June 30, 2022, certain individual line items were over budget in the general fund and special revenue fund, and as a whole the expenditures were also over budget in both funds. No remedial action is required.

NOTE 11 – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of June 30, 2022 are as follows:

Deferred Outflows of Resources	
Derived from pension - OPEB	\$ 16,044
Derived from pension - NDPERS	615,293
	<u>\$ 631,337</u>
Deferred Inflows of Resources	
Derived from pension - OPEB	\$ 10,346
Derived from pension - NDPERS	932,962
	<u>\$ 943,308</u>

Note 12 of the financial statements contains details of the pension and OPEB plans.

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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.

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

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, 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 was 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. 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.

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 for 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.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

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. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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

At June 30, 2022, the Board reported a liability of \$477,770 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the Board's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2021, the Board's proportion was 0.045838 percent, which was a decrease of 0.000059 from its proportion measured as of July 1, 2020.

For the year ended June 30, 2022 the Board recognized pension expense of \$85,844. At June 30, 2022 the Board reported deferred outflows or 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	\$ 8,248	\$ 48,763
Changes of assumptions	528,798	689,442
Net difference between projected and actual earnings on pension plan investments	-	177,197
Changes in proportion and differences between employer contributions and proportionate share of contributions	40,610	17,560
Employer contributions subsequent to the measurement date (see below)	37,637	-
Total	<u>\$ 615,293</u>	<u>\$ 932,962</u>

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

\$37,637 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pensions liability in the year ended June 30, 2023.

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>	
2023	\$ (41,210)
2024	(73,638)
2025	(67,851)
2026	(172,607)
2027	-
Thereafter	-

Actuarial Assumptions

The total pension liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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:

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.00%
International Equity	21%	6.70%
Private Equity	7%	9.50%
Domestic Fixed Income	23%	0.73%
International Fixed Income	0%	0.00%
Global Real Assets	19%	4.77%
Cash Equivalents	0%	0.00%

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).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 1.92%; and the resulting Single Discount Rate is 7.00%.

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

The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Employer's proportionate share of the net pension liability	\$ 759,814	\$ 477,770	\$ 242,923

Pension plan fiduciary net position

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

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

At June 30, 2022 the reported a liability of \$26,479 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of July 1, 2021, 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 Board's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At July 1, 2021, the Employer's proportion was 0.047609 percent, which was an increase of 0.003195 from its proportion measured as of July 1, 2020.

For the year ended June 30, 2022, the Board recognized OPEB expense of \$4,453. At June 30, 2022, the Board 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	\$ 1,519	\$ 726
Changes of assumptions	4,101	-
Net difference between projected and actual earnings on pension plan investments	-	9,072
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,507	548
Employer contributions subsequent to the measurement date (see below)	5,917	-
Total	<u>\$ 16,044</u>	<u>\$ 10,346</u>

\$5,917 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2023.

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

<u>For the year ended June 30,</u>	
2023	\$ 285
2024	219
2025	(221)
2026	(870)
2027	368
Thereafter	-

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

Actuarial assumptions

The total OPEB liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	6.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	5.85%
Small Cap Domestic Equities	6%	6.75%
Domestic Fixed Income	40%	0.50%
International Equities	21%	6.25%

Discount rate

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory rates described in this report. 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.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2022

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

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, 2021, calculated using the discount rate of 6.50%, 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Employer's proportionate share of the net pension liability	\$ 39,272	\$ 26,479	\$ 15,654

***REQUIRED
SUPPLEMENTARY INFORMATION***

Education Standards and Practices Board
Required Supplementary Information
For the Year Ended June 30, 2022

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

	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.045838%	0.045897%	0.047577%	0.040105%	0.041092%	0.036695%	0.043707%	0.044260%
Employer's proportionate share of the net pension liability (asset)	\$ 477,770	\$ 1,443,929	\$ 557,637	\$ 676,816	\$ 660,483	\$ 357,629	\$ 297,200	\$ 280,928
Employer's covered-employee payroll	\$ 519,060	\$ 506,304	\$ 494,877	\$ 412,002	\$ 419,483	\$ 369,799	\$ 389,376	\$ 372,838
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	92.04%	285.19%	112.68%	164.27%	157.45%	97.00%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	78.26%	48.91%	71.66%	62.80%	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 *

	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 38,279	\$ 35,850	\$ 36,030	\$ 30,346	\$ 30,418	\$ 26,773	\$ 29,576	\$ 26,546
Contributions in relation to the statutorily required contribution	\$ (36,881)	\$ (35,889)	\$ (35,226)	\$ (29,421)	\$ 33,559	\$ 29,477	\$ (27,724)	\$ (26,546)
Contribution deficiency (excess)	\$ 1,398	\$ (39)	\$ 804	\$ 925	\$ (3,141)	\$ (2,704)	\$ 1,852	\$ -
Employer's covered-employee payroll	\$ 519,060	\$ 506,304	\$ 494,877	\$ 412,002	\$ 419,483	\$ 369,799	\$ 389,376	\$ 372,838
Contributions as a percentage of covered-employee payroll	7.11%	7.09%	7.12%	7.14%	8.00%	7.97%	7.60%	7.12%

* Complete Data for this Schedule is not available prior to 2015

Data reported is measured as of 7/1/2022, 7/1/2021, 7/1/2020, 7/1/2019, 7/1/2018, 7/1/2017, 7/1/2016, 7/1/2015.

