

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE TWO YEARS ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Dakota State Board of Law Examiners
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of North Dakota State Board of Law Examiners, as of and for the two years ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the North Dakota State Board of Law Examiners' 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.

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 the major fund of the North Dakota State Board of Law Examiners as of June 30, 2017, and the respective changes in financial position thereof for the two years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer's share of net pension liability and schedule of employer's contributions, as listed in the table of contents, 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 March 2, 2018, on our consideration of the North Dakota State Board of Law Examiners' 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 North Dakota State Board of Law Examiners' internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

March 2, 2018

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017

As management of the North Dakota State Board of Law Examiners (Board), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the two-year period ending June 30, 2017 with comparative information for the prior two-year period ending June 30, 2015.

Financial Highlights

- The assets and deferred outflows of resources of the Board exceeded its liabilities and deferred inflows of resources as of June 30, 2017, by \$924,214 (net position).
- The Board's total net position increased for the two-year period ending June 30, 2017, by \$93,474.
- Fees collected by the Board for attorney licenses, nonresident and registered attorneys under Rule 3 of the Admission to Practice Rules, and foreign legal consultants under Rule 4 of the Admission to Practice Rules, are distributed under N.D.C.C. Section 27-12-04, with \$75 of each fee remitted to the Association for operation of the lawyer discipline system, with 80% of the remaining amount remitted to the Association, and the Board retaining 20%. Effective September 1, 2007, fees collected for the temporary license for attorneys applying for admission are divided equally between the State Bar Association and the Board of Law Examiners.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the North Dakota State Board of Law Examiner's basic financial statements. The Board's basic financial statement has three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Board's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Board's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The *statement of activities* presents information showing how the Board's net position changed during the two-year period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Board that are principally supported by attorney application and license fees revenue.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2017

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the Board is a governmental fund.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the reporting period.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental fund statement of revenues, expenditures, and changes in fund balance and these financial statements provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Board is given the authority to collect fees from all applicants for admission to the Bar of North Dakota and attorneys licensed to practice law in the state, and expend those fees pursuant to N.D.C.C. Chapter 27-11. Under Rule 3, Admission to Practice Rules, the North Dakota Supreme Court, under its constitutional and rule-making authority, authorizes the Board to collect fees from attorneys not licensed in North Dakota who wish to appear in proceedings limited in duration. All fees are deposited according to N.D.C.C. Section 54-44-12.

Notes to the financial statements and other information. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2017

Net Position as of June 30, 2017

	Governmental Activities 2017	Governmental Activities 2015
Current assets	<u>\$ 1,067,666</u>	<u>\$ 953,855</u>
Total Assets	<u>1,067,666</u>	<u>953,855</u>
Deferred Outflow of Resources	<u>36,085</u>	<u>10,109</u>
Liabilities		
Current liabilities	34,980	42,594
Long term liabilities	<u>122,168</u>	<u>76,559</u>
Total liabilities	<u>157,148</u>	<u>119,153</u>
Deferred Inflows of Resources	<u>22,390</u>	<u>14,071</u>
Net Position		
Unrestricted	<u>924,214</u>	<u>830,740</u>
Total Net Position	<u><u>\$ 924,214</u></u>	<u><u>\$ 830,740</u></u>

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2017

Changes in Net Position
For the Two Years Ended June 30, 2017

	Governmental Activities 2017	Governmental Activities 2015
	<u>2017</u>	<u>2015</u>
Revenues		
General Revenues		
Interest on investments	\$ 767	\$ 3,732
Program Revenues		
Attorney's license fees	2,497,439	2,379,065
Registration fees	4,940	4,180
Temporary license fees	3,300	5,100
Section and bar foundation membership fees	65,923	65,368
Pro bono fund contributions	9,885	14,125
Examination, information and motion fees	145,850	201,750
Sale of attorney directories	600	8,550
Computer service	-	925
Other income	4,037	3,126
	<u>2,732,741</u>	<u>2,685,921</u>
Total revenues		
	<u>2,732,741</u>	<u>2,685,921</u>
Expenses		
Governmental activities		
Regulatory program	<u>2,639,267</u>	<u>2,617,096</u>
Total expenses	<u>2,639,267</u>	<u>2,617,096</u>
Increase (decrease) in net position	93,474	68,825
Net position - beginning of period	<u>830,740</u>	<u>761,915</u>
Net position - end of period	<u>\$ 924,214</u>	<u>\$ 830,740</u>

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2017

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a governmental entity's financial position. In the case of the Board, assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by \$924,214 on June 30, 2017, the end of the two-year period.

