

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
GRAND FORKS, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the North Dakota State Board of Accountancy as of and for the year ended June 30, 2019, 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the North Dakota State Board of Accountancy as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Prior Year Financial Statements

The financial statements of North Dakota State Board of Accountancy for the year ended June 30, 2018 were audited by other auditors whose report dated November 25, 2019 expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2020 on our consideration of the North Dakota State Board of Accountancy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota State Board of Accountancy's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

January 28, 2020

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

This discussion accompanies the audited financial statements of the North Dakota State Board of Accountancy (Board), and overviews the Board and its financial activity for the year ended June 30, 2019.

The Board is a regulatory agency of the State of North Dakota. Its activities consist of initial licensing of accountants, annual license renewal, monitoring accountant continuing education, and responding to consumer concerns. The Board has a staff of 2. The board terminated staffing services agreement with the North Dakota CPA Society (NDCPAS) as of September 30, 2018. The Board owns no real estate, its office equipment and furnishings are carried in the financial statements at a value of \$5,297 after depreciation. The majority of the remainder of the Board's assets are in the form of cash or CDs.

The national and state economic climates have little direct impact on the Board's financial operations. The Board does not seek grants, loans, or other financial consideration from any organization, although Board and staff members may receive expense reimbursement from the National Association of State Boards of Accountancy (NASBA), when participating in NASBA committee work. The Board's revenue consists of licensing and application fees, late fees, and interest income. No funding is received from the State; no Board funds transfer to the State, other than for benefits, Insurance Reserve Fund contributions, and tax-type obligations.

FINANCIAL HIGHLIGHTS

The Board's net asset position at June 30, 2019 was \$232,581, down \$35,744 from the \$268,325 position at June 30, 2018. During the fiscal year ended June 30, 2019, the Board's normal operations resulted in a decrease in net assets of \$35,744. This decrease is a result of the changes in resources allocated to the Board's pension plan. Deferred outflows of resources related to the deferred pension resources decreased by \$60,560, deferred inflows of resources related to the deferred pension resources increased by \$12,617 and the net pension liability increased by \$24,037. The net impact to the Board's net position was a reduction of \$97,214. The Board's primary function is to license public accountants in the State of North Dakota and to administer the licensing exams for public accountants. During fiscal year end June 30, 2019, the Board received license renewal fees of \$256,082 as compared to \$255,000 in the budget, the Board received \$48,280 for fees from administering the exam compared to \$35,000 in the budget. For the fiscal year ended June 30, 2019, the Board shared staff with the North Dakota CPA Society through September 30, 2018. The revenue from those shared services of \$84,343 was higher than the budgeted amount of \$58,000. Staffing services revenue is based on actual expenses through September 30, 2018. Expenses were higher than expected at the beginning of the fiscal year, so the reimbursement received from the North Dakota CPA Society was also larger than what was budgeted.

The Board's primary expenses are for the salaries and benefits – of the \$453,182 in expenditures for fiscal year ended June 30, 2019, \$361,202 are compensation-related. The budgeted amount of compensation-related expenses was \$243,520. The primary difference between actual compensation-related expenditures and budgeted compensation-related expenditures was due to the net pension cost being \$97,214 more than anticipated as discussed above. Other operating expenditures during the current fiscal year totaled \$91,980 as compared to the budgeted amount of \$88,000. There were only minimal variances in the other operating expenditures.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Had the pension cost for the fiscal year ended June 30, 2019 not exceeded the prior normal trends, the change in net position would have reflected an increase of about \$61,500. Since the change to net pension cost, which was over the budgeted amount by \$97,214, is a non-cash charge, the Board's normal cash operations have remained solid. The Board is monitoring the pension costs, and should the pension cost for the fiscal year ended June 30, 2019 turn out to be a normal charge, then the Board will make adjustments to its fee structure.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information.

The Statement of Net Position shows all of the Board's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in the Board's net position are an indicator of whether its financial position is improving or deteriorating, respectively. At June 30, 2019, the Board had current liabilities of \$197,314, consisting primarily of deferred licensing revenue. The Board's financial assets are mainly held in cash and CDs.

The Statement of Revenues shows how the Board's assets changed as a result of current year operations. Annual license fees were comparable to the prior year at \$772 higher during the fiscal year ended June 30, 2019 than in the prior year. Annual CPA examination fees were \$11,770 lower during the fiscal year ended June 30, 2019 than in the prior year. This decrease was expected and mirrored a nationwide decrease in the number of candidates sitting for the exam. Regardless of when cash is affected, changes in net assets are reported based on when underlying transactions occurred.