Education Standards and Practices Board
Required Supplementary Information
For the Year Ended June 30, 2022

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

	2022	2021	2020	2019	2018
Employer's proportion of the net OPEB liability (asset)	0.047609%	0.044414%	0.044349%	0.037653%	0.038775%
Employer's proportionate share of the net OPEB liability (asset)	\$ 26,479	\$ 37,361	\$ 35,621	\$ 29,654	\$ 30,671
Employer's covered-employee payroll	\$ 519,060	\$ 506,304	\$ 494,877	\$ 412,002	\$ 419,483
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	5.10%	7.38%	7.20%	7.19%	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	76.63%	63.38%	63.13%	61.89%	59.78%

* Complete Data for this Schedule is not available prior to 2017

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

	2022	2021	2020	2019	2018
Statutorily required contribution	\$ 6,242	\$ 5,948	\$ 5,755	\$ 4,833	\$ 4,876
Contributions in relation to the statutorily required contribution	\$ (5,905)	\$ (5,739)	\$ (5,640)	\$ (4,711)	\$ 5,373
Contribution deficiency (excess)	\$ 337	\$ 209	\$ 115	\$ 122	\$ (497)
Employer's covered-employee payroll	\$ 519,060	\$ 506,304	\$ 494,877	\$ 412,002	\$ 419,483
Contributions as a percentage of covered-employee payroll	1.14%	1.13%	1.14%	1.14%	1.28%

* Complete Data for this Schedule is not available prior to 2017

Data is reported is measured as of 7/1/2022, 7/1/2021, 7/1/2020, 7/1/2019, 7/1/2018.

Education Standards and Practices Board
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2022

	Budget (Original & Final)	Actual	Budget Variance
Revenues:			
Licensing Fees	\$ 654,000	\$ 816,991	\$ 162,991
Fingerprinting	70,000	92,895	22,895
Maintenance/Administrative Fees	50,000	-	(50,000)
Fines	500	1,400	900
Late Fees	15,000	26,700	11,700
National Board PTS	87,500	60,935	(26,565)
Investment Earnings	5,000	7,113	2,113
Total Revenues	<u>882,000</u>	<u>1,006,034</u>	<u>124,034</u>
Expenditures:			
Board Expenses	15,000	7,421	7,579
Capital Outlay	-	43,240	(43,240)
Credit Card Fees	18,500	26,970	(8,470)
Consulting Services	5,000	6,876	(1,876)
Dues & Memberships	13,000	17,243	(4,243)
Fingerprinting Expense	80,000	82,046	(2,046)
ITD Support	20,000	27,328	(7,328)
Legal Fees	20,000	15,231	4,769
Audit	4,000	1,500	2,500
National Board PTS	87,500	60,935	26,565
Office Equipment & Maintenance	400	753	(353)
Office Supplies	5,000	4,885	115
Online Application Program	20,000	33,418	(13,418)
Postage	1,000	1,968	(968)
Program Approval	6,000	12,018	(6,018)
Property & Liability Insurance	2,100	1,170	930
Rules	5,000	2,348	2,652
Salaries, Payroll Taxes, and Benefits	580,235	549,372	30,863
Staff Education & Training	5,000	2,451	2,549
Staff Travel & Expenses	5,000	2,767	2,233
Telephone	4,000	3,208	792
Debt Service:			
Principal	21,598	21,598	-
Interest	<u>74</u>	<u>74</u>	<u>-</u>
Total Expenditures	<u>918,407</u>	<u>924,820</u>	<u>(6,413)</u>
Excess of Revenues Over Expenditures	(36,407)	81,214	117,621
Other Financing Sources (Uses)			
Transfers In (Out)	88,145	66,901	(21,244)
Lease Liabilities Issued	<u>-</u>	<u>43,240</u>	<u>43,240</u>
Total Other Financing Sources (Uses)	<u>88,145</u>	<u>110,141</u>	<u>21,996</u>
Net Change in Fund Balances	51,738	191,355	139,617
Fund Balance - Beginning of Year	<u>1,370,887</u>	<u>1,370,887</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 1,422,625</u>	<u>\$ 1,562,242</u>	<u>\$ 139,617</u>

Education Standards and Practices Board
 Budgetary Comparison Schedule - Special Revenue Fund
 For the Year Ended June 30, 2022