The majority of the Board's net position are represented by cash and investments. The Board uses these assets to administer an examination to individuals who have applied to become admitted and licensed to practice law in the state, conduct background investigations of those individuals applying for admission, licensing admitted attorneys, and educating staff and Board members on issues concerning testing, character and fitness, and the protection of the public.

Financial Analysis of Governmental Funds

As noted earlier, the Board used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Board's *governmental funds* is to provide information on near-term inflows, outflow, and balances of spendable resources, which is useful in assessing the Board's financing requirements.

Factors Affecting Revenues

The revenue of the Board relies heavily on the number of attorneys licensed to practice law in North Dakota, and those wanting to be licensed in the state. This number has remained relatively stable in the past few years, and by all indications will not have a marked increase in the near future. The number of law students enrolled in the state's law schools, the population of the state, and the market economy all affect the ability to attract and retain attorneys in the state.

Requests for Information

This financial report is designed to provide a general overview of the Board's finances for those with an interest. Questions or requests for additional financial information should be addressed to the State Board of Law Examiners, 600 East Boulevard Avenue, Bismarck, ND 58505-0530.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS

Cash and cash equivalents	\$ 771,383
Investments	296,283
Capital assets:	
Equipment	40,481
Less accumulated depreciation	<u>(40,481)</u>
 Total assets	 <u>1,067,666</u>

DEFERRED OUTFLOW OF RESOURCES

Deferred outflow - pension	<u>36,085</u>
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LIABILITIES

Current liabilities	
Accounts payable	31,520
Compensated absences due within one year	<u>3,460</u>
Total current liabilities	<u>34,980</u>
 Non-current liabilities:	
Compensated absences due in more than one year	3,459
Net pension liability	<u>118,709</u>
Total non-current liabilities	<u>122,168</u>
 Total liabilities	 <u>157,147</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflow - pension	<u>22,390</u>
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NET POSITION

Unrestricted	<u>924,214</u>
 Total net position	 <u><u>\$ 924,214</u></u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
STATEMENT OF ACTIVITIES
FOR THE TWO YEARS ENDED JUNE 30, 2017

Functions/Programs Governmental Activities:	<u>Program Revenues</u>		Net (Expense) Revenue
	<u>Expenses</u>	<u>Charges for Services</u>	
Regulatory program	<u>\$ 2,639,267</u>	<u>\$ 2,731,974</u>	\$ 92,707
General revenues:			
Unrestricted investment earnings			<u>767</u>
Total change in net position			93,474
Net position, beginning of year			<u>830,740</u>
Net position, end of year			<u><u>\$ 924,214</u></u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
BALANCE SHEET
JUNE 30, 2017

ASSETS

Cash and cash equivalents	\$ 771,383
Investments	<u>296,284</u>
Total assets	<u><u>\$ 1,067,667</u></u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts payable	<u>\$ 31,520</u>
Total liabilities	<u>31,520</u>

Fund Balance	
Assigned	640,000
Unassigned	<u>396,147</u>
Total fund balance	<u>1,036,147</u>
Total liabilities and fund balance	<u><u>\$ 1,067,667</u></u>

**Reconciliation of the Balance Sheet
to the Statement of Net Position
June 30, 2017**

Total fund balance	\$ 1,036,147
Deferred outflow - pension	36,085
Liability for compensated absences	(6,919)
Net pension liability	(118,709)
Deferred inflow - pension	<u>(22,390)</u>
Net position of governmental activities	<u><u>\$ 924,214</u></u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE TWO YEARS ENDED JUNE 30, 2017

REVENUES

Annual license fees	\$ 2,497,439
Registration fees	4,940
Temporary license fees	3,300
Section and bar foundation membership fees	65,923
Pro bono fund contributions	9,885
Interest and dividends	767
Examination, information and motion fees	145,850
Sale of attorney directories	600
Other	4,037
Total revenues	<u>2,732,741</u>

