HAGA KOMMER
CERTIFIED PUBLIC ACCOUNTANTS

EDUCATION STANDARDS AND PRACTICES BOARD

AUDIT REPORT

JUNE 30, 2018

EDUCATION STANDARDS AND PRACTICES BOARD
June 30, 2018

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Education Standards and Practices Board, Bismarck, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure 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 each major fund of the Education Standards and Practices Board as of June 30, 2018 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT

Emphasis of Matter

As discussed in Notes 1 and 12 to the financial statements, Education Standards and Practices Board adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which resulted in a restatement of the net position as of July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, the Board's share of net pension and OPEB liability and employer contributions on page 25 and 26, the budgetary comparison information on pages 27 and 28, and the notes to required supplementary information on page 29 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 October 21, 2020, on our consideration of the Education Standards and Practices Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Education Standards and Practices Board's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
October 21, 2020

This section of the Education Standards and Practices Board's annual financial report presents our discussion and analysis of the Board's financial performance during the year ended June 30, 2018 and provides certain comparative data for the year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

- The assets of Education Standards and Practices Board exceeded its liabilities at the close of the 2018 fiscal year by $1,126,871 (*net position*). Of this amount, $491,111 (*unrestricted net position*) may be used to meet the Board's ongoing obligations.
- As of the close of the 2018 fiscal year, Education Standards and Practices Board's governmental funds reported ending fund balances of $1,546,029.
- Education Standards and Practices Board received a grant from the North Dakota Department of Public Instruction to create a mentor and coaching program for teachers.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

- The *government-wide financial statements* provide both *long-term* and *short-term* information about the Board's overall finances. These statements are presented in the right column on pages 8 and 9 following the adjustments column.
- The *fund financial statements* focus on *individual parts* of the government, reporting the Board's operations in *more detail* than the government-wide financial statements. These statements are presented in the left column on pages 8 and 9 before the adjustments column. The *governmental funds* statements tell how *general government* services were financed in the short term as well as what remains for future spending.

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

Government-Wide Statements

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

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

The governmental activities of the Board include supervising the licensure of teachers; setting standards for and approving teacher preparation programs; and issuing minor equivalency endorsements, developing and revising, consistent with state law, professional codes or standards relating to ethics, conduct, and professional performance and practices.

Fund Financial Statements

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

The Board has only one type of funds:

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

The Board adopts an annual budget for its governmental funds. Budgetary comparison statements have been provided for the general fund and the special revenue fund to demonstrate compliance with the budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As stated earlier, net position may serve over time as a useful indicator of a government's financial position. The Board's assets exceeded liabilities by $1,126,871 at June 30, 2018 and by $1,173,245 at June 30, 2017. The net position decreased by $20,960 for the year ended June 30, 2018.

Unrestricted net position may be used to fund Board activities in the next fiscal year.

	Governmental Activities	
	6/30/2018	6/30/2017
Assets:		
Current and other assets	$ 1,588,947	$ 1,497,259
Capital assets, net of accumulated depreciation	12,309	23,618
Total Assets	1,601,256	1,520,877
Deferred Outflows of Resources	352,708	122,140
Liabilities:		
Current liabilities	42,918	10,358
Long-term liabilities	729,026	393,880
Total Liabilities	771,944	404,238
Deferred Inflows of Resources	55,149	65,534
Net Position:		
Invested in capital assets, net of related debt	12,309	23,618
Restricted for Teacher Support Program	623,451	666,243
Unrestricted	491,111	483,384
Total Net Position	$ 1,126,871	$ 1,173,245

	Governmental Activities	
	FYE 6/30/2018	FYE 6/30/2017
Revenues:		
Program Revenues:		
Licensing Fees	$ 746,853	$ 639,049
Grants	1,000,000	1,800,000
Fingerprinting & Portfolio	83,763	83,379
Late Fees	26,625	27,100
Other Income	29,275	87,100
General Revenues:		
Investment Earnings	4,949	5,017
Total Revenues	1,891,465	2,641,645
Expenses:		
Licensing & Regulation	909,612	934,615
Teacher Support System Grant	993,313	1,238,626
Depreciation	9,500	11,239
Total Expenses	1,912,425	2,184,480
Change in Net Position	(20,960)	457,165
Net Position, Beginning of Year	1,173,245	716,080
Adjustment to Prior Period	(25,414)	-
Net Position, Beginning of the Year, as restated	1,147,831	716,080
Net Position, End of Year	$ 1,126,871	$ 1,173,245