	Budget (Original & Final)	Actual	Budget Variance
Revenues:			
Grant Revenue	\$ 1,000,000	\$ 1,206,235	\$ 206,235
Investment Earnings	-	1,570	1,570
Total Revenues	<u>1,000,000</u>	<u>1,207,805</u>	<u>207,805</u>
Expenditures:			
Capital Outlay	-	10,391	(10,391)
Coordinator Travel	5,000	1,816	3,184
Coaches Academy	86,300	87,043	(743)
ITD Support	10,000	9,801	199
Manual Training & Course Responders	13,000	13,223	(223)
Professional Development	78,000	41,146	36,854
Mentor Stipends	520,000	571,085	(51,085)
Mentor Training	40,000	61,180	(21,180)
Miscellaneous Expense	15,000	28,572	(13,572)
Office Equipment & Maintenance	1,000	-	1,000
Salaries and Benefits	223,000	264,999	(41,999)
Seminars	-	562	(562)
Software (Kickup)	40,000	53,228	(13,228)
Special Projects (Beginning Teacher Networks)	63,000	81,359	(18,359)
Sub Reimbursement	25,000	14,476	10,524
Advanced Coach Training	-	8,683	(8,683)
Debt Service:			
Principal	5,190	5,190	-
Interest	<u>18</u>	<u>18</u>	<u>-</u>
Total Expenditures	<u>1,124,508</u>	<u>1,252,772</u>	<u>(128,264)</u>
Excess of Revenues Over Expenditures	(124,508)	(44,967)	79,541
Other Financing Sources (Uses)			
Transfers In (Out)	(55,000)	(66,901)	(11,901)
Lease Liabilities Issued	<u>-</u>	<u>10,391</u>	<u>10,391</u>
Total Other Financing Sources (Uses)	<u>(55,000)</u>	<u>(56,510)</u>	<u>(1,510)</u>
Net Change in Fund Balances	(179,508)	(101,477)	78,031
Fund Balance - Beginning of Year	<u>398,585</u>	<u>398,585</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 219,077</u>	<u>\$ 297,108</u>	<u>\$ 78,031</u>

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

Changes of benefit terms. (NDPERS)

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

Changes of assumptions. (NDPERS)

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

Changes of benefit terms. (OPEB)

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actual valuation as of July 1, 2020.

Changes of assumptions. (OPEB)

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Board adopts an annual budget consistent with accounting principles generally accepted in the United States for the general fund and the special revenue fund. The following procedures are used in establishing the budgetary data reflected in the financial statements:

- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the Board at the revenue and expenditure function/object level.
- The current budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse 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*

Board of Directors
Education Standards and Practices Board
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 the Education Standards and Practices Board, Bismarck, North Dakota, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Education Standards and Practices Board's basic financial statements and have issued our report thereon dated June 30, 2025.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Education Standards and Practices Board'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 Education Standards and Practices Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Education Standards and Practices Board's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 in the accompanying schedule of findings, 2022-001, 2022-002, and 2022-003, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Education Standards and Practices Board'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*.

Education Standards and Practices Board's Response to Findings

Education Standards and Practices Board's responses to the findings identified in our audit are described in the accompanying schedule of findings. Education Standards and Practices Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
June 30, 2025

Education Standards and Practices Board
Schedule of Findings
For the Year Ended June 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Governmental Activities & Major Funds	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Control deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

Finding 2022-001: Segregation of Duties

Condition – The entity has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

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 – There is a limited number of staff members available for these duties.

Effect – There is limited segregation of duties due to the small number of employees being responsible 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. Due to the size of the entity, it is not feasible to obtain proper separation of duties and the degree of internal control is severely limited.

Recommendation – 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 knowledge of matters relating to the organization's operations.

Management Response – We are aware of the condition, and it is not feasible to add staff to completely segregate duties.

Finding 2022-002: Preparation of Financial Statements and Audit Notes

Condition – The financial statements and related notes are prepared by the entity's auditors.

Criteria – An appropriate system of internal controls requires that the entity must make a determination that the financial statements are properly stated according to GAAP requirements. This requires the entity to maintain knowledge of current accounting principles and required financial statement disclosures.

Cause – Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the accounting department.

Effect – An appropriate system of internal control is not present to make a determination that financial statements are properly stated in compliance with GAAP requirements.

Recommendation – Compensating controls over financial statement disclosure requirements could be provided by the use of current disclosure checklists or the outsourcing of the financial statement preparation or review function.

Management Response – We are aware of the condition and will review the statements and notes prepared.

Education Standards and Practices Board
Schedule of Findings
For the Year Ended June 30, 2022

Finding 2022-003: Journal Entries

Condition – Significant journal entries were required to be made during the audit to present accurate financial statements.

Criteria – The entity is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to generally accepted accounting principles.

Cause – Staff was not recording accounts receivable, accounts payable, prepaid expenses and pension liability year-end accrual adjustments as well as required lease entries.

Effect – The amount of journal entries made has a material effect on the financial statements.

Recommendation – Management should review all accounts throughout the year and verify that all general ledger accounts are properly reconciled and adjusted for accruals at year-end.

Management Response – We are aware of the condition and will more accurately monitor the monthly and non-monthly investment income and all regular investment accounts. We will monitor our year-end transactions and make sure to account for necessary items and make journal entries before the fiscal year ends.