

**NORTH DAKOTA PRIVATE INVESTIGATION
AND SECURITY BOARD
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDING
DECEMBER 31, 2018 AND 2017**

OVERMOE & NELSON, LTD
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Independent Auditor's Reports

To the Governing Board
North Dakota Private Investigation and Security Board
Bismarck, North Dakota

We have audited the accompanying financial statements of the business-type activities of the **North Dakota Private Investigation and Security Board** as of and for the years ended **December 31, 2018 and 2017**, 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 audits. We conducted our audits 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.

Opinions

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 Private Investigation and Security Board** as of **December 31, 2018 and 2017**, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 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 reports dated September 30, 2019 on our consideration of the **North Dakota Private Investigation and Security Board'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 those reports 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. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering **North Dakota Private Investigation and Security Board's** internal control over financial reporting and compliance.



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

September 30, 2019



701-222-3063

North Dakota PRIVATE INVESTIGATION & SECURITY BOARD

513 East Bismarck Expressway, Suite 5
Bismarck, North Dakota 58504

Management Discussion and Analysis

Financial Statements

The North Dakota Private Investigation & Security Board (NDPISB) prepares two basic financial statements. The first, the Statement of Net Position-Proprietary Fund, shows the assets, liabilities and net position of the NDPISB as of a certain date. The second, the Statement of Revenues, Expenses and Changes in Net Position-Proprietary Fund, highlights the sources of revenue as well as the expenditures of the NDPISB for a given period of time, that being one calendar year.

The NDPISB as a Whole

NDPISB's total assets decreased by just over \$75,000 from December 31, 2016 to December 31, 2017. The decrease in assets resided primarily in NDPISB's checking account balance. The outstanding liabilities of the NDPISB as of either December 31, 2016 or December 31, 2017 were normal short-term operational liabilities.

	<u>2016</u>	<u>2017</u>
Current Assets	<u>\$235,645</u>	<u>\$159,770</u>
Total Assets	\$235,645	\$159,770
Liabilities	\$ 15,692	\$ 20,882
Deferred Inflows of Resources	\$ 26,441	\$ 27,325
Net Position, as restated	<u>\$193,512</u>	<u>\$111,563</u>
Total Liabilities & Net Position	\$235,645	\$159,770

The following table shows the main sources of revenue as well as the major expenses of the NDPISB for periods January 1, 2016 through December 31, 2016 and January 1, 2017 through December 31, 2017.

	<u>2016</u>	<u>2017</u>
License and Other Fees	\$ 84,177	\$ 80,796
Background Check Fees	\$ 35,074	\$ 20,640
Other Revenue	<u>\$ 1,470</u>	<u>\$ 21,116</u>
Total Revenue	\$120,721	\$122,552
Salaries	\$ 56,431	\$ 89,031
Payroll Taxes	\$ 4,820	\$ 7,248
Background Search Fees	\$ 35,397	\$ 21,040
Insurance	\$ 877	\$ 937
Legal Fees	\$ 11,445	\$ 67,193
Misc.	\$ 2,345	\$ 3,333
Office Equipment	\$ 0	\$ 210
Office Rent	\$ 1,920	\$ 1,920
Postage	\$ 1,345	\$ 1,443
Printing	\$ 215	\$ 216
Professional Services	\$ 4,092	\$ 5,527
Supplies	\$ 2,046	\$ 2,701
Telephone	\$ 1,585	\$ 1,898
Travel	<u>\$ 3,707</u>	<u>\$ 2,058</u>
Total Expenses	\$126,225	\$204,755
Operating Loss	\$ (5,504)	\$ (82,203)
Interest Income	<u>\$ 192</u>	<u>\$ 254</u>
Net Loss	\$ (5,312)	\$ (81,949)

The license renewal fees for the investigative agencies and security firms registered to conduct business in North Dakota are generally due every year. The change in revenue from year to year is reflective of the number of agencies and firms renewing their licenses along with the number of respective employees being registered. Expenses for salaries and payroll taxes increased from 2016 to 2017 due primarily to a new Executive Director being hired and trained in by the current Executive Director for part of the year.