The Board's total revenues were $1,891,465 and $2,641,645, for the years ended June 30, 2018 and 2017, respectively. Licensing fees were 39% and 24% and grant revenues were 53% and 68% of the Board's revenue for the fiscal years 2018 and 2017, respectively. The total cost of all programs and services was $1,912,425 and $2,184,480, for the years ended June 30, 2018 and 2017, respectively.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

- Revenues from governmental fund types totaled $1,891,465 and $2,641,645, for the years ended June 30, 2018 and 2017, respectively.
- Expenditures totaled $1,832,337 and $2,193,467, for the years ended June 30, 2018 and 2017, respectively.
- Total fund balances increased by $59,128 for the year ended June 30, 2018 and increased by $448,178 for the year ended June 30, 2017.

GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

General Fund:

- The Board budget was not amended during the 2018 fiscal year.
- For the year ended June 30, 2018, actual revenues were $177,328 more than budgeted.
- Actual expenditures were $55,924 more than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018, the Board's investment in capital assets was $12,309 (net of accumulated depreciation). The investment in capital assets at the end of fiscal year 2017 was $23,618. This investment includes furniture, fixtures and office equipment. Additional information on the Board's capital assets can be found in Note 3 of this report.

Long Term Debt

The Board has recorded a liability for compensated absences. The Board is liable for compensated absences in the event an employee leaves employment. The compensated absences recorded at June 30, 2018 and 2017 were $37,872 and $36,251. The board also has recorded a net pension liability for $691,154 and $357,629 for the years ended June 30, 2018 and 2017, respectively.

Additional information on the Board's long-term debt can be found in Note 4 of this report. Details on the pension liability can be found in Note 12 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For 2019,

- Revenues are budgeted at $806,000 and transfers in at $65,000.
- Expenditures are budgeted at $832,625.

The Board has added no major new programs to the 2019 budget. If these estimates are realized, the Board will report a increase in the general fund balance of $38,375 by the close of the 2019 fiscal year.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Education Standards and Practices Board, 2718 Gateway Avenue, Suite 204, Bismarck, ND 58503-0585.

Education Standards and Practices Board
Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2018

	Governmental Funds Balance Sheet				
	General Fund	Special Revenue Fund	Total	Adjustments	Statement of Net Position
ASSETS					
Cash and Cash Equivalents	$ 415,036	$ 162,794	$ 577,830	$ -	$ 577,830
Investments	506,617	-	506,617	-	506,617
Accounts Receivable	-	500,000	500,000	-	500,000
Due from Teacher Support Fund	9,418	-	9,418	(9,418)	-
Prepaid Expenses	4,500	-	4,500	-	4,500
Furniture & Equipment, Net of Accumulated Depreciation	-	-	-	12,309	12,309
Total Assets	$ 935,571	$ 662,794	$ 1,598,365	2,891	1,601,256
DEFERRED OUTFLOWS OF RESOURCES					
Derived from Pension and OPEB				352,708	352,708
LIABILITIES					
Accounts Payable	$ 9,003	$ 29,311	$ 38,314	-	38,314
Due to General Fund	-	9,418	9,418	(9,418)	-
Payroll Taxes Payable	3,990	614	4,604	-	4,604
Long-Term Liabilities:					
Due within One Year					
Compensated Absences	-	-	-	37,872	37,872
Due after One Year:					
Net Pension and OPEB Liability	-	-	-	691,154	691,154
Total Liabilities	12,993	39,343	52,336	719,608	771,944
DEFERRED INFLOWS OF RESOURCES					
Derived from Pension and OPEB				55,149	55,149
FUND BALANCES/NET POSITION					
Fund Balances:					
Restricted for Grant	-	623,451	623,451	(623,451)	-
Nonspendable - Prepaid Expenses	4,500	-	4,500	(4,500)	-
Unassigned	918,078	-	918,078	(918,078)	-
Total Fund Balances	922,578	623,451	1,546,029	(1,546,029)	-
Total Liabilities and Fund Balances	$ 935,571	$ 662,794	$ 1,598,365		
Net Position:					
Invested in Capital Assets				12,309	12,309
Restricted for Teacher Support Program				623,451	623,451
Unrestricted				491,111	491,111
Total Net Position				$ 1,126,871	$ 1,126,871

