

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2018**

OVERMOE & NELSON, LTD
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Independent Auditor's Report

To the Governing Board
North Dakota State Board of Accountancy
Grand Forks, North Dakota

We have audited the accompanying financial statements of the business-type activities of the North Dakota State Board of Accountancy as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the North Dakota State Board of Accountancy as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information and related notes on pages 3-4 and 20-22, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2019 on our consideration of the North Dakota State Board of Accountancy's internal control over financial reporting and 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 the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota State Board of Accountancy's internal control over financial reporting and compliance.



OVERMOE & NELSON, LTD
Certified Public Accountants
Grand Forks, North Dakota

January 7, 2019



NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

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MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended JUNE 30, 2018

This discussion accompanies the audited financial statements of the North Dakota State Board of Accountancy (Board), and overviews the Board and its financial activity for the year ended 6/30/18.

The Board is a regulatory agency of the State of North Dakota. Its activities consist of initial licensing of accountants, annual license renewal, monitoring accountant continuing education, and responding to consumer concerns. The Board has a staff of 2. The board terminated staffing services agreement with the North Dakota CPA Society (NDCPAS) as of September 30, 2018. The Board owns no real estate, its office equipment and furnishings are carried in the financial statements at a value of \$2200 after depreciation. The remainder of the Board's assets are in the form of cash or CDs.

The national and state economic climates have little direct impact on the Board's financial operations. The Board does not seek grants, loans or other financial consideration from any organization, although Board and staff members may receive expense reimbursement from the National Association of State Boards of Accountancy (NASBA), when participating in NASBA committee work. The Board's revenue consists of licensing and application fees, late fees and interest income.

No funding is received from the State; no Board funds transfer to the State, other than for benefits, Insurance Reserve Fund contributions, and tax-type obligations.

FINANCIAL HIGHLIGHTS

The Board's net asset position at 6/30/18 was \$285,000, down \$29,000 from the \$314,000 position at 6/30/17. During the fiscal year ending June 30, 2018 the Board's normal operations resulted in a decrease in net assets of \$29,000, all of this decrease is a result of the changes in resources allocated to the Board's pension plan. Deferred outflows of resources related to the deferred pension resources increased by \$94,000, deferred inflows of resources related to the deferred pension resources decreased by \$3,500 and the net pension liability increased by \$176,500. The net impact to the Board's net position was a reduction of about \$79,000. The Board's primary function is to license public accountants in the State of North Dakota and to administer the licensing exams for public accountants, during fiscal year end June 30, 2018 the Board received license renewal fees of \$255,000 as compared to \$257,000 in the budget, the Board budgeted \$30,000 for fees from administering the exam however due to changes in the structure of the exams we saw an acceleration of candidates sitting for the exams causing our fees for the year to rise to \$60,000. For the fiscal year ending June 30, 2018, the Board still shared staff and office space with the North Dakota CPA Society, the revenue from those shared services of \$208,000 was right on budget. The shared services agreement ended on September 30, 2018, while the office sharing arrangement terminated on June 30, 2018.

The Board's primary expenses are for the salaries and benefits, of the \$573,000 in expenditures for fiscal year ended June 30, 2018, \$492,000 are compensation related, this compares to the budget of \$403,000, the primary difference between actual expenditures and the budget was due to the net pension cost being \$79,000 more than anticipated as discussed above. Other operating expenditures during the current fiscal year totaled \$81,000 compared to budget of \$82,000 there were only minimal variances in the other operating expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

The Statement of Net Position shows total assets and liabilities; the difference reported as Total Net Position. Over time, changes in net assets indicate whether the financial position of the Board is deteriorating. At June 30, 2018 the Board had current liabilities of \$227,000, consisting primarily of deferred licensing revenue. The Board's financial assets are held in cash and CDs.

The Statement of Revenues shows how the Board's assets changed as a result of current year operations. Annual license fees and examination fees were \$20,000 higher during fiscal year ending June 30, 2018 than the prior year, this was primarily due to changes coming in the CPA exam which prompted an acceleration of candidates sitting for the exam. The board anticipates the revenue from exam fees to pull back during the fiscal year ending June 30, 2019. Regardless of when cash is affected, changes in net assets are reported based on when underlying transactions occurred.

The Statement of Cash Flows shows how the cash changed due to current year operations; it is prepared using the direct method.

The Notes to the financial statements provide additional information about accounting policies, etc.

The Board has no component units.