EXPENDITURES

\$75 Statutory remittance for lawyer discipline	515,625
Remittance of annual license fees	1,585,134
Remittance of registration fees	3,172
Remittance of temporary license fees	1,650
Other remittances to State Bar Association	75,808
Salaries and fringe benefits	302,320
Bar exam fees and supplies	65,047
Appeals and formal proceedings	6,538
Bar board members expenditures	10,981
Insurance	1,985
Computer fees	3,298
Office supplies	2,317
Professional fees	7,100
License expenditures	6,584
Conference expenditures	15,571
Postage and printing	7,241
Telephone	1,711
Miscellaneous expense	246
Total expenditures	<u>2,612,328</u>

Excess of revenues over expenditures 120,413

Fund balance - beginning of period 915,734

Fund balance - end of period \$ 1,036,147

**Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Fund to the Statement of Activities
For the Two Years Ended June 30, 2017**

Net changes in fund balance	\$ 120,413
Change in deferred outflow - pension	25,976
Change in compensated absences liability	2,027
Change in net pension liability	(46,623)
Change in deferred inflow - pension	(8,319)
Change in net position of governmental activities	<u><u>\$ 93,474</u></u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board was created by North Dakota statute to carry out duties imposed upon it by such statute. The main duties of the Board are administering public examinations for admission to the bar and collection of annual fees for licenses to practice law. The Board consists of three members who are appointed by the Supreme Court.

In accordance with GASB Statement No. 61 for financial reporting purposes, the North Dakota State Board of Law Examiners (the Board) includes all funds, programs, and activities over which it is financially accountable. The Board does not have any component units as defined by the Government Accounting Standards Board, and is not a component unit of another reporting entity. Criteria used to determine a potential component unit includes: appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Board.

Government-Wide and Fund Financial Statements

The Statement of Net Position and Statement of Activities report information on all non-fiduciary activities of the Board. The Board reports all activities as governmental activities, which are financed through fees and licenses. The Statement of Net Position presents the reporting entity's assets, deferred outflow of resources, liabilities, and deferred inflows of resources with the difference reported as net position. The net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation.

Restricted net position consists of funds received that are restricted for a specific purpose.

Unrestricted net position consists of net position which does not meet the definition of the preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include license renewals and other fees.

Separate fund financial statements are provided for the Board's governmental fund.

Fund Accounting Structure

The Board uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

The Board reports the operating fund as a major governmental fund. It is used to account for the collection of fees, license renewals, and transactions relating to the practice of law within the state of North Dakota.

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 requires 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 of Directors – the Board's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes 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 specific purposes, but are neither restricted nor committed. The Board has authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the fund.

When both restricted and unrestricted resources are available for use, the Board's preference is to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

Measurement Focus and Basis of Accounting

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due and payable.

Cash and Cash Equivalents

Cash and cash equivalents consists of funds on deposit in checking and savings accounts.

Investments

Investments include certificates of deposit that are reported at cost. All investment income is recognized in the statements of revenues, expenditures and changes in fund balance.

Capital assets

Capital assets, which consist of software, are valued at historical cost or at estimated historical cost if actual historical cost is not available.

Fixed assets in governmental funds are recorded as expenditures in the funds used to acquire them in the governmental fund financial statements. Capital assets, along with accumulated depreciation and depreciation expense are reported in the applicable governmental activities column in the government-wide financial statements.

Capital assets are depreciated using the straight-line method.

Deferred Outflows/Inflows Resources

In addition to assets, the statement of net position will sometimes report a separate section for 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 resource (expense/expenditure) until then. The Board has one item that qualifies for reporting in this category named *deferred outflow – pension*, which represents actuarial differences within NDPERS pension plans as well as amounts paid to the plans after the measurement date.

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 a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Board has one that qualifies for reporting in this category named *deferred inflow – pension*, which represents actuarial differences within the NDPERS pension plan as well as amounts paid to the plan after the measurement date. See note 7 for further details.

Accrued Compensated Absences

The Board allows employees to accrue annual leave at a variable rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at each calendar year end. Employees are paid for unused annual leave upon termination or retirement.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

Sick leave is accrued at a variable rate between one and one and a half days per month without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the Board is liable for ten percent of the employee's accumulated unused sick leave.

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.

Budgets

A budget is not legally required for the North Dakota State Board of Law Examiners.

Estimates

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

NOTE 2 DEPOSITS

Custodial Credit Risk – Deposits

Custodial credit risk is risk associated with the failure of a depository financial institution to recover its deposits or collateralized securities that are in the possession of outside parties. This includes coverage by the Federal Deposit Insurance Corporation (FDIC) or pledge of securities.

