

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS  
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE TWO YEARS ENDED JUNE 30, 2021

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
North Dakota State Board of Law Examiners  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of North Dakota State Board of Law Examiners, as of and for the two years ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the North Dakota State Board of Law Examiners' 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 governmental activities and the major fund of the North Dakota State Board of Law Examiners as of June 30, 2021, and the respective changes in financial position thereof for the two years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplemental 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 proportionate share of net OPEB liability, schedule of employer's contributions – pension, schedule of employer's contributions – OPEB and notes to required supplementary information, 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2022, on our consideration of the North Dakota State Board of Law Examiners' 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 Law Examiners' 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 Law Examiners' internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**BISMARCK, NORTH DAKOTA**

January 24, 2022

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2021**

As management of the North Dakota State Board of Law Examiners (Board), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the two-year period ending June 30, 2021 with comparative information for the prior two-year period ending June 30, 2019.

**Financial Highlights**

- The assets and deferred outflows of resources of the Board exceeded its liabilities and deferred inflows of resources as of June 30, 2021, by \$1,118,475 (net position).
- The Board's total net position increased for the two-year period ending June 30, 2021, by \$72,047.
- Fees collected by the Board for attorney licenses, nonresident and registered attorneys under Rule 3 of the Admission to Practice Rules, and foreign legal consultants under Rule 4 of the Admission to Practice Rules, are distributed under N.D.C.C. Section 27-12-04, with \$75 of each fee remitted to the Association for operation of the lawyer discipline system, with 80% of the remaining amount remitted to the Association, and the Board retaining 20%. Effective September 1, 2007, fees collected for the temporary license for attorneys applying for admission are divided equally between the State Bar Association and the Board of Law Examiners.

**Overview of the Financial Statements**

This management discussion and analysis is intended to serve as an introduction to the North Dakota State Board of Law Examiner's basic financial statements. The Board's basic financial statement has three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Board's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Board's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The *statement of activities* presents information showing how the Board's net position changed during the two-year period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Board that are principally supported by attorney application and license fees revenue.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2021**

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the Board is a governmental fund.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the reporting period.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental fund statement of revenues, expenditures, and changes in fund balance and these financial statements provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Board is given the authority to collect fees from all applicants for admission to the Bar of North Dakota and attorneys licensed to practice law in the state, and expend those fees pursuant to N.D.C.C. Chapter 27-11. Under Rule 3, Admission to Practice Rules, the North Dakota Supreme Court, under its constitutional and rule-making authority, authorizes the Board to collect fees from attorneys not licensed in North Dakota who wish to appear in proceedings limited in duration. All fees are deposited according to N.D.C.C. Section 54-44-12.

**Notes to the financial statements and other information.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
JUNE 30, 2021

**Net Position as of June 30, 2021**

	<b>Governmental Activities 2021</b>	<b>Governmental Activities 2019</b>
Current assets	<u>\$ 1,350,375</u>	<u>\$ 1,212,240</u>
<b>Total Assets</b>	<u>1,350,375</u>	<u>1,212,240</u>
<b>Deferred Outflow of Resources</b>	<u>169,060</u>	<u>54,298</u>
<b>Liabilities</b>		
Current liabilities	41,257	37,695
Long term liabilities	<u>291,444</u>	<u>155,705</u>
<b>Total liabilities</b>	<u>332,701</u>	<u>193,400</u>
<b>Deferred Inflows of Resources</b>	<u>68,259</u>	<u>26,710</u>
<b>Net Position</b>		
Unrestricted	<u>1,118,475</u>	<u>1,046,428</u>
<b>Total Net Position</b>	<u><u>\$ 1,118,475</u></u>	<u><u>\$ 1,046,428</u></u>

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2021**

**Changes in Net Position**  
**For the Two Years Ended June 30, 2021**

	<b>Governmental Activities 2021</b>	<b>Governmental Activities 2019</b>
	<u>2021</u>	<u>2019</u>
<b>Revenues</b>		
<b>General Revenues</b>		
Interest and dividends on investments	\$ 10,568	\$ 5,437
<b>Program Revenues</b>		
Attorney's license fees	2,527,490	2,501,748
Registration fees	1,900	4,560
Temporary license fees	2,000	3,100
Section and bar foundation membership fees	71,841	66,835
Pro bono fund contributions	6,936	8,848
Examination, information and motion fees	126,550	133,350
Other income	8,262	6,559
	<u>2,755,547</u>	<u>2,730,437</u>
Total revenues		
	<u>2,755,547</u>	<u>2,730,437</u>
<b>Expenses</b>		
Governmental activities		
Regulatory program	<u>2,683,500</u>	<u>2,602,930</u>
Total expenses	<u>2,683,500</u>	<u>2,602,930</u>
Increase (decrease) in net position	72,047	127,507
Net position - beginning of period	<u>1,046,428</u>	<u>924,214</u>
Net position - end of period	<u>\$ 1,118,475</u>	<u>\$ 1,046,428</u>



**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED**  
**JUNE 30, 2021**

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a governmental entity's financial position. In the case of the Board, assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by \$1,118,475 on June 30, 2021, the end of the two-year period.

The majority of the Board's net position are represented by cash and investments. The Board uses these assets to administer an examination to individuals who have applied to become admitted and licensed to practice law in the state, conduct background investigations of those individuals applying for admission, licensing admitted attorneys, and educating staff and Board members on issues concerning testing, character and fitness, and the protection of the public.

**Financial Analysis of Governmental Funds**

As noted earlier, the Board used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Board's *governmental