NDPISB's Funds

The funds derived by the NDPISB resides in a checking account. The decrease in the balance in the checking account as of December 31, 2017 is directly attributable to the Dakota Access Pipeline (DAPL) protests. The Board has incurred out-of-ordinary legal and investigative expense due to 1) the Board's investigation of unlicensed activities of private security and private investigative service providers who were hired by Energy Transfer Partners Et Al, 2) the referral of violators to the Morton County State's Attorney and the North Dakota Attorney General for criminal prosecution, 3) the initiation of administrative actions against licensed providers for their activities during the DAPL protests which

resulted in administrative settlements, 4) the initiation of litigation against three out-of-state companies who illegally provided unlicensed services (one action settled, another action settled during the litigation, and the third action is pending, and 5) the Board's responses to multiple open records requests and press inquiries.

NDPISB Budgetary Highlights

The yearly budget is prepared by the Treasurer of the NDPISB and is approved by the NDPISB Board. The budget is prepared for each calendar year, January 1 through December 31.

Economic Factors and Rates

All operating funds held by the NDPISB are obtained through fees assessed to the various license holders registered to conduct business in the State of North Dakota. At no time does the NDPISB receive any funds from the State of North Dakota. Thus, it is a self-funded agency.

Capital Asset and Debt Administration

The NDPISB had neither any capital assets nor any debt outstanding as of December 31, 2016 or December 31, 2017.

Contacting the NDPISB's Management

This financial report is intended to provide the citizens of the State of North Dakota and the private investigative and security firms licensed to conduct business in the State of North Dakota a general overview of the NDPISB's finances and to summarize the NDPISB's accountability for the money it receives. If you have any questions about this report or need additional information, feel free to contact the NDPISB's Executive Director.



701-222-3063

North Dakota

PRIVATE INVESTIGATION & SECURITY BOARD

513 East Bismarck Expressway, Suite 5
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Management Discussion and Analysis

Financial Statements

The North Dakota Private Investigation & Security Board (NDPISB) prepares two basic financial statements. The first, the Statement of Net Position-Proprietary Fund, shows the assets, liabilities and net position of the NDPISB as of a certain date. The second, the Statement of Revenues, Expenses and Changes in Net Position-Proprietary Fund, highlights the sources of revenue as well as the expenditures of the NDPISB for a given period of time, that being one calendar year.

The NDPISB as a Whole

NDPISB's total assets decreased by just over \$71,000 from December 31, 2017 to December 31, 2018. The decrease in assets resided primarily in NDPISB's checking account balance. The outstanding liabilities of the NDPISB as of either December 31, 2017 or December 31, 2018 were normal short-term operational liabilities.

	<u>2017</u>	<u>2018</u>
Current Assets	<u>\$159,770</u>	<u>\$ 88,657</u>
Total Assets	\$159,770	\$ 88,657
Liabilities	\$ 20,882	\$ 56,204
Deferred Inflows of Resources	\$ 27,325	\$ 27,742
Net Position	<u>\$111,563</u>	<u>\$ 4,711</u>
Total Liabilities & Net Position	\$159,770	\$ 88,657

The following table shows the main sources of revenue as well as the major expenses of the NDPISB for periods January 1, 2017 through December 31, 2017 and January 1, 2018 through December 31, 2018.

	<u>2017</u>	<u>2018</u>
License and Other Fees	\$ 80,796	\$ 77,293
Background Check Fees	\$ 20,640	\$ 10,806
Other Revenue	<u>\$ 21,116</u>	<u>\$ 19,770</u>
Total Revenue	\$122,552	\$107,869
Salaries	\$ 89,031	\$ 51,340
Payroll Taxes	\$ 7,248	\$ 4,033
Advertising	\$ 0	\$ 1,891
Background Search Fees	\$ 21,040	\$ 19,913
Insurance	\$ 937	\$ 1,056
Legal Fees	\$ 67,193	\$113,865
Misc.	\$ 3,333	\$ 2,709
Office Equipment	\$ 210	\$ 1,804
Office Rent	\$ 1,920	\$ 3,300
Postage	\$ 1,443	\$ 1,054
Printing	\$ 216	\$ 276
Professional Services	\$ 5,527	\$ 7,090
Supplies	\$ 2,701	\$ 3,551
Telephone	\$ 1,898	\$ 1,475
Travel	<u>\$ 2,058</u>	<u>\$ 1,675</u>
Total Expenses	\$204,775	\$215,032
Operating Loss	\$ (82,203)	\$(107,163)
Interest Income	<u>\$ 254</u>	<u>\$ 311</u>
Net Loss	\$ (81,949)	\$(106,852)

The license renewal fees for the investigative agencies and security firms registered to conduct business in North Dakota are generally due every year. The change in revenue from year to year is reflective of the number of agencies and firms renewing their licenses along with the number of respective employees being registered. Expenses for salaries and payroll taxes decreased from 2017 to 2018 due to the Executive Director taking on a full time position and the administrative assistant going to very limited part time.