FINANCIAL ANALYSIS

The Board's assets consist primarily of cash and CDs. Equipment consists of computers and office furnishings jointly owned by the CPA Society; the Board's portion is \$2200. The Board had no accounts receivables at year end. Current liabilities were mostly prepaid license fees. Changes in financial position result from operations, pension, and depreciation.

Net Assets for the period ending June 30:

	<u>2018</u>	<u>2017</u>	2016	<u>2015</u>	<u>2014</u>
Assets	\$632,000	\$562,318	\$516,000	\$446,000	\$423,000
Current Liabilities	\$227,000	\$207,000	\$226,000	\$178,000	\$188,000
Investment in capital assets	\$2,200	\$2700	\$1500	\$2900	\$4300
Total Net Position	\$285,000	\$314,000	\$319,000	\$268,000	\$235,000

Questions about this report may be directed to the Executive Director, Amanda Harlow or Board President, Michael T. Schmitz, CPA, at 800-532-5904 or ndsba@nd.gov.

Prepared January 7, 2019

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2018**

	<u>Business-Type Activities</u>
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 187,410
Investments	<u>441,938</u>
Total Current Assets	\$ 629,348
CAPITAL ASSETS, at cost	
Furniture and Equipment	\$ 8,093
Less: Accumulated Depreciation	<u>(5,890)</u>
Net Capital Assets	\$ 2,203
OTHER ASSETS	
Security Deposit	<u>\$ 500</u>
Total Assets	<u>\$ 632,051</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related Deferred Outflows of Resources	<u>\$ 332,525</u>
Total Deferred Outflows of Resources	<u>\$ 332,525</u>
CURRENT LIABILITIES	
Accounts Payable	\$ 8,446
Payroll Taxes Payable	695
Accrued Expenses	21,419
Deferred Revenue	<u>196,321</u>
Total Current Liabilities	\$ 226,881
NET PENSION LIABILITY	<u>440,697</u>
Total Liabilities	<u>\$ 667,578</u>
DEFERRED INFLOWS OF RESOURCES	
Pension Related Deferred Inflows of Resources	<u>\$ 12,088</u>
Total Deferred Inflows of Resources	<u>\$ 12,088</u>
NET POSITION	
Net Investment in Capital Assets	\$ 2,203
Unrestricted	<u>282,707</u>
Total Net Position	<u><u>\$ 284,910</u></u>

The accompanying notes are an integral part of these financial statements.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities
OPERATING REVENUES	
Annual License Fees	\$ 255,310
CPA Examination Fees	60,050
Reciprocal Certificate Fees	6,860
Firm Permit Fees	3,430
Late Filing Fees	2,500
Staff Services	208,534
Miscellaneous Income	<u>2,031</u>
Total Operating Revenues	<u>\$ 538,715</u>
OPERATING EXPENSES	
Salaries and Wages	\$ 288,356
Payroll Taxes	24,292
Employee Benefits	179,332
Bank Service Charges	3,826
NASBA Dues	4,240
Insurance and Bond	915
Miscellaneous	7,406
Office Supplies	9,731
Audit	3,500
Board	30,080
Rent	7,288
Repairs and Maintenance	1,139
Telephone	3,593
Travel	7,052
Attorney Fees	721
Consultants	613
Depreciation	<u>1,364</u>
Total Operating Expenses	<u>\$ 573,448</u>
Operating Loss	<u>\$ (34,733)</u>
NONOPERATING REVENUE	
Gain on Sale of Capital Assets	\$ 267
Interest Income	<u>5,336</u>
Total Nonoperating Revenue	<u>\$ 5,603</u>
Changes in Net Position	<u>\$ (29,130)</u>
Beginning Net Position	<u>314,040</u>
Ending Net Position	<u><u>\$ 284,910</u></u>