At June 30, 2017, the carrying amount of the Board's deposits was \$1,067,667 and the bank balance was \$1,075,687. The difference results from checks outstanding or deposits not yet processed. These deposits are exposed to custodial credit risk as uninsured or uncollateralized. As of June 30, 2017, \$700,029 of the Board's bank balance was uninsured or uncollateralized. This amount consists of the balance that is deposit with the Bank of North Dakota as of June 30, 2017. The Bank of North Dakota is a state owned bank that does not participate in the FDIC program. These deposits are backed by the full faith and credit of the State of North Dakota.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

NOTE 3 CAPITAL ASSETS

The following is a summary of the governmental activities capital assets:

	Balance 7/1/2015	Additions	Retirements	Balance 6/30/2017
Software	\$ 40,481	\$ -	\$ -	\$ 40,481
Less accumulated depreciation	<u>(40,481)</u>	<u>-</u>	<u>-</u>	<u>(40,481)</u>
Net capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

A total of \$0 in depreciation for the two years ended June 30, 2017 was charged to the regulatory function.

NOTE 4 ACCRUED COMPENSATED ABSENCES

A summary of changes in accrued compensated absences for the two years ending June 30, 2017 is as follows:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2017	Due Within One Year
Compensated absences	<u>\$ 8,946</u>	<u>\$ 13,166</u>	<u>\$ (15,193)</u>	<u>\$ 6,919</u>	<u>\$ 3,460</u>

NOTE 5 FUND BALANCE

At June 30, 2017, a summary of the governmental fund balance classifications are as follows:

Assigned	
One fiscal year of operating expenses without	
State Bar Association of North Dakota payments	\$ 300,000
Litigation/Attorney's Fees Reserves	200,000
Employee Liability	20,000
Discipline/Lawyer's Assistance	50,000
Special Projects	25,000
Technology Upgrades	<u>45,000</u>
Total Assigned	640,000
Unassigned	<u>396,147</u>
Fund Balance	<u>\$ 1,036,147</u>

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

NOTE 6 REMITTANCES TO STATE BAR ASSOCIATION OF NORTH DAKOTA

The Board is required by statute to remit \$75 of every annual license fee (resident and nonresident) collected to the State Bar Association of North Dakota (SBAND) for the lawyer discipline system, and 80% of the remainder of the annual license fees collected to the SBAND for its operations. Registration fees paid by nonresident attorneys are also remitted to the SBAND in the same manner as the annual license fees. For temporary license fees collected, the Board remits 50% to the SBAND. The Board also remits 100% of section and bar foundation membership fees and 100% of contributions for the pro bono fund to the SBAND.

SBAND remittance for two years ending June 30, 2017:

\$75 Lawyer discipline statutory contribution	\$ 515,625
Annual license fees	1,585,134
Registration fees	3,172
Temporary license fees	1,650
Section membership fees	33,035
Bar foundation membership fees	32,888
Pro bono fund contributions	<u>9,885</u>
Total SBAND remittance	<u><u>\$ 2,181,389</u></u>

NOTE 7 PENSION PLAN

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 seven 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. Effective July 1, 2015, the Board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provision 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 equals or exceeds 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

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

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.

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 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 covered compensation. 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
- 12 to 25 months of service – Greater of two percent of monthly salary or \$25

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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, 2017, the Employer reported a liability of \$118,709 for its proportionate share of the net pension liability, respectively. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was based on the Employer'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, 2016, the Employer's proportion was 0.012180%, which was an increase of 0.000823% from its proportion measured as of June 30, 2014.

For the two years ended June 30, 2017, the Employer recognized pension expense of \$12,424. At June 30, 2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,783	\$ (1,099)
Changes of assumptions	10,943	(5,898)
Net difference between projected and actual earnings on pension plan investments	16,562	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(15,393)
Employer contributions subsequent to the measurement date	<u>6,797</u>	<u>-</u>
Total	<u>\$ 36,085</u>	<u>\$ (22,390)</u>

\$6,797 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the two years ended June 30, 2019.

