

**NORTH DAKOTA STATE BOARD
OF ACCOUNTANCY**

**FINANCIAL STATEMENTS
JUNE 30, 2020**

WITH INDEPENDENT AUDITOR'S REPORT

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

TABLE OF CONTENTS FOR THE YEAR ENDED JUNE 30, 2020

	<u>Page(s)</u>
Board Officials	1
Independent Auditor's Report	2 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-6
BASIC FINANCIAL STATEMENTS	
Statement of Net Position - Proprietary Fund	7
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	8
Statement of Cash Flows - Proprietary Fund	9
Notes to Financial Statements	10-22
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Employer's Share of Net Pension Liability	23
Schedule of Employer's Pension Contributions	24
Schedule of Employer's Share of Net OPEB Liability	25
Schedule of Employer's OPEB Contributions	26
Notes to Required Supplementary Information	27
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	28-29
Schedule of Findings and Responses	30-31

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

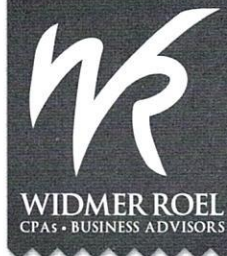
BOARD OFFICIALS FOR THE YEAR ENDED JUNE 30, 2020

Current

Mike Schmitz	Board President
Patrick Kautzman	Board Secretary
Laura Adair	Board Member
Sheri Erickson	Board Member
David Holt	Board Member
Mandy Harlow	Executive Director
Pene DeMaster	Licensing Manager

June 30, 2020

Mike Schmitz	Board President
Faye Miller	Board Secretary
Laura Adair	Board Member
Patrick Kautzman	Board Member
Sheri Erickson	Board Member
Mandy Harlow	Executive Director
Pene DeMaster	Licensing Manager



4334 18th Avenue S.
Ste 101
Fargo, ND 58103-7414

Phone: 701.237.6022
Toll Free: 888.237.6022
Fax: 701.280.1495

INDEPENDENT AUDITOR'S REPORT

Board and Administration
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, 2020, and the related notes to the financial statements, which collectively comprise the **North Dakota State Board of Accountancy's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

North Dakota State Board of Accountancy's 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 opinion.

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, 2020, 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 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.

Other Information

The Board officials listing has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Financial Statements

The financial statements of **North Dakota State Board of Accountancy** for the year ended June 30, 2019 were audited by other auditors whose report dated January 28, 2020 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 March 18, 2021, on our consideration of the **North Dakota State Board of Accountancy's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **North Dakota State Board of Accountancy'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 **North Dakota State Board of Accountancy's** internal control over financial reporting and compliance.



Fargo, North Dakota
March 18, 2021

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

This discussion accompanies the audited financial statements of the **North Dakota State Board of Accountancy** (the Board), and overviews the Board and its financial activity for the year ended June 30, 2020.

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 two. The Board owns no real estate, its office equipment and furnishings are carried in the financial statements at a value of \$4,518 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, unused exam 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 position at June 30, 2020 was \$281,793, up \$49,212 from the \$232,581 position on June 30, 2019. During the fiscal year ended June 30, 2020, the Board's normal operations resulted in an increase in net position of \$49,212. This increase is a result of the fees and operating revenues exceeding operating expenses. 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, 2020, the Board received license renewal fees of \$250,925 as compared to \$250,000 in the budget. The Board received CPA exam fees of \$22,260 as compared to the budget of \$35,000. The budget variance is due to the reclassification of the unused exam fees revenue received from NASBA. The Board decided to separate the CPA exam fees from the unused exam fees received to better track the revenue.

The Board's primary expenses are for salaries and benefits – of the \$261,499 in expenditures for fiscal year ended June 30, 2020, \$163,937 are related to salaries and benefits. The budgeted amount of salaries and benefits expenses was \$156,000. The difference between these actual expenditures and budgeted expenditures approximates the employee portion of pension expense. Other operating expenditures during the current fiscal year totaled \$97,562 as compared to the budgeted amount of \$116,595.

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 is an indicator of whether its financial position is improving or deteriorating, respectively. At June 30, 2020, the Board had current liabilities of \$181,451, consisting primarily of deferred licensing revenue. The Board's financial assets are mainly held in cash and CDs.