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

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

The Board has no component units.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS

The Board's assets consist primarily of cash and CDs. Equipment consists of computers and office furnishings. The Board had no accounts receivables at year end. Current liabilities were mostly prepaid license fees. Changes in financial position result from general operations, the pension plan, and depreciation.

Net Position for the period ended June 30

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets	\$ 658,879	\$ 629,348
Non-Current Assets	<u>5,797</u>	<u>2,703</u>
Total Assets	664,676	632,051
Deferred Outflows of Resources	276,017	337,732
Liabilities		
Current Liabilities	197,314	226,881
Long-Term Liabilities	<u>485,096</u>	<u>461,162</u>
Total Liabilities	682,410	688,043
Deferred Inflows of Resources	25,702	13,415
Net Position		
Net Investment in Capital Assets	5,297	2,203
Unrestricted	<u>227,284</u>	<u>266,122</u>
Total Net Position	<u>\$ 232,581</u>	<u>\$ 268,325</u>

Statement of Activities for the years ended June 30

	<u>2019</u>	<u>2018</u>
Operating Revenues	\$ 404,191	\$ 538,715
Operating Expenses	<u>453,182</u>	<u>572,680</u>
Operating Income (Loss)	(48,991)	(33,965)
Nonoperating Revenue	<u>13,247</u>	<u>5,603</u>
Change in Net Position	(35,744)	(28,362)
Beginning Net Position	<u>268,325</u>	<u>296,687</u>
Ending Net Position	<u>\$ 232,581</u>	<u>\$ 268,325</u>

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

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

	<u>Business-Type</u> <u>Activities</u>
Current Assets	
Cash and Cash Equivalents	\$ 206,395
Investments	452,035
Prepaid Expenses	449
Total current Assets	<u>658,879</u>
Capital Assets, at cost	
Furniture and Equipment	12,515
Less: Accumulated Depreciation	<u>(7,218)</u>
Net Capital Assets	5,297
Other Assets	
Security Deposit	<u>500</u>
Total Assets	664,676
Deferred Outflows of Resources	
Pension Related Deferred Outflows of Resources	271,965
OPEB Related Deferred Outflows of Resources	<u>4,052</u>
Total Deferred Outflows of Resources	276,017
Current Liabilities	
Accounts Payable	2,688
Payroll Taxes Payable	1,066
Accrued Expenses	7,800
Deferred Revenue	<u>185,760</u>
Total Current Liabilities	197,314
Long-term Liabilities	
Net pension liability	464,734
Net OPEB liability	<u>20,362</u>
Total Long-term Liabilities	485,096
Total Liabilities	682,410
Deferred Inflows of Resources	
Pension Related Deferred Inflows of Resources	24,705
OPEB Related Deferred Inflows of Resources	<u>997</u>
Total Deferred Inflows of Resources	25,702
Net Position	
Net Investment in Capital Assets	5,297
Unrestricted	<u>227,284</u>
Total Net Position	<u>\$ 232,581</u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Business-Type</u> <u>Activities</u>
Operating Revenues	
Annual License Fees	\$ 256,082
CPA Examination Fees	48,280
Reciprocal Certificate Fees	4,960
Firm Permit Fees	3,421
Late Filing Fees	2,550
Staff Services	84,343
Miscellaneous Income	<u>4,555</u>
Total Operating Revenues	404,191
Operating Expenses	
Salaries and Wages	183,794
Payroll Taxes	16,562
Employee Benefits	160,846
Bank Service Charges	6,087
NASBA Dues	4,240
Insurance and Bond	1,430
Miscellaneous	3,347
Office Supplies	11,518
Audit	3,750
Board	30,406
Rent	6,015
Repairs and Maintenance	3,062
Telephone	2,957
Travel	10,789
Attorney Fees	5,619
Consultants	1,432
Depreciation	<u>1,328</u>
Total Operating Expenses	453,182
Operating Income (Loss)	(48,991)
Nonoperating Revenue	
Gain on Sale of Equipment	3,150
Interest Income	<u>10,097</u>
Total Nonoperating Revenue	13,247
Changes in Net Position	(35,744)
Beginning Net Position	<u>268,325</u>
Ending Net Position	<u>\$ 232,581</u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Business-Type Activities</u>
Cash Flows from Operating Activities	
Cash Received from Licenses	\$ 304,732
Cash Received from Staffing Services	84,343
Cash Received from Other Income	4,555
Cash Payments to Employees for Services	(259,952)
Cash Payments for Goods and Services	(113,421)
Net Cash Provided by Operating Activities	<u>20,257</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from Sale of Furniture and Equipment	3,150
Purchase of Furniture and Equipment	(4,422)
Net Cash Used by Capital and Related Financing Activities	<u>(1,272)</u>
Cash Flows from Investing Activities	
Sale/Redemption of Investments	388,000
Purchase of Investments	(398,097)
Interest Income	10,097
Net Cash Used by Investing Activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	18,985
Beginning Cash and Cash Equivalents	187,410
Ending Cash and Cash Equivalents	<u><u>\$ 206,395</u></u>
Reconciliation of Operating (Income) Loss to Net Cash Flows from Operating Activities	
Operating Loss	\$ (48,991)
Adjustments to Reconcile Operating Loss to Net Cash Provided by operating Activities	
Depreciation	1,328
(Increase) Decrease in Prepaid Expenses	(449)
(Increase) Decrease in Deferred Outflows of Resources	61,715
Increase (Decrease) in Accounts Payable	(5,758)
Increase (Decrease) in Payroll Taxes Payable	371
Increase (Decrease) in Accrued Expenses	(13,619)
Increase (Decrease) in Deferred Revenue	(10,561)
Increase (Decrease) in Deferred Inflows of Resources	12,287
Increase (Decrease) in Net Pension Liability	24,037
Increase (Decrease) in Net OPEB Liability	(103)
Net Cash Provided by Operating Activities	<u><u>\$ 20,257</u></u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