NDPISB's Funds

The funds derived by the NDPISB resides in a checking account. The decrease in the balance in the checking account as of December 31, 2018 is directly attributable to the Dakota Access Pipeline (DAPL) protests. The Board has incurred out-of-ordinary legal and investigative expense due to 1) the Board's investigation of unlicensed activities of private security and private investigative service providers who were hired by Energy Transfer Partners Et Al, 2) the referral of violators to the Morton County State's Attorney and the North Dakota Attorney General for criminal prosecution, 3) the initiation of administrative actions against licensed providers for their activities during the DAPL protests which resulted in administrative settlements, 4) the initiation of litigation against three out-of-state companies who illegally provided unlicensed services (one action settled, another action settled during the litigation, and the third action is pending, 5) the Board's responses to multiple open records requests and press inquiries; and 6) the Board's compilation and review of its records as part of a document hold request from the North Dakota Attorney General.

NDPISB Budgetary Highlights

The yearly budget is prepared by the Treasurer of the NDPISB and is approved by the NDPISB Board. The budget is prepared for each calendar year, January 1 through December 31.

Economic Factors and Rates

All operating funds held by the NDPISB are obtained through fees assessed to the various license holders registered to conduct business in the State of North Dakota. At no time does the NDPISB receive any funds from the State of North Dakota. Thus, it is a self-funded agency.

Capital Asset and Debt Administration

The NDPISB had neither any capital assets nor any debt outstanding as of December 31, 2017 or December 31, 2018.

Contacting the NDPISB's Management

This financial report is intended to provide the citizens of the State of North Dakota and the private investigative and security firms licensed to conduct business in the State of North Dakota a general overview of the NDPISB's finances and to summarize the NDPISB's accountability for the money it receives. If you have any questions about this report or need additional information, feel free to contact the NDPISB's Executive Director.

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
STATEMENTS OF NET POSITION - PROPRIETARY FUND
DECEMBER 31, 2018 AND 2017**

	<u>2018 Business-Type Activities</u>	<u>2017 Business-Type Activities</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,411	\$ 37,062
Investment in Certificates of Deposit	81,230	121,748
Accounts Receivable	490	430
Prepaid Insurance	526	530
Total Current Assets	\$ 88,657	\$ 159,770
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -
CURRENT LIABILITIES		
Accounts Payable	\$ 39,106	\$ 6,804
Payroll Taxes Payable	198	957
Due to Others	15,631	12,396
Accrued Payroll	1,269	725
Total Current Liabilities	\$ 56,204	\$ 20,882
DEFERRED INFLOWS OF RESOURCES		
Unearned License Revenues	\$ 27,742	\$ 27,325
NET POSITION		
Unrestricted	<u>\$ 4,711</u>	<u>\$ 111,563</u>

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

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018 Business-Type Activities	2017 Business-Type Activities
OPERATING REVENUES		
Licenses and Other Fees	\$ 77,293	\$ 80,796
Background Check Fees	19,770	20,640
Other Revenue	10,806	21,116
Total Operating Revenues	\$ 107,869	\$ 122,552
OPERATING EXPENSES		
Salaries	\$ 51,340	\$ 89,031
Payroll Taxes	4,033	7,248
Advertising	1,891	-
Background Search Fees	19,913	21,040
Insurance	1,056	937
Legal Fees	113,865	67,193
Miscellaneous	2,709	3,333
Office Equipment	1,804	210
Office Rent	3,300	1,920
Other Professional Fees	7,090	5,527
Postage	1,054	1,443
Printing	276	216
Supplies	3,551	2,701
Telephone	1,475	1,898
Travel and Entertainment	1,675	2,058
Total Operating Expenses	\$ 215,032	\$ 204,755
Operating Loss	\$ (107,163)	\$ (82,203)
NONOPERATING REVENUE (EXPENSE)		
Interest Income	\$ 311	\$ 254
Change in Net Position	\$ (106,852)	\$ (81,949)
Beginning Net Position (as Restated for Year Ended December 31, 2016)	111,563	193,512
Ending Net Position	\$ 4,711	\$ 111,563