(Continued)

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

The Statement of Revenues Expenses, and Changes in Net Position shows how the Board's assets changed as a result of current year operations. Annual license fees were comparable to the prior year with an approximate decrease of \$5,000. Annual CPA examination fees were \$26,020 lower during the fiscal year ended June 30, 2020 than in the prior year. This decrease was expected and mirrored a nationwide decrease in the number of candidates sitting for the exam due to COVID-19. 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

JUNE 30, 2020

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets	\$ 699,278	\$ 658,878
Non-current assets	4,518	5,796
Total assets	<u>703,796</u>	<u>664,674</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Pensions and OPEB	110,228	276,019
 LIABILITIES		
Current liabilities	181,451	197,313
Long-term liabilities	116,989	485,096
Total liabilities	<u>298,440</u>	<u>682,409</u>
 DEFERRED INFLOWS OF RESOURCES		
Pension and OPEB	233,791	25,704
 NET POSITION		
Net investment in capital assets	4,518	5,297
Unrestricted	<u>277,275</u>	<u>227,284</u>
Total net position	<u>\$ 281,793</u>	<u>\$ 232,581</u>

Statement of activities for the years ended June 30

	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 299,738	\$ 404,191
Operating expenses	261,499	453,182
Operating income (loss)	38,239	(48,991)
Nonoperating revenue	10,973	13,247
Change in net position	49,212	(35,744)
Beginning net position	<u>232,581</u>	<u>268,325</u>
Ending net position	<u>\$ 281,793</u>	<u>\$ 232,581</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 mandyharlow@nd.gov.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2020

	<u>Business - Type Activities</u>
CURRENT ASSETS	
Cash and equivalents	\$ 234,803
Investments	463,008
Prepaid expenses	<u>1,467</u>
Total current assets	699,278
CAPITAL ASSETS, NET ACCUMULATED DEPRECIATION	
Furniture and equipment	<u>4,518</u>
Total assets	703,796
DEFERRED OUTFLOWS OF RESOURCES	
Pensions and OPEB	<u>110,228</u>
Total assets and deferred outflows of resources	\$ <u><u>814,024</u></u>
CURRENT LIABILITIES	
Accounts payable	\$ 2,688
Accrued expenses	9,733
Deferred revenue	<u>169,030</u>
Total current liabilities	181,451
LONG-TERM LIABILITIES	
Net pension and OPEB liability	<u>116,989</u>
Total liabilities	298,440
DEFERRED INFLOWS OF RESOURCES	
Pension and OPEB	<u>233,791</u>
NET POSITION	
Net investment in capital assets	4,518
Unrestricted	<u>277,275</u>
Total net position	<u>281,793</u>
Total liabilities, deferred inflows of resources and net position	\$ <u><u>814,024</u></u>

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Business - Type Activities
OPERATING REVENUES	
Annual license fees	\$ 250,925
Reinstatement fees and fines	3,650
CPA examination fees	22,260
Unused exam fees	12,698
Reciprocal certificate fees	4,200
Firm permit fees	3,370
Late filing fees	2,350
Miscellaneous income	285
	<hr/>
Total operating revenues	299,738
OPERATING EXPENSES	
Salaries and wages	100,194
Payroll taxes	9,507
Employee benefits	54,236
Attorney fees	31,225
Audit	5,000
Bank service charges	5,613
Board	21,374
Consultants	45
CPA examination	206
Depreciation	1,457
Insurance and bond	1,732
Miscellaneous	2,789
NASBA dues	4,240
Office supplies	6,254
Reinstatements and fines	46
Rent	6,195
Repairs and maintenance	682
Telephone	2,650
Travel	6,446
Website	1,608
	<hr/>
Total operating expenses	261,499
	<hr/>
Operating income	38,239
NONOPERATING REVENUE	
Interest income	10,973
	<hr/>
Change in net position	49,212
	<hr/>
Net position - July 1	232,581
	<hr/>
Net position - June 30	\$ 281,793

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Business - Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from licenses	\$ 282,723
Cash received from other income	285
Cash payment to employees for services	(147,792)
Cash payment to vendors for goods and services	<u>(106,130)</u>
Net cash provided by operating activities	29,086
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of furniture and equipment	(678)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale/redemption of investments	255,000
Purchase of investments	(265,973)
Interest income	<u>10,973</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	28,408
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>206,395</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u><u>234,803</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 38,239
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,457
Changes in assets and liabilities	
Change in prepaid expenses	(518)
Change in deferred outflows of resources	165,791
Change in accrued expenses	867
Change in deferred revenue	(16,730)
Change in deferred inflows of resources	208,087
Change in net pension and OPEB liability	<u>(368,107)</u>
Net cash provided by operating activities	\$ <u><u>29,086</u></u>

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 and consists 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 its purpose by administering the CPA examination, licensing accountants, and enforcing public accounting laws and regulations. The Board's significant accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities of the North Dakota State Board of Accountancy. The Board has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationships with the Board are such that exclusion would cause the Board's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. Their criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose special financial burdens on the Board.