Basis of Presentation

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

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

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

Fund Financial Statements

The Board's fund consists of the following:

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

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

Use of Estimates

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

Encumbrance Accounting

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

Cash and Cash Equivalents

The Board considers cash and cash equivalents to include demand deposits, certificates of deposit, and all highly liquid investments with an original maturity of three months or less.

Investments

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

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

Capital Assets

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

Capital assets are depreciated using the straight-line method over their estimated useful life of five years.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will *not* be recognized as an outflow of resources (expense) until then. The Board has two items reported on the statement of net position as deferred outflows of resources, which represents actuarial differences within the NDPERS pension and OPEB plans as well as amounts paid to the plans after the measurement date. See notes 4 and 5 for more details.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Board has two items reported on the statement of net position as deferred inflows of resources, which represents the actuarial differences within the NDPERS pension and OPEB plans. See notes 4 and 5 for more details.

Deferred Revenues

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

Net Position

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

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

Pensions

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

Other Post-Employment Benefits (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.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

NOTE 2 CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

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

North Dakota laws restrict allowable investments for public funds in order to safeguard the principle on investments. North Dakota law authorizes political subdivisions to invest surplus funds in:

1. Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured to guarantee by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
2. 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.
3. Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.
4. Obligation of the state.

The North Dakota State Board of Accountancy maintains deposits at various financial institutions. At June 30, 2019, the carrying amount of the Board's deposits was \$658,430 and the bank balance was \$635,469. The bank balances held with the Bank of North Dakota were backed by the full faith and credit of the State of North Dakota. The bank balances held with financial institutions other than the Bank of North Dakota were covered by Federal Depository Insurance.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Balance 6/30/2018	Additions	Disposals	Balance 6/30/2019
Capital Assets Being Depreciated				
Equipment	\$ 8,093	\$ 4,422	\$ -	\$ 12,515
Total Capital Assets Being Depreciated	8,093	4,422	-	12,515
Less Accumulated Depreciation				
Equipment	(5,890)	(1,328)	-	(7,218)
Total Accumulated Depreciation	(5,890)	(1,328)	-	(7,218)
Net Capital Assets for Business-Type Activities	<u>\$ 2,203</u>	<u>\$ 3,094</u>	<u>\$ -</u>	<u>\$ 5,297</u>

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

NOTE 4 PENSION PLAN – DEFINED BENEFIT

North Dakota Public Employees Retirement System (NDPERS)

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

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 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.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

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

Refunds of Member Account Balance

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

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, 2019, the Employer reported a liability of \$464,734 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018, the Employer's proportion was 0.027538%, which was an increase of 0.000120% from its proportion measured at June 30, 2017.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

For the year ended June 30, 2019, the Employer recognized pension expense of \$109,472. At June 30, 2019, the Employer 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	\$ 1,230	\$ 15,811
Changes of assumptions	167,759	6,633
Net difference between projected and actual earnings on pension plan investments	-	2,261
Changes in proportion and differences between employer contributions and proportionate share of contributions	90,720	-
Employer contributions subsequent to the measurement date	<u>12,256</u>	<u>-</u>
Total	<u>\$ 271,965</u>	<u>\$ 24,705</u>

The \$12,256 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

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

Year ending June 30:

2020	\$ 80,637
2021	74,368
2022	59,213
2023	19,542
2024	1,244

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%		
Salary Increases	Service at Beginning of Year	State Employee	Non-State Employee
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
	Age		
	Under 30	7.25%	10.00%
	30-39	6.50%	7.50%
	40-49	6.25%	6.75%
	50-59	5.75%	6.50%
	60+	5.00%	5.25%
	*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%.