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

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

Year ended June 30:

2018	\$	685
2019		685
2020		4,298
2021		1,579
2022		(349)

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00% 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 Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

Discount rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Reports. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members, and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
<u>\$ 168,387</u>	<u>\$ 118,709</u>	<u>\$ 76,853</u>

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain this report should be addressed to the Executive Director - NDPERS, P.O. Box 1657, Bismarck, North Dakota 58502-1657.

NOTE 8 RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Board participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was 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.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
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FOR THE TWO YEARS ENDED JUNE 30, 2017

The North Dakota Workforce Safety & Insurance is 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 there have been no claims resulting from these risks in any of the past three fiscal years.

NOTE 9 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

Management has not yet determined what effect these statements will have on the Board's financial statements.

NOTE 10 SUBSEQUENT EVENTS

No significant events occurred subsequent to Board's year end. Subsequent events have been evaluated through March 2, 2018, which is the date these financial statements were available to be issued.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered- employee payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.012180%	\$ 118,710	\$ 124,007	95.73%	70.46%
2016	0.012159%	82,677	109,150	75.75%	77.15%
2015	0.011357%	72,086	95,670	75.35%	77.70%

*The Board implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
LAST 10 FISCAL YEARS*

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered- employee payroll	Contributions as a percentage of covered- employee payroll
2017	\$ 6,798	\$ (6,798)	\$ -	\$ 95,459	7.12%
2016	8,829	(8,829)	-	124,007	7.12%
2015	6,225	(6,225)	-	109,150	5.70%

*The Board implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Changes of Assumptions

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016 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.

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
North Dakota State Board of Law Examiners
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 the major fund of North Dakota State Board of Law Examiners, as of and for the two years ended June 30, 2017, and the related notes to the financial statements, which collectively comprise North Dakota State Board of Law Examiners' basic financial statements, and have issued our report thereon dated March 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Dakota State Board of Law Examiners' 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 State Board of Law Examiners' internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota State Board of Law Examiners' 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 and questioned costs, 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 consider the deficiency described as item 2017-003 in the accompanying schedule of findings and responses to be a material weakness.

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 described as items 2017-001 and 2017-002 in the accompany schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Dakota State Board of Law Examiners' 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 State Board of Law Examiners' Responses to Findings

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. North Dakota State Board of Law Examiners' 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
Bismarck, North Dakota

March 2, 2018

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE TWO YEARS ENDED JUNE 30, 2017

2017-001

Criteria

An appropriate system of internal control requires the Board to determine that financial statements are properly stated in compliance with accounting principles generally accepted in the United States of America. This requires the Board's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The Board's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the Board does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause

The Board's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with accounting principles generally accepted in the United States of America. However, the Board is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation

We recommend that the Board reviews its current training system to determine if it is cost effective for the Board to obtain this knowledge internally. As a compensating control the Board should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Due to the financial, efficiency and time constraints, it has been determined by North Dakota State Board of Law Examiners' management that it is in the best interest of North Dakota State Board of Law Examiners and all interested parties to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

2017-002

Criteria

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

Cause

Size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

Views of Responsible Officials and Planned Corrective Actions:

This condition is a repeat from the prior years and the board has segregated the accounting duties to the appropriate individuals to the extent possible. Because of the very limited number of staff available for the Board, all of the accounting duties cannot be totally segregated in such a way as to eliminate this reportable condition. The only alternative available to the board would be the hiring of additional staff, and current cash flows do not justify it. The board has reviewed the internal controls and procedures in place and believes the procedures in place provide adequate controls under these circumstances.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE TWO YEARS ENDED JUNE 30, 2017

2017-003 – Material Weakness

Criteria

The Board is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition

During our audit, adjusting journal entries were proposed in order to properly reflect the financial statements in accordance to GAAP.

Cause

The Board's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on a GAAP basis for the implementation of new Governmental Accounting Standards Board (GASB) pronouncements.

Effect

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with GAAP prior to the audit.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. We also recommend accounting personnel adjust the pension accounts going forward on an annual basis.

Views of Responsible Officials and Planned Corrective Actions

Due to financial and efficiency constraints, as well as time constraints of the bookkeeper, it is the position of the North Dakota State Board of Law Examiners that it is in the best interest of the Board and all interested parties, to utilize the expertise of the auditor to determine and train the bookkeeper as is necessary for implementation of GASB Statement No. 68. The Board believes the current bookkeeper has done a good job reconciling all the accounts each year.