Explanation of adjustments between the governmental funds balance sheet and the government-wide statement of net position:	
Total Fund Balances - Governmental Funds	$ 1,546,029
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is $79,669 and the accumulated depreciation is $67,360.	12,309
Compensated absences are not due and payable until an employee terminates employment, therefore, is not reported in the governmental funds balance sheet.	(37,872)
Deferred outflows of resources are not a financial resource available in the current period and , therefore, are not reported in the governmental funds balance sheet.	352,708
The net pension and OPEB liability is not due and payable in the current period and, therefore is not reported in the governmental funds balance sheet.	(691,154)
Deferred inflows of resources are not due and payable in the current period and, therefore are not reported in the governmental funds balance sheet.	(55,149)
Net Position - Governmental Activities	$ 1,126,871

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

Education Standards and Practices Board
Statement of Activities and
Governmental Fund Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2018

	Governmental Fund Revenues, Expenditures, and Changes in Fund Balances				
	General Fund	Special Revenue Fund	Total	Adjustments	Statement of Activities
Expenditures/Expenses:					
Licensing & Regulation	$ 839,024	$ -	$ 839,024	$ 80,088	$ 919,112
Teacher Support System	-	993,313	993,313	-	993,313
Total Expenditures/Expenses	839,024	993,313	1,832,337	80,088	1,912,425
Program Revenues:					
Licensing Fees	746,853	-	746,853	-	746,853
Teacher Support System Grant	-	1,000,000	1,000,000	-	1,000,000
Fingerprinting & Portfolio	83,763	-	83,763	-	83,763
Late Fees	26,625	-	26,625	-	26,625
Other Income	29,275	-	29,275	-	29,275
Total Program Revenues	886,516	1,000,000	1,886,516	-	1,886,516
Net Program Revenue					(25,909)
General Revenues:					
Investment Earnings	4,762	187	4,949	-	4,949
Interfund Transfers	49,666	(49,666)	-	-	-
Total General Revenues and Transfers	54,428	(49,479)	4,949	-	4,949
Excess of Revenues Over (Under) Expenditures	101,920	(42,792)	59,128	(59,128)	-
Change in Net Position	-	-	-	(20,960)	(20,960)
Fund Balance/Net Position:					
Beginning of the Year	820,658	666,243	1,486,901	(313,656)	1,173,245
Adjustment to Prior Period (See Note 13)	-	-	-	(25,414)	(25,414)
Beginning of the Year, as restated	820,658	666,243	1,486,901	(339,070)	1,147,831
End of the Year	$ 922,578	$ 623,451	$ 1,546,029	$ (419,158)	$ 1,126,871

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

Governmental Funds - Excess of Revenues Over (Under) Expenditures	$ 59,128
Depreciation expense on capital assets is reported in the government-wide statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(12,077)
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The cost of new capital assets for the year is $768	768
The increase in accrued leave payable does not provide current financial resources; therefore is not reported as an expenditure in the governmental funds.	(1,621)
Governmental funds report the pension and OPEB expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions.	(67,158)
Statement of Activities - Change in Net Position	$ (20,960)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity

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

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

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

Reporting Entity

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

Basis of Presentation

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, during the Board's year ended June 30, 2018, the full scope of the Board's activities is considered to be a governmental activity.

Estimates

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

Governmental Funds

> General Fund – The general fund is the principal operating fund of the Board. It is used to account for all financial resources which are not accounted for in other funds.
>
> Special Revenue Fund – This fund carries out the functions of the Teacher Support System Grant.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of 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 when 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, generally within 30 days of year-end. The revenues that are determined to be susceptible to accrual are fees, fines and interest.

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

New Accounting Pronouncements

As of July 1, 2017, the Board adopted GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* The implementation of this standard required governments to calculate and report the costs and obligations associated with postemployment benefits other than pensions in their basic financial statements. Employers are required to recognize the entire OPEB liability and a more comprehensive measure of OPEB expense. The effect of the implementation of these standards on beginning net position is disclosed in Note 12 and the additional disclosures required by these standards are included in Note 13 and supplemental schedules.