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

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.00%	6.05%
International Equity	21.00%	6.71%
Private Equity	7.00%	10.20%
Domestic Fixed Income	23.00%	1.45%
Global Real Assets	19.00%	5.11%

Discount rate

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.32%, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32%) or 1-percentage-point higher (7.32%) than the current rate:

	<u>1% Decrease (5.32%)</u>	<u>Current Rate (6.32%)</u>	<u>1% Increase (7.32%)</u>
Employer's proportionate share of the net pension liability	\$ 631,487	\$ 464,734	\$ 325,584

Pension plan fiduciary net position

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

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

NOTE 5 OTHER POST-EMPLOYMENT BENEFITS

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.

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.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

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

At June 30, 2019, the Board reported a liability of \$20,362 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered employee payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Employer's proportion was 0.025854%.

For the year ended June 30, 2019, the Board recognized OPEB expense of \$2,493. At June 30, 2019, 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	\$ 610	\$ 421
Changes in assumptions	1,671	-
Net difference between projected and actual earnings on pension plan investments	-	438
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	138
Employer contributions subsequent to the measurement date	1,771	-
Total	<u>\$ 4,052</u>	<u>\$ 997</u>

The \$1,771 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

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

Year ending June 30,	Pension Expense Amount
2020	\$ 148
2021	148
2022	148
2023	341
2024	306
2025	166
Thereafter	27

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	37.00%	5.80%
Small Cap Domestic Equities	9.00%	7.05%
International Equities	14.00%	6.20%
Core-plus Fixed Income	40.00%	1.46%

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

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

the July 1, 2018 and July 1, 2017, 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, 2019, 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 in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Employer's proportionate share of the net pension liability	\$ 25,763	\$ 20,362	\$ 15,732

NOTE 6 COMPENSATED ABSENCES

The Board has 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. As of June 30, 2019, the Board's total liability for accrued vacation leave is \$7,337.

The provision for termination payments of accrued sick leave is calculated at 10% of unused, accrued, unpaid sick leave for employees with at least ten continuous years of employment. As of June 30, 2019, the Board's total liability for accrued sick leave is \$436.

NOTE 7 OFFICE LEASE

The Board entered into a 12-month lease beginning June 1, 2018 and maturing May 31, 2019, with the option to extend the lease for an additional 4 one year terms. The monthly lease payment under the lease is \$500, increasing by \$15 for each one-year extension. Rent paid to GFK Rental LLC by the Board during the year ended June 30, 2019 was \$6,015.

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

Year ending June 30,	
2020	\$ 6,195
2021	6,375
2022	6,555
2023	6,160
Total	<u>\$ 25,285</u>

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

NOTE 8 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.

NOTE 9 RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Management believes the current coverage is adequate. The errors and omissions insurance are provided through the State of North Dakota Risk Management Fund. The Board has contracted with third party insurance carriers for specific and aggregate stop loss coverage to limit the Board's exposure to losses as follows:

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

During the year ended June 30, 2019, there was no reduction in general liability insurance coverage from the prior year. At no time during the year ended June 30, 2019 did settlements exceed insurance coverage.

NOTE 10 RELATED PARTY TRANSACTIONS

The Board is affiliated with the North Dakota Society of Certified Public Accountants (NDCPAS) through common management control. The Board entered into a staffing service agreement with NDCPAS. The terms of the agreement required that NDCPAS pay 50% of the staffing services including salaries, benefits and payroll taxes to the Board. The Board received \$84,343 from NDCPAS during the year ended June 30, 2019. This shared services agreement ended on September 30, 2018.