Based on these criteria, there are no component units to be included within the Board as a reporting entity.

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:

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.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 Investments

The cash and cash equivalents include demand deposits with an original maturity of three months or less. Investments consists 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 include furniture and equipment. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not 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/expenditures) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred Revenues

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

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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. 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.

Subsequent Events

Management has evaluated subsequent events through the date of the auditor's report which is the date the financial statements were available to be issued.

NOTE 2 – DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the Board would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. 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.

In accordance with North Dakota Statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the State of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended June 30, 2020, the Board's bank balance of deposits was \$697,811. All of the bank balances are covered by the Federal Depository Insurance Corporation.

Credit Risk

The Board may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct 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 the type listed above.
- (c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
- (d) Obligations of the state.

At June 30, 2020 the Board held certificates of deposit in its Stifel investment account of \$463,008 which are all considered deposits.

Concentration of Credit risk

The North Dakota State Board of Accountancy does not have a limit on the amount it may invest in any one issuer.

NOTE 3 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Capital assets, being depreciated furniture and equipment	\$ 12,515	\$ 678	\$ -	\$ 13,193
Less accumulated depreciation for furniture and equipment	7,218	1,457	-	8,675
Net capital assets for business-type activities	\$ 5,297	\$ (779)	\$ -	\$ 4,518

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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. Member 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 was 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. 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 equals to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 North Dakota State Board of Accountancy ("employer") employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7.00% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7.00% and employer contribution rates are 8.26% 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 Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the Employer reported a liability of \$109,964 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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. On June 30, 2019, the Employer's proportion was 0.009382%, which was a decrease of 0.018156% from its proportion measured on June 30, 2018.

For the year ended June 30, 2020, the Employer recognized pension expense of \$13,589. On June 30, 2020, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 66	\$ 19,956
Changes of assumptions	41,091	35,280

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	1,916	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	57,860	167,971
The Board contributions subsequent to the measurement date	<u>7,135</u>	<u>-</u>
	\$ <u>108,068</u>	\$ <u>223,207</u>

The \$7,135 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, 2021.

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

Year Ended June 30:

2021	\$ (2,874)
2022	(13,326)
2023	(42,981)
2024	(49,378)
2025	(13,715)

Actuarial Assumptions

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%		
Salary increases	Service at the 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

(Continued)

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	30%	6.30%
International equity	21%	6.93%
Private equity	7%	10.15%
Domestic fixed income	23%	2.11%
International fixed income	0%	0.00%
Global real assets	19%	5.41%
Cash equivalents	0%	0.25%

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 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

(Continued)

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employer's proportionate share of net pension liability	\$ 157,664	\$ 109,964	\$ 69,887

Pension plan fiduciary net pension

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

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. 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. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

(Continued)

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

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

On June 30, 2020, the Board reported a liability of \$7,025 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. 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. On June 30, 2019, the Employer's proportion was 0.008746% with was a decrease of 0.017108% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Board recognized OPEB income of \$716. On June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 173	\$ 219
Changes of assumptions	837	-
Net difference between projected and actual earnings on pension plan investments	8	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	10,365
The Board contributions subsequent to the measurement date	<u>1,142</u>	<u>-</u>
	\$ <u><u>2,160</u></u>	\$ <u><u>10,584</u></u>

The \$1,142 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 ended June 30, 2021.

(Continued)

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 Ended June 30:

2021	\$ (1,543)
2022	(1,543)
2023	(1,477)
2024	(1,489)
2025	(1,561)
2026	(1,595)
Thereafter	(358)

Actuarial assumptions. The total OPEB liability in the July 1, 2019 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	7.25%, 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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large cap domestic equities	33%	7.31%
Small cap domestic equities	6%	10.40%
International equities	21%	7.32%
U.S. high yield	4%	6.13%
Emerging markets debt	4%	7.45%
Core-Plus fixed income	32%	4.26%

(Continued)

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Discount rate

The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 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 7.25%, 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Employer's proportionate share of net pension liability	\$ <u>8,966</u>	\$ <u>7,025</u>	\$ <u>5,363</u>

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, 2020, 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, 2020, the Board's total liability for accrued sick leave is \$436.

NOTE 7 – OFFICE LEASE

The Board entered into a 12-month lease beginning May 1, 2018, and maturing April 31, 2019, with the option to extend the lease for four additional one-year terms. The monthly lease payment under the lease is \$500, increasing by \$15 for each one-year extension. Rent paid by the Board during the year ended June 30, 2020, was \$6,210.

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

2021	\$ 6,390
2022	6,570
2023	5,600

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 8 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Board has insurance through a third-party insurance carrier for general liability, property and liability, and medical expenses. The coverage is limited to losses of a blanket limit of \$2,000,000 for general liability, \$2,000,000 for the property, and \$ 1,000,000 for liability and medical expenses.

NOTE 9 – CONTINGENT LITIGATION

The Board is currently involved in potential litigation regarding a disciplinary matter with a licensee, and neither management nor legal counsel are able to estimate the likelihood of an adverse outcome or the financial impact thereof.

NOTE 10 – CHANGE IN RISK FACTORS

The COVID-19 pandemic could have a material and adverse effect on the Board's results of operations. The extent to which COVID-19 will impact the operations and financial results will depend on future developments, which are highly uncertain and cannot be predicted. The Board feels the most affected is in relation to the testing of exam fees due to the nature of the physical presence to be able to take the exam. As a result, at the time of this report, it is not possible to predict the overall impact of COVID-19 on the future financial results.

NOTE 11 – NEW PRONOUNCEMENT

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 receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government's leasing activities. This statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

**REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

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

Schedule of Employer's Share of Net Pension Liability

<u>Pension Plan</u>	<u>Measurement Date</u>	<u>Employer's Proportion of the Net Pension Liability</u>	<u>Employer's Proportionate Share of the Net Pension Liability</u>	<u>Employer's Covered-Employee Payroll</u>	<u>Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
ND PERS	6/30/2019	0.009382%	\$ 109,964	\$ 97,588	112.68%	71.66%
ND PERS	6/30/2018	0.027538%	\$ 464,734	\$ 282,904	164.27%	62.80%
ND PERS	6/30/2017	0.027418%	\$ 440,697	\$ 279,896	157.45%	61.98%
ND PERS	6/30/2016	0.027103%	\$ 264,145	\$ 273,130	96.71%	77.10%
ND PERS	6/30/2015	0.003271%	\$ 22,242	\$ 29,138	76.33%	77.70%

*Complete data for this schedule is not available prior to 2015.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEDULE OF EMPLOYER'S PENSION CONTRIBUTIONS
LAST 10 FISCAL YEARS*

Schedule of Employer's Contributions

Pension Plan	Measurement Date	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
ND PERS	6/30/2019	\$ 7,105	\$ (11,062)	\$ (3,957)	\$ 97,588	11.34%
ND PERS	6/30/2018	\$ 20,837	\$ (20,143)	\$ 694	\$ 282,904	7.12%
ND PERS	6/30/2017	\$ 20,296	\$ (19,934)	\$ 362	\$ 279,896	7.12%
ND PERS	6/30/2016	\$ 19,774	\$ (19,447)	\$ 327	\$ 273,130	7.12%
ND PERS	6/30/2015	\$ 2,213	\$ (2,075)	\$ 138	\$ 29,138	7.12%

*Complete data for this schedule is not available prior to 2015.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
JUNE 30, 2020

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
NDPERS - OPEB			
Employer's proportion of the net pension liability	0.008746%	0.025854%	0.025872%
Employer's proportionate share of the net pension liability	\$ 7,025	\$ 20,362	\$ 20,465
Employer's covered-employee payroll	\$ 97,588	\$ 282,904	\$ 279,896
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	7.20%	7.20%	7.31%
Plan fiduciary net position as a percentage of the total pension liability	63.13%	61.89%	59.78%

*Complete data for this schedule is not available prior to 2017.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
SCHEDULE OF EMPLOYER'S OPEB CONTRIBUTIONS
JUNE 30, 2020

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
NDPERS - OPEB			
Statutorily required contribution	\$ 1,135	\$ 1,771	\$ 3,318
Contributions in relation to the statutorily required contribution	\$ (1,771)	\$ (1,771)	\$ (3,225)
Contribution deficiency (excess)	\$ (636)	\$ -	\$ 93
Employer's covered-employee payroll	\$ 97,588	\$ 155,362	\$ 282,904
Contributions as a percentage of covered-employee payroll	1.81%	1.14%	1.14%