Budgets

Budgets for revenues and expenditures are adopted on a basis consistent with generally accepted accounting principles. The Board is required to adopt a budget for the General Fund and each Special Revenue Fund. Each year the Board estimates and itemizes all administrative expenses and obligations of the Board, including expenses of directors, management fees, legal and other related expense. Revenues expected to be generated from the renewal of licenses, registration and certification of new licenses, and other related revenues are also estimated.

Net Position/Fund Balance

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

Cash, Cash Equivalents, and Investments

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

Investments consist of certificates of deposit carried at cost with a term of more than three months. The certificates of deposit had interest rates of 1.10% – 2.95% and terms of 12 to 48 months at June 30, 2018.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets and Depreciation

Capital assets are reported at cost less accumulated depreciation. Equipment with an original cost of $100 or more and an estimated useful life in excess of one year are capitalized and reported in the government-wide financial statements. Depreciation is computed on a straight-line basis over the estimated useful life of the assets, generally five years for equipment and seven years for furniture.

Compensated Absences

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

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

Fund Balance Classifications

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

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

> *Restricted* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
>
> *Committed* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board – the highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board removed the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
>
> *Assigned* – This classification reflects the amounts constrained by the Board's "intent" to be used for special purposes, but are neither restricted nor committed. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.
>
> *Unassigned* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 11 for additional information.

Pensions

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

Other Post Employment Benefit (OPEB)

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

NOTE 2 – DEPOSITS AND INVESTMENTS

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

At June 30, 2018, the carrying amount of deposits was $1,084,447, and the bank balances were $1,145,854. The deposits of the Board can be categorized to indicate the level of risk assumed. Category 1 includes bank balances that are insured or collateralized by insured or registered securities held by the government sponsored investment pool or its agent in the pool's name. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name. Category 3 includes bank balances collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the Board's name. At June 30, 2018, category 1 deposits were $891,748 and $254,106 was not covered by Federal Depository Insurance or guaranteed by the State of North Dakota.

NOTE 2 – DEPOSITS AND INVESTMENTS – CONTINUED

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

The table below summarizes the Board's cash and cash equivalents and investments by type as of June 30, 2018:

	Maturities	Fair Value
Deposits with financial institutions	-	$ 577,830
Certificates of Deposit	12-60 months	506,617
		$ 1,084,447

As reported in the Statement of Net Position:

Cash and Cash Equivalents	$ 577,830
Investments	506,617
Total	$ 1,084,447

NOTE 3 – CAPITAL FIXED ASSETS

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

	Capital Assets	Accumulated Depreciation	Net
Balance 6/30/17	$ 127,326	$ 103,708	$ 23,618
Increases	768	12,077	(11,309)
Decreases	(48,425)	(48,425)	-
Balance 6/30/18	$ 79,669	$ 67,360	$ 12,309

Depreciation expense for the year ended June 30, 2018 was $12,077.

NOTE 4 – LONG-TERM LIABILITIES

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

	Compensated Absences	Current Portion
Balance 6/30/17	$ 36,251	$ 36,251
Net Increase*	1,621	1,621
Balance 6/30/18	$ 37,872	$ 37,872

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

NOTE 5 – BOARD OF DIRECTORS

The Board of Directors of the Organization consisted of the following individuals at June 30, 2018:

Michael McNeff	Chairperson/School Board Representative
Dinah Goldenberg	School Board Representative
Benjamin Johnson	Administrative Represenitive
Carly Retterath	Chairperson/Teacher Representative
Kimberly Belgarde	Teacher Representative
Andrea Fox	Teacher Representative
Kathleen Lentz	Teacher Representative
Brenda Wener-Tufte	Teacher Representative
Jessica Rush	Teacher Representative
Robert Toso	School Board Representative

NOTE 6 – OPERATING LEASE

The Board has a lease for operating space ending June 30, 2018. A lease was signed for July 1, 2017 through June 30, 2019 with monthly installments of $2,160. Rent paid for the year ending June 30, 2018 was $25,920. A new lease was signed for July 1, 2019 through June 30, 2021 with monthly installments of $2,200. Future payments for fiscal year 2019 is $25,920 and for fiscal years 2020 and 2021 is $26,400.