NOTE 11 NEW PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

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

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF JUNE 30, 2019

NOTE 12 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Board's year end. Subsequent events have been evaluated through January 28, 2020, which is the date the financial statements were available to be issued.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
ND PUBLIC EMPLOYEE RETIREMENT SYSTEM
LAST 10 YEARS (PROSPECTIVELY)

For the Year Ended June 30	Board's Proportion of the Net Pension Liability (Asset)	Board's Proportionate Share of the Net Pension Liability (Asset)	Board's Covered Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.000000%	\$ -	\$ -	0.00%	0.00%
2015	0.003271%	22,242	29,138	76.33%	77.70%
2016	0.027103%	264,145	273,130	96.71%	77.10%
2017	0.027418%	440,697	279,896	157.45%	61.98%
2018	0.027538%	464,734	282,904	164.27%	62.80%

The Board implemented GASB Statement No. 68 for its fiscal year ended June 30, 2016. Information for prior years is not available.

The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30 of the previous fiscal year.

See Note to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
 SCHEDULE OF EMPLOYER'S PENSION CONTRIBUTIONS
 ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
 LAST 10 YEARS (PROSPECTIVELY)

For the Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Board's Covered Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2015	\$ 2,213	\$ 2,075	138	29,138	7.12%
2016	19,774	19,447	327	273,130	7.12%
2017	20,296	19,934	362	279,896	7.12%
2018	20,837	20,143	694	282,904	7.12%
2019	12,256	12,256	-	155,362	7.89%

The Board implemented GASB Statement No. 68 for its fiscal year ended June 30, 2016. Information for prior years is not available.

The amounts presented for each year were determined as of the Board's year-end, which is June 30.

See Note to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 10 YEARS (PROSPECTIVELY)

For the Fiscal Year Ended <u>June 30</u>	Board's Proportion of the Net OPEB Liability (Asset)	Board's Proportionate Share of the Net OPEB Liability (Asset)		Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2017	0.025872%	\$	20,465	7.31%	59.78%
2018	0.025854%		20,362	7.20%	61.89%
				<u>Employee Payroll</u>	
				279,896	
				282,904	

The Board implemented GASB Statement No. 75 for its year ended June 30, 2018. Information for the prior years is not available.

The amounts presented for each fiscal year were determined as of the measurement date of the Board's other post-employment benefit liability which is June 30 of the previous fiscal year.

See Note to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEUDLE OF EMPLOYER'S OPEB CONTRIBUTIONS
ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 10 YEARS (PROSPECTIVELY)

For the Fiscal Year Ended June 30	Statutorily Required Contribution	Relation to the Statutorily Required		Contribution Deficiency (Excess)	Board's Covered Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
		Contributions				
2018	\$ 3,318	\$ 3,225	\$ 93	\$ 282,904	1.14%	
2019	1,771	1,771	-	155,362	1.14%	

The Board implemented GASB Statement No. 75 for its year ended June 30, 2018. Information for the prior years is not available.

The amounts presented for each year were determined as of the Board's year-end, which is June 30.

See Note to the Required Supplementary Information

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2019

NOTE 1 CHANGE IN ASSUMPTIONS – PENSION OR OPEB

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the North Dakota State Board of Accountancy, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated January 28, 2020.

Internal Control Over Financial Reporting

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

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

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 control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota State Board of Accountancy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Dakota State Board of Accountancy's Response to Findings

The North Dakota State Board of Accountancy's responses to the findings in our audit are described in the accompanying schedule of findings and responses. The North Dakota State Board of Accountancy's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

January 28, 2020

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

Finding 2019-001 Financial Statements

Criteria

An appropriate system of internal controls requires that the Board make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with accounting principles generally accepted in the United States of America.

Condition

The Board failed to implement GASB 75 in the prior year's audit report.

Cause

Board oversight

Effect

The prior year's audit report was reissued.

Recommendation

The board should establish an internal control policy to document the annual review of the financial statements and schedules including a review of a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

The Board will establish an internal control policy to document the annual review of the financial statements, disclosures, and schedules. The Board is responsible for carrying out the corrective action plan and will monitor its completion.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Finding 2019-002 Segregation of Duties

Criteria

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

Condition

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

Cause

The North Dakota State Board of Accountancy has two employees responsible for all accounting and administrative functions involved.

Effect

The lack of segregation of duties could adversely affect the Board's ability to initiate, authorize, record, process, and report financial data reliably or prevent or detect noncompliance on a timely basis.

Recommendation

The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of segregation. Alternative procedures should be developed to separate duties during periods of time when the absence of members of management and staff do not allow segregated procedures to be followed as documented. The controls should also be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

Views of Responsible Officials and Planned Corrective Actions

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

Due to the size of the entity it is not feasible to obtain proper segregation of duties at all times. The cost of adding personnel in order to obtain a proper separation of duties exceeds the benefit. This risk is mitigated in part due to the oversight provided by the Board.