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

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018 Business-Type Activities	2017 Business-Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Licensees and Background Check Fees	\$ 100,655	\$ 103,735
Cash Received from Other Income	10,806	21,116
Cash Payments to Employees for Services	(55,588)	(96,352)
Cash Payments for Goods and Services	<u>(127,353)</u>	<u>(104,731)</u>
Net Cash Used by Operating Activities	\$ (71,480)	\$ (76,232)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	\$ -	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ -	\$ -
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments in Certificates of Deposit	\$ (274)	\$ (254)
Proceeds from Matured Certificates of Deposit	40,792	-
Interest Income	<u>311</u>	<u>254</u>
Net Cash Provided by Investing Activities	\$ 40,829	\$ -
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (30,651)	\$ (76,232)
BEGINNING CASH AND CASH EQUIVALENTS	37,062	113,294
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 6,411</u>	<u>37,062</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	\$ (107,163)	\$ (82,203)
Adjustments to reconcile operating loss to net cash used by operating activities		
(Increase) Decrease in Accounts Receivable	(60)	20
(Increase) Decrease in Prepaid Insurance	4	(123)
Increase (Decrease) in Accounts Payable	32,302	3,868
Increase (Decrease) in Payroll Taxes Payable	(759)	(798)
Increase (Decrease) in Due to Others	3,235	1,395
Increase (Decrease) in Accrued Payroll	544	725
Increase (Decrease) in Unearned License Revenues	<u>417</u>	<u>884</u>
	<u>\$ (71,480)</u>	<u>\$ (76,232)</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 PRIVATE INVESTIGATION AND SECURITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The North Dakota Private Investigation and Security Board (the Board), a state-wide administrative agency located in Bismarck, North Dakota, was formed by Statute in 1994 consisting of at least five, but not more than eleven, members appointed by the Governor of North Dakota. The function and purpose of the Board is to protect the citizens of North Dakota from illegal practice of private investigation or private security matters through the establishment by rule the qualifications and procedures for classifying, qualifying, licensing, bonding, and regulating persons providing private investigative and security services, including armed security personnel in North Dakota, and to carry out the provisions of Chapter 43-30 of the North Dakota Century Code. The more significant of the Board's accounting policies are described below.

Reporting Entity

The Board shall set and collect fees for applications, initial licenses, renewals of license, late renewals, and limited permits. These fees are established and limited by Section 16 of Chapter 43-30 of the North Dakota Century Code.

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 organization or there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Fund Financial Statements

The Board uses a fund to report financial position and operational results. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Board reported in the accompanying statements are classified into one fund category, the proprietary fund. The proprietary fund includes the Enterprise Fund, which is used to account for the operations of the Board.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Proprietary funds distinguish operating revenues and expenses for nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board are fees charged for investigation and security licenses for agencies and individuals. The Board also recognizes as operating revenues penalties and fees for services provided by third parties.

NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

Operating expenses for the enterprise fund include payroll and benefits, legal fees, fees for services provided by third parties, and other administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. This measurement focus includes all assets and liabilities associated with the operations of these funds on the balance sheet.

Proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. 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 in Certificates of Deposit

Investment in certificates of deposit consists of certificates of deposit with original maturities ranging from twelve to twenty-four months. Certificates of deposit are stated at amortized cost which approximates fair value.

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. The Board maintains the following capitalization thresholds:

Furniture and Equipment	\$ 5,000
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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital Assets - continued

All reported capital assets are depreciated except for construction in progress. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and Equipment	5 years
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Deferred Outflows/Inflows of Resources

In addition to assets, the statements 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 periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

In addition to liabilities, the statements 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 periods and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one type of item that qualifies for reporting in this category. The unearned license revenues are the result of the collection of license fees in the current period for the license period applicable to the next fiscal year.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. 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.

The Board applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available, and committed and assigned fund balances first when both these and unassigned fund balances are available.

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 two 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.

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

2. CUSTODIAL CREDIT RISK RELATED TO DEPOSITS - continued

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 December 31, 2018 and 2017, none of the Board's bank and investment balances of \$89,459 and \$158,802, respectively, 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. PRIOR PERIOD ADJUSTMENT TO NET POSITION

The Board discovered that the value of unearned license revenue was not recognized in the financial statements. The amount of unrecorded unearned license revenue is \$26,441 at December 31, 2016. Retroactive inclusion of unearned license revenue would have resulted in a decrease in license fee revenue of \$1,233 for the year ended December 31, 2016.

Board's Net Position per Audited Financial Statements at December 31, 2016	\$ 219,953
Adjustment to Recognize Unearned License Revenue	<u>(26,441)</u>
Board's Net Position at December 31, 2016, as Restated	<u>\$ 193,512</u>

4. OFFICE LEASE

On December 26, 1997, the Board entered into lease for its office space maturing June 30, 1998; and continuing indefinitely on a month-to-month basis. On January 1, 2018, the Board increased the space rented. The monthly lease payment is \$275 and \$160, respectively, for the years ended December 31, 2018 and 2017. Rent expense for the years ended December 31, 2018 and 2017 is \$3,300 and \$1,920, respectively.

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. There is no provision for termination payments of accrued sick leave. As per GASB Statement No. 16, no accrual of accumulated sick leave benefits has been provided.

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

6. 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.

7. 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 State Bonding Fund currently provides the Board with blanket fidelity coverage for its employees in the amount of \$86,000, which was increased from \$70,000 on January 1, 2018. The State Bonding Fund does not currently charge a premium for this coverage.

The Board has contracted with the State of North Dakota's Risk Management Fund to limit the Board's exposure for its general liability. Coverage is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

During the years ended December 31, 2018 and 2017, there was no reduction in general liability insurance coverage from the prior year. At no time during the years ended December 31, 2018 and 2017 did settlements exceed insurance coverage.

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 Private Investigation and Security 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 business-type activities of **North Dakota Private Investigation and Security Board** as of and for the year ended **December 31, 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 September 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **North Dakota Private Investigation and Security 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 **North Dakota Private Investigation and Security Board's** internal control. Accordingly, we do not express an opinion on the effectiveness of **North Dakota Private Investigation and Security Board's** internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. We consider the deficiencies described as 2018-002 and 2018-003 in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

Compliance and Other Matters

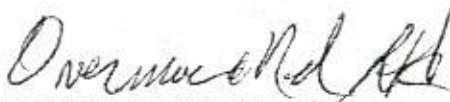
As part of obtaining reasonable assurance about whether **North Dakota Private Investigation and Security Board's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 Private Investigation and Security Board's Response to Findings

North Dakota Private Investigation and Security Board's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board'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 that 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 Board'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

September 30, 2019

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

2018-001 Segregation of Duties (A Significant Deficiency)

Criteria

An appropriate system of internal controls maintains proper segregation of duties to provide reasonable assurance that transactions are handled appropriately.

Condition

The **North Dakota Private Investigation and Security Board** had one full-time employee responsible for most accounting functions. The employee collects monies, issues checks, signs checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger and prepares financial reports.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

The employee performed duties that included executing and recording transactions.

Cause

There was one primary employee for multiple functions such as executing and recording

Recommendation

The duties should be separated as much as possible, and alternative controls should be used to compensate for the lack of segregation of duties.

Views of Responsible Officials and Planned Corrective Actions

Due to the size of the staff, it is not feasible to obtain proper segregation of duties. The cost of adding personnel in order to obtain a proper segregation of duties exceeds the benefit. The Board Treasurer has assumed responsibilities for the review of the monthly bank statements, cancelled checks, and bank account reconciliations. The Board believes these duties provide compensation against the lack of segregation of duties.

2018-002 Design of Internal Controls (A Material Weakness)

Criteria

An adequate internal control document provides policies and procedures to be used in the preparation of financial statements, significant accounts and processes, and safeguarding of assets of the Board, and provides for a process to report deficiencies in internal control to management.

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

2018-002 Design of Internal Controls (A Material Weakness) - continued

Condition

The **North Dakota Private Investigation and Security Board** has no formal written internal control document.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

The employee has no written guidelines for performing assigned tasks.

Cause

The Board does not believe an internal control document is needed.

Recommendation

The Board should develop a written internal control document appropriate for a limited accounting staff.

Views of Responsible Officials and Planned Corrective Actions

The Board does not believe an internal control document is needed.

2018-003 Monitoring (A Material Weakness)

Criteria

An adequate monitoring of internal controls gives assurance that the controls are functioning as designed.

Condition

The **North Dakota Private Investigation and Security Board** has no formal written internal control document nor a document to monitor whether such internal controls are functioning as designed.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

The Board has no document to follow when testing internal controls.

Cause

The Board does not believe an internal control document is needed.

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

2018-003 Monitoring (A Material Weakness) - continued

Recommendation

The Board should develop a written internal control monitoring document appropriate for its internal control document. The Board should also designate a director to review, at least annually, a selection of transactions and procedures to determine if internal controls are being followed and such controls are appropriate in each circumstance.

Views of Responsible Officials and Planned Corrective Action

The Board does not believe an internal control document is needed. The Board is regularly monitoring the bank statement, cancelled checks and the bank reconciliation.

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 Private Investigation and Security 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 business-type activities of **North Dakota Private Investigation and Security Board** as of and for the year ended **December 31, 2017**, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our reports thereon dated September 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **North Dakota Private Investigation and Security 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 **North Dakota Private Investigation and Security Board's** internal control. Accordingly, we do not express an opinion on the effectiveness of **North Dakota Private Investigation and Security Board's** internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. We consider the deficiencies described as 2017-002 and 2017-003 in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a control deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in 2017-001 in the accompanying schedule of findings and questioned costs to be significant deficiency.

Compliance and Other Matters

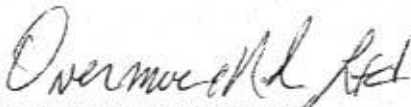
As part of obtaining reasonable assurance about whether the **North Dakota Private Investigation and Security Board's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 Private Investigation and Security Board's Response to Findings

North Dakota Private Investigation and Security Board's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board'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 that 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 Board'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

September 30, 2019

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

2017-001 Segregation of Duties (A Significant Deficiency)

Criteria

An appropriate system of internal controls maintains proper segregation of duties to provide reasonable assurance that transactions are handled appropriately.

Condition

The **North Dakota Private Investigation and Security Board** had one full-time employee responsible for most accounting functions. The employee collects monies, issues checks, signs checks, sends checks to vendors, records receipts and disbursements in journals, maintains the general ledger and prepares financial reports.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

The employee performed duties that included executing and recording transactions.

Cause

There was one primary employee 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 the lack of segregation of duties.

Views of Responsible Officials and Planned Corrective Actions

Due to the size of the staff, it is not feasible to obtain proper segregation of duties. The cost of adding personnel in order to obtain a proper segregation of duties exceeds the benefit. The Board Treasurer has assumed responsibilities for the review of the monthly bank statements, cancelled checks, and bank account reconciliations. The Board believes these duties provide compensation against the lack of segregation of duties.

2017-002 Design of Internal Controls (A Material Weakness)

Criteria

An adequate internal control document provides policies and procedures to be used in the preparation of financial statements, significant accounts and processes, and safeguarding of assets of the Board, and provides for a process to report deficiencies in internal control to management.

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

2017-002 Design of Internal Controls (A Material Weakness) - continued

Condition

The **North Dakota Private Investigation and Security Board** has no formal written internal control document.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

The employee has no written guidelines for performing assigned tasks.

Cause

The Board does not believe an internal control document is needed.

Recommendation

The Board should develop a written internal control document appropriate for a limited accounting staff.

Views of Responsible Officials and Planned Corrective Actions

The Board does not believe an internal control document is needed.

2017-003 Monitoring (A Material Weakness)

Criteria

An adequate monitoring of internal controls gives assurance that the controls are functioning as designed.

Condition

The **North Dakota Private Investigation and Security Board** has no formal written internal control document nor a document to monitor whether such internal controls are functioning as designed.

Questioned Costs

None

Context

This condition existed for the entire year.

Effect

The Board has no document to follow when testing internal controls.

Cause

The Board does not believe an internal control document is needed.

**NORTH DAKOTA PRIVATE INVESTIGATION AND SECURITY BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

2017-003 Monitoring (A Material Weakness) - continued

Recommendation

The Board should develop a written internal control monitoring document appropriate for its internal control document. The Board should also designate a director to review, at least annually, a selection of transactions and procedures to determine if internal controls are being followed and such controls are appropriate in each circumstance.

Views of Responsible Officials and Planned Corrective Action

The Board does not believe an internal control document is needed. The Board is regularly monitoring the bank statement, cancelled checks and the bank reconciliation.