NOTE 7 – DESIGNATED FUNDS

The Board has designated funds for unemployment insurance at June 30, 2018 in the amount of:

Unemployment Insurance	$ 32,784

NOTE 8 – INTERFUND TRANSFERS

At June 30, 2018, fund transfers consisted of the following:

Fund	In	Out	Purpose
General Fund	$ 49,666	$ -	*Grant funds for administrative costs*
Special Revenue Fund	-	49,666	*Grant funds for administrative costs*
	$ 49,666	$ 49,666	

NOTE 9 – INTERFUND BALANCES

At June 30, 2018, interfund balances consisted of the following:

Fund	Due To	Due From	Purpose
General Fund	$ 9,418	$ -	*Due for administrative costs*
Special Revenue Fund	-	9,418	*Due for administrative costs*
	$ 9,418	$ 9,418	

NOTE 10 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues:

Management believes the current coverage is adequate. The errors and omissions insurance is provided through the State of North Dakota Risk Management Fund.

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

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

NOTE 11 – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

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

Deferred Outflows of Resources	
Derived from pension - OPEB	$ 8,183
Derived from pension - NDPERS	344,525
	$ 352,708
Deferred Inflows of Resources	
Derived from pension - OPEB	$ 1,908
Derived from pension - NDPERS	53,241
	$ 55,149

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

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

North Dakota Public Employees Retirement System (Main System)

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

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

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no 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 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 date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Refunds of Member Account Balance

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

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

Member and Employer Contributions

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

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 Board reported a liability of $660,483 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the Board's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017, the Board's proportion was 0.041092 percent, which was an increase of 0.004397 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Board recognized pension expense of $97,641. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,926	$ 3,218
Changes of assumptions	270,843	14,897
Net difference between projected and actual earnings on pension plan investments	8,883	-
Changes in proportion and differences betweeen employer contributions and proportionate share of contributions	31,062	35,126
Employer contributions subsequent to the measurement date (see below)	29,811	-
Total	$ 344,525	$ 53,241

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

$29,811 reported as deferred outflows of resources related to pensions resulting from Board's 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 or resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the year ended June 30,	
2019	$ 55,244
2020	67,433
2021	58,214
2022	49,739
2023	30,846
Thereafter	-

Actuarial Assumptions

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

Inflation	3.50%	
Salary Increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50 +	5.00%
	*Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost-of-living adjustments	None	

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

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

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

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

Discount Rate

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

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

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

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

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

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

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Employer's proportionate share of the net pension liability	$ 896,626	$ 660,483	$ 464,022

Pension plan fiduciary net position

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

2. North Dakota Public Employees Retirement System (OPEB)

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

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

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

OPEB Benefits

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

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

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

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

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

At June 30, 2018 the Board reported a liability of $30,671 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Board's proportion of the net OPEB liability was based on the Board's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the Board's proportion was 0.038775 percent.

For the year ended June 30, 2018, the Board recognized OPEB expense of $3,764. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 748
Changes of assumptions	2,971	-
Net difference between projected and actual earnings on pension plan investments	-	1,160
Changes in proportion and differences betweeen employer contributions and proportionate share of contributions	430	-
Employer contributions subsequent to the measurement date (see below)	4,782	-
Total	$ 8,183	$ 1,908

$4,782 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

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

For the year ended June 30,		
2019	$	125
2020		125
2021		125
2022		415
2023		415
Thereafter		163

Actuarial assumptions

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

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

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

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

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

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

Discount rate

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

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension liability	$ 38,397	$ 30,671	$ 24,049

NOTE 13 – PRIOR PERIOD ADJUSTMENT

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

Net Position - Beginning of Year, as previously reported	$1,173,245
Restatement of accounting for OPEB	(25,414)
Net Position - Beginning of Year, as restated	$1,147,831

NOTE 14 – SUBSEQUENT EVENTS

The Board evaluated its June 30, 2018 financial statements for subsequent events through October 21, 2020. As a result of the spread of the COVID 19 coronavirus, economic uncertainties have arisen which are likely to affect the operations of the Board.