*Complete data for this schedule is not available prior to 2017.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020

NOTE 1 – SCHEDULE OF EMPLOYER PENSION AND OPEB LIABILITY AND CONTRIBUTION

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

NOTE 2 – CHANGES OF BENEFITS TERMS – PENSION AND OPEB

Pension

The interest rate earned on member contributions will decrease from 7.25% to 7.00% effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75% (compared to the current benefit multiplier of 2.00%). The fixed employer contribution for new members of the Main System will increase from 7.12% to 8.26%. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

OPEB

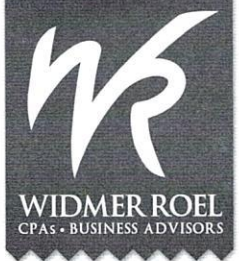
Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

NOTE 3 – CHANGES OF ASSUMPTIONS – PENSION AND OPEB

The pension Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50% for pension.
- The investment return assumption was lowered from 7.50% to 7.25% for OPEB.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.



4334 18th Avenue S.
Ste 101
Fargo, ND 58103-7414

Phone: 701.237.6022
Toll Free: 888.237.6022
Fax: 701.280.1495

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

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

We have audited, 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, the financial statements of the business-type activities of **North Dakota State Board of Accountancy**, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise **North Dakota State Board of Accountancy's** basic financial statements and have issued our report thereon dated March 18, 2021.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered **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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **North Dakota State Board of Accountancy's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **North Dakota State Board of Accountancy's** internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001 and 2020-002, that we consider to be significant deficiencies.

Member of

CPAmerica

Member  Crowe Global

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **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 is required to be reported under *Government Auditing Standards*.

North Dakota State Board of Accountancy's Response to Findings

North Dakota State Board of Accountancy's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. **North Dakota State Board of Accountancy's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of 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.



Fargo, North Dakota
March 18, 2021

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2020-001 (SIGNIFICANT DEFICIENCY) – SEGREGATION OF DUTIES

Condition

The limited number of personnel prevents a proper segregation of duties to ensure adequate internal control.

Criteria

To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting, and reconciliation.

Cause

Due to the size of North Dakota State Board of Accountancy, the board does not have sufficient staff to ensure adequate segregation of approval, custody of assets, posting, and reconciliation.

Effect

Inadequate segregation of duties could adversely affect the North Dakota State Board of Accountancy's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees or management in the normal course of performing their assigned functions.

Recommendation

We recommend that management be aware of the lack of segregation of duties and implement controls wherever possible to mitigate this risk. We recommend that the North Dakota State Board of Accountancy implement and/or continue the following:

- All invoices should be reviewed and approved by the executive director and the governing board.
- Ideally, all checks should be signed by the executive director and/or a board member.
- Monthly income statements and balance sheets should be reviewed and approved by a responsible official and the governing board.
- Bank reconciliations should be reviewed and approved by someone separate from bank reconciliation responsibilities.

Views of Responsible Officials

Due to the size of the Board, it is not feasible to obtain proper segregation of duties. The cost of adding personnel would exceed the benefit. The Board's Secretary reviews transactions monthly and approves expense reimbursements of the Board's Executive Director. Further at Board meetings the full board reviews all transactions and ratifies the activity. The Board manages the annual budget set at the beginning of the fiscal year.

NORTH DAKOTA STATE BOARD OF ACCOUNTANCY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

2020-002 (SIGNIFICANT DEFICIENCY) – IT CONTROLS

Condition

In our review of access to the accounting software, we noted a former board member still had access to the Board's accounting software. Also, the board currently does not have a process for periodically testing its IT system backups.

Criteria

Users should be timely removed from access to sensitive IT roles immediately upon termination of employment or board membership to prevent improper access to the Board's financial and other information. Backups should be periodically tested to ensure successful recovery of electronic records in the case of a disruption.

Cause

The issues appeared to have resulted from an oversight. A lack of written IT policies with respect to these matters may also have contributed.

Effect

There is an increased risk of improper access to Board financial records or data loss.

Recommendation

We recommend the Board adopt some basic IT policies, which should include timely termination of access with transition of board members and periodic testing of backups (or verification if backups are performed by an outside party).

Views of Responsible Officials

The Board agrees to adopt an IT Policy and to set procedures to ensure no former employees or board members have access to any software. The Board's policy will set policy on regular password changes and criteria.