The accompanying notes are an integral part of these financial statements.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Business-Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Licensees	\$ 337,471
Cash Received from Staffing Services	208,534
Cash Received from Other Income	2,031
Cash Payments to Employees for Services	(407,222)
Cash Payments for Goods and Services	(74,783)
Net Cash Provided by Operating Activities	<u>\$ 66,031</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>\$ -</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Furniture and Equipment	\$ 750
Purchase of Furniture and Equipment	(1,346)
Net Cash Used by Capital and Related Financing Activities	<u>\$ (596)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale / Redemption of Investments	\$ 287,673
Purchase of Investments	(386,000)
Interest Income	5,336
Security Deposit Paid	(500)
Net Cash Used by Investing Activities	<u>\$ (93,491)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>\$ (28,056)</u>
BEGINNING CASH AND CASH EQUIVALENTS	<u>215,466</u>
ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 187,410</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	\$ (34,733)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	1,364
(Increase) Decrease in Accounts Receivable	537
(Increase) Decrease in Deferred Outflows of Resources	(93,656)
Increase (Decrease) in Accounts Payable	4,784
Increase (Decrease) in Payroll Taxes Payable	(113)
Increase (Decrease) in Accrued Expenses	5,456
Increase (Decrease) in Deferred Revenue	9,321
Increase (Decrease) in Deferred Inflows of Resources	(3,481)
Increase (Decrease) in Net Pension Liability	176,552
Net Cash Provided by Operating Activities	<u><u>\$ 66,031</u></u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The North Dakota State Board of Accountancy (the Board), a state-wide administrative agency located in Grand Forks, North Dakota, was formed by Statute in October 1941 consisting of at least five members appointed by the Governor of North Dakota. The Board's purpose is to serve as a licensing and regulatory board for licensed and certified public accountants practicing within the State of North Dakota. The Board accomplishes their purpose by administering the CPA examination, licensing accountants, and enforcing public accounting laws and regulations. The more significant of the Board's accounting policies are described below.

Reporting Entity

The Board collects fees for applications, initial licenses, renewal of licenses, late renewals, and limited permits. These fees are to be set at an appropriate level so that the expenses of the Board are met.

As required by GAAP, the Board has developed criteria to determine whether outside agencies with activities which benefit the Board should be included within its financial reporting entity. The criteria include, but are not limited to, whether the Board exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationships. The Board has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the Board's financial statements.

Financial accountability includes the ability of the primary government (the Board) to appoint a voting majority to another organization's governing board, and is either able to impose its will on the other organization or there is potential for the other organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Basis of Presentation

The financial statements of the Board have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Board's basic financial statements consist of proprietary fund financial statements. Due to the nature of the Board's operations, the Board reports all of its functions in one proprietary fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from provided services and producing and delivering goods in connection with the Board's operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Financial Statements

The Board's fund consists of the following:

Proprietary Fund

The reporting focus of proprietary funds is on the determination of net income, financial position and changes in financial position (economic resources). This fund is used to account for activities that are similar to those found in the private sector. This fund is maintained on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and the accompanying notes. Accordingly, actual results could differ from those estimates.

Encumbrance Accounting

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements.

Cash and Cash Equivalents

Cash and Cash Equivalents include all highly liquid investments with an original maturity of less than three months.

Investments

Investments consist of cash equivalent funds and certificates of deposit with original maturities ranging from twelve months to twenty-four months. Certificates of deposit are stated at amortized cost which approximates fair value.

The Board follows state statutes with regard to its investing decisions.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost if historical cost is not available, and updated for additions and retirements during the year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Furniture and equipment purchases of \$500 or more are capitalized.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The assets' estimated useful lives are five years.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. Pension related deferred outflows of resources is the only item that qualifies for reporting in this category.

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. Pension related deferred inflows of resources is the only item that qualifies for reporting in this category.

Deferred Revenues

Deferred revenues represent license and registration fees received in the current year for the next year's activities.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net positions are reported as unrestricted.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, and the unrestricted resources as they are needed. The Board generally does not have restricted resources.

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.

Subsequent Events

The Board has evaluated subsequent events through January 7, 2019, the date the financial statements were available to be issued.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

2. CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial credit risk is the risk that, in event of a bank failure, the Board's deposits might not be recovered. The Board has three authorized depositories for its deposits and investments. The Board follows North Dakota state statutes which authorize the Board to make deposits in the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize the Board to invest in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of or an obligation insured or guaranteed by the Treasury of the United States or its agencies, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the State, d) Obligations of the State.

As of June 30, 2018, none of the Board's bank and investment balances totaling \$631,662 were exposed to custodial credit risk as follows:

Uninsured and collateralized with an excess deposit insurance bond held by the pledging financial institution	\$ -
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3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance 6/30/2017	Additions	Disposals	Balance 6/30/2018
Furniture and fixtures	\$ 30,335	\$ 1,346	\$ (23,588)	\$ 8,093
Accumulated Depreciation	(27,631)	(1,364)	23,105	(5,890)
Net Capital Assets	<u>\$ 2,704</u>	<u>\$ (18)</u>	<u>\$ (483)</u>	<u>\$ 2,203</u>

4. PENSION PLAN - DEFINED BENEFIT

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.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

4. PENSION PLAN - DEFINED BENEFIT - continued

North Dakota Public Employees Retirement System (Main System) - 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; and one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

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 the 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 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.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

4. PENSION PLAN - DEFINED BENEFIT - continued

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 that amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

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

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

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

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

At June 30, 2018, the Employer reported a liability of \$440,697 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of 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, 2017, the Employer's proportion was 0.027418 percent, which was an increase of .000315 from its proportion measured at June 30, 2016.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

4. PENSION PLAN - DEFINED BENEFIT - continued

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

For the year ended June 30, 2018, the Employer recognized pension expense of \$99,558. At June 30, 2018, 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	\$ 2,619	\$ 2,147
Changes in assumptions	180,716	9,940
Net difference between projected and actual earnings on pension plan investments	5,927	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	123,121	1
Employer contributions subsequent to the measurement date (see below)	<u>20,142</u>	<u>-</u>
Total	<u>\$ 332,525</u>	<u>\$ 12,088</u>

\$20,142 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 year ended June 30, 2019.

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

Year ended June 30:

2019	\$ 71,269
2020	79,401
2021	73,159
2022	58,035
2023	18,431
Thereafter	-

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

4. PENSION PLAN - DEFINED BENEFIT - continued

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

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

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

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

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

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-200 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

4. PENSION PLAN - DEFINED BENEFIT - continued

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

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

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

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

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

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

4. PENSION PLAN - DEFINED BENEFIT - continued

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

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 6.44 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 (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	<u>1% Decrease (5.44%)</u>	<u>Current Discount Rate (6.44%)</u>	<u>1% Increase (7.44%)</u>
Employer's proportionate share of the net pension liability	\$ 598,260	\$ 440,697	\$ 309,612

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

5. COMPENSATED ABSENCES

The Board implemented the provisions of GASB Statement No. 16 - Accounting for Compensated Absences. As per this provision, probable payments, if any, for vested vacation leave, plus associated payroll expenses, have been accrued at the end of each year. The provision for termination payments of accrued sick leave is calculated at 10% of available, accumulated, unpaid sick leave. As per GASB Statement No. 16, no accrual of accumulated sick leave benefits has been provided.

6. OFFICE LEASE

During the year ended June 30, 2018, the North Dakota State Board of Accountancy shared its office space with the North Dakota Society of Certified Public Accountants (NDCPAS).

On December 7, 2015, the Board and NDCPAS entered into a three-year lease beginning January 1, 2016 and maturing December 31, 2018. The monthly lease payment under the lease is \$1,086, of which half is paid by the Board and half is paid by NDCPAS. Rent paid to Vaaler Insurance by the Board during the period ended June 30, 2018 was \$6,788. The Board was released from the remaining portion of the lease.

The Board entered into a 12 month lease beginning June 1, 2018 and maturing May 31, 2019, with the option to extend the lease for an additional 4 one year terms. The monthly lease payment under the lease is \$500, increasing by \$15 for each one year extension. Rent paid to GFK Rental LLC by the Board during the year ended June 30, 2018 was \$500.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

6. OFFICE LEASE - continued

The Board's future minimum lease payments are as follows:

Year ended June 30:

2019	\$ 6,015
2020	6,195
2021	6,375
2022	6,555
2023	<u>6,160</u>
	<u>\$ 31,300</u>

7. COMMITMENTS AND CONTINGENCIES

In the opinion of the Board, there are no significant contingent liabilities relating to the activities of the Board; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

8. RISK MANAGEMENT

The Board is exposed to various risks including, but not limited to, torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The errors and omissions insurance are provided through the State of North Dakota Risk Management Fund. The Board has contracted with third party insurance carriers for specific and aggregate stop loss coverage to limit the Board's exposure to losses as follows:

General Liability	\$ 2,000,000	Aggregate limit
Products - Complete Operations	\$ 2,000,000	Aggregate limit
Personal and Advertising Injury	\$ 1,000,000	Per person
Liability and Medical Expenses	\$ 1,000,000	Per occurrence
Personal Property	\$ 99,100	\$1,000 deductible
Fire Damage	\$ 100,000	Per occurrence
Errors and Omissions	\$ 1,000,000	Per occurrence and \$250,000 per person
Employee Dishonesty	\$ 75,000	
Worker's Compensation		Based on rate schedule subject to \$250 deductible

During the year ended June 30, 2018, there was no reduction in general liability insurance coverage from the prior year. At no time during the year ended June 30, 2018 did settlements exceed insurance coverage.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

9. RELATED PARTY TRANSACTIONS

The Board is affiliated with the North Dakota Society of Certified Public Accountants (NDCPAS) through common management control. The Board entered into a staffing service agreement with NDCPAS. The terms of the agreement require that NDCPAS pay 50% of the staffing services including salaries, benefits and payroll taxes to the Board. The Board received \$208,534 from NDCPAS during the year ended June 30, 2018.

During the year ended June 30, 2018, the Board shared its leased office space with NDCPAS. The Board separated its office and moved as of July 1, 2018. See Note 6 for additional details on the office leases.

The Board shared approximately \$4,995 of general office and utility costs with NDCPAS during the year ended June 30, 2018. This cost-sharing arrangement ended June 30, 2018.

10. SUBSEQUENT EVENT

The sharing of common costs such as rent, utilities and office expenses between the Board and the NDCPAS ended June 30, 2018 with the relocation of the Board's office. The Board and NDCPAS discontinued their shared staffing agreement as of September 30, 2018.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 10 YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Employer's Proportion of the Net Pension Liability (Asset)	0.027418%	0.027103%	0.003271%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 440,697	\$ 264,145	\$ 22,242
Employer's Covered-Employee Payroll	\$ 279,896	\$ 273,130	\$ 29,138
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	157.45%	96.71%	76.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.98%	77.10%	77.70%
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015

NOTE: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten year trend is compiled, the Board will present information for those years for which information is available.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEDULE OF EMPLOYER CONTRIBUTIONS
NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 10 YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily Required Contribution	\$ 20,296	\$ 19,447	\$ 2,075
Contributions in Relation to the Statutorily Required Contributions	\$ 19,934	\$ 19,933	\$ 2,226
Contribution Deficiency (Excess)	\$ 362	\$ (486)	\$ (151)
Employer's Covered-Employee Payroll	\$ 279,896	\$ 273,130	\$ 29,138
Contributions as a Percentage of Covered Employee Payroll	7.12%	7.12%	7.12%

NOTE: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten year trend is compiled, the Board will present information for those years for which information is available.

NOTE: Amounts presented for each fiscal year have a measurement date of the previous fiscal year.

The accompanying notes to the required supplementary information are an integral part of this schedule.

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

1. CHANGES OF ASSUMPTIONS

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

**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 Governing Board
North Dakota State Board of Accountancy
Grand Forks, 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 business-type activities of the North Dakota State Board of Accountancy as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our reports thereon dated January 7, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Dakota State Board of Accountancy'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota State Board of Accountancy's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota State Board of Accountancy'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 combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Board'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2018-001, to be a significant deficiency.

Compliance and Other Matters

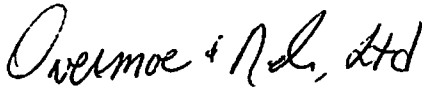
As part of obtaining reasonable assurance about whether the North Dakota State Board of Accountancy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 that are required to be reported under *Government Auditing Standards*.

North Dakota State Board of Accountancy's Response to Findings

The North Dakota State Board of Accountancy's response to the findings in our audit is described in the accompanying schedule of findings and questioned costs. The North Dakota State Board of Accountancy's response was 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 the testing, and not to provide an opinion on the effectiveness of the Board'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.



OVERMOE & NELSON, LTD
Certified Public Accountants
Grand Forks, North Dakota

January 7, 2019

**NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Reference 2018-001 - Segregation of Duties (A Significant Deficiency)

Criteria

Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition

The Executive Director is responsible for most accounting functions.

Questioned Costs

None

Context

This condition existed during portions of the year when the State Board of Accountancy's staff was not at a level to provide for a proper segregation of duties.

Effect

Transactions could be mishandled and not discovered and corrected within a reasonable period of time.

Cause

There is one person for multiple functions such as executing and recording transactions.

Recommendation

The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of segregation. Alternative procedures should be developed to separate duties during periods of time when the absence of members of management and staff do not allow segregated procedures to be followed as documented.

Views of Responsible Officials and Planned Corrective Actions

The Board has developed procedures to compensate for the lack of proper segregation of duties. The Board Treasurer reviews cash account transactions and transactions posted in the general ledger detail and reports any questionable transactions noted to the Board at each of the Board's meetings.

Due to the size of management and staff, it is not feasible to obtain proper segregation of duties at all times. The cost of adding personnel in order to obtain a proper segregation of duties exceeds the benefit.