REQUIRED
SUPPLEMENTARY INFORMATION

Education Standards and Practices Board
Required Supplementary Information
For the Year Ended June 30, 2018

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

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.041092%	0.036695%	0.043707%	0.044260%
Employer's proportionate share of the net pension liability (asset)	$ 660,483	$ 357,629	$ 297,200	$ 280,928
Employer's covered-employee payroll	$ 419,483	$ 369,799	$ 389,376	$ 372,838
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	157.45%	97.00%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	77.15%	77.70%

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

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

	2018	2017	2016	2015
Statutorily required contribution	$ 30,418	$ 26,773	$ 29,576	$ 26,546
Contributions in relation to the statutorily required contribution	$ 33,559	$ 29,477	$ (27,724)	$ (26,546)
Contribution deficiency (excess)	$ (3,141)	$ (2,704)	$ 1,852	$ -
Employer's covered-employee payroll	$ 419,483	$ 369,799	$ 389,376	$ 372,838
Contributions as a percentage of covered-employee payroll	8.00%	7.97%	7.60%	7.12%

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

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

See independent auditor's report and notes to financial statements.

Education Standards and Practices Board
Required Supplementary Information
For the Year Ended June 30, 2018

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

	2018
Employer's proportion of the net OPEB liability (asset)	0.038775%
Employer's proportionate share of the net OPEB liability (asset)	$ 30,671
Employer's covered-employee payroll	$ 419,483
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	59.78%

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

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

	2018
Statutorily required contribution	$ 4,876
Contributions in relation to the statutorily required contribution	$ 5,373
Contribution deficiency (excess)	$ (497)
Employer's covered-employee payroll	$ 419,483
Contributions as a percentage of covered-employee payroll	1.28%

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

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

 See independent auditor's report and notes to financial statements.

Education Standards and Practices Board
Statement of Revenues, Expenditures, and Changes in Fund Balances
Comparison to Budget - General Fund
For the Year Ended June 30, 2018

	Budget (Original & Final)	Actual	Favorable (Unfavorable) Variance
Revenues:			
Licensing Fees	$ 582,300	$ 746,853	$ 164,553
Fingerprinting	70,000	83,763	13,763
Fines	650	850	200
Late Fees	26,000	26,625	625
National Board PTS	30,000	28,425	(1,575)
Investment Earnings	5,000	4,762	(238)
Total Revenues	713,950	891,278	177,328
Expenditures:			
Advertising	-	1,866	(1,866)
Board Expenses	31,000	24,268	6,732
Credit Card Fees	16,250	21,949	(5,699)
Consulting Services	10,000	2,764	7,236
CPU Usage	25,000	-	25,000
Dues & Memberships	11,000	14,638	(3,638)
Educational Supplies	200	-	200
Fingerprinting Expense	70,000	75,945	(5,945)
ITD Support	5,000	21,458	(16,458)
Legal Fees	15,000	7,680	7,320
National Board PTS	30,000	73,075	(43,075)
Office Equipment & Maintenance	4,000	1,153	2,847
Office Supplies	10,000	8,247	1,753
Online Application Program	20,000	28,435	(8,435)
Postage	10,000	14,286	(4,286)
Program Approval	4,500	5,112	(612)
Property & Liability Insurance	2,100	1,990	110
Rent	21,000	20,898	102
Rules	3,000	-	3,000
Salaries, Payroll Taxes, and Benefits	481,750	496,294	(14,544)
Staff Education & Training	4,500	9,656	(5,156)
Staff Travel & Expenses	3,000	6,362	(3,362)
Telephone	4,000	2,948	1,052
Unemployment Reserve	1,800	-	1,800
Total Expenditures	783,100	839,024	(55,924)
Excess of Revenues Over Expenditures	(69,150)	52,254	121,404
Other Financing Sources (Uses)			
Transfers In (Out)	63,000	49,666	(13,334)
Total Other Financing Sources (Uses)	63,000	49,666	(13,334)
Net Change in Fund Balances	(6,150)	101,920	108,070
Fund Balance - Beginning of Year	820,658	820,658	-
Fund Balance - End of Year	$ 814,508	$ 922,578	$ 108,070

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

Education Standards and Practices Board
Statement of Revenues, Expenditures, and Changes in Fund Balances
Comparison to Budget - Special Revenue Fund
For the Year Ended June 30, 2018

	Budget (Original & Final)	Actual	Favorable (Unfavorable) Variance
Revenues:			
Grant Revenue	$ 1,025,000	$ 1,000,000	$ (25,000)
Investment Earnings	-	187	187
Total Revenues	1,025,000	1,000,187	(24,813)
Expenditures:			
Coordinator Travel	10,000	8,726	1,274
Coaches Academy	85,000	65,077	19,923
ITD Support	17,000	13,030	3,970
Manual Training & Course Responders	16,000	9,000	7,000
New Teacher Center	99,300	117,448	(18,148)
Mentor Stipends	520,000	431,340	88,660
Mentor Training	90,000	69,759	20,241
Miscellaneous Expense	30,000	17,808	12,192
Office Equipment & Maintenance	1,000	255	745
Rent	5,022	5,022	-
Salaries and Benefits	244,967	196,265	48,702
Seminars	17,000	15,642	1,358
Special Projects (Beginning Teacher Networks)	40,000	43,589	(3,589)
Sub Reimbursement	-	352	(352)
Advanced Coach Training	50,000	-	50,000
Total Expenditures	1,225,289	993,313	231,976
Excess of Revenues Over Expenditures	(200,289)	6,874	207,163
Other Financing Sources (Uses)			
Transfers In (Out)	(61,016)	(49,666)	11,350
Total Other Financing Sources (Uses)	(61,016)	(49,666)	11,350
Net Change in Fund Balances	(261,305)	(42,792)	218,513
Fund Balance - Beginning of Year	666,243	666,243	-
Fund Balance - End of Year	$ 404,938	$ 623,451	$ 218,513

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

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

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

- The operating budget includes proposed expenditures and means of financing them.

- Each budget is controlled by the Board at the revenue and expenditure function/object level.

- The current budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

- All appropriations lapse at year-end.

HAGA KOMMER
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Education Standards and Practices Board, Bismarck, North Dakota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Education Standards and Practices Board's basic financial statements and have issued our report thereon dated October 21, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses. We consider the deficiencies described in the accompanying schedule of findings 2018-001, 2018-002 and 2018-003 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Education Standards and Practices Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2018-004.

Education Standards and Practices Board's Response to Findings

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

Purpose of this Report

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

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
October 21, 2020

Section I - Summary of Auditor's Results

Financial Statements

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

Section II - Financial Statement Findings

Finding 2018-001: Segregation of Duties

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

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

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

Effect – There is limited segregation of duties due to the small number of employees being responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. Due to the size of the entity, it is not feasible to obtain proper separation of duties and the degree of internal control is severely limited.

Recommendation – This is not unusual in organizations of this size, but the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the board's knowledge of matters relating to the organization's operations.

Management Response – We are aware of the condition, but it is not feasible to add staff.

Finding 2018-002: Preparation of Financial Statements and Audit Notes

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

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

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

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

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

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

Finding 2018-003: Journal Entries

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

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

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

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

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

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

Finding 2018-004: Deposits

Condition – The entity is not in compliance with state law requirements for cash deposits.

Criteria – North Dakota laws require all public deposits to be protected by insurance, surety bond or collateral.

Cause – The entity has excess deposits at Capital Credit Union not protected by insurance, surety bond or collateral due to an increase in grant money received.

Effect – The excess funds are not in compliance. $254,106 was not covered by insurance or collateral.

Recommendation – Management should ensure all deposits are protected by insurance, surety bond or collateral.

Management Response – We are aware of the condition and will ensure that we comply going forward.

Education Standards and Practices Board
Auditor's Specific Comments Requested by the North Dakota
Legislative Audit and Fiscal Review Committee
June 30, 2018

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

Audit Report Communications:

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

   Unqualified opinion.

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

   Yes

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

   Limited due to inadequate segregation of duties.

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

   No.

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

   Yes, investments were restructured to comply with ND laws.

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

   No.

Audit Committee Communications:

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*
    - The Board adopted GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.
    - No management conflicts of interest were noted.
    - No contingent liabilities were identified.
    - There were no significant or unusual transactions.

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

    The Education Standards and Practices Board's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

    Accrual adjustments and reclassifications due to posting errors were required for accurate financial reporting.

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

    None.

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

    None.

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

    None.

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

    None.

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

    None.

This report is intended solely for the information and use of the Legislative Audit and Fiscal Review Committee, Education Standards and Practices Board, management, and other state officials and legislative committees and is not intended to be and should not be used by anyone other than these specified parties.

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
October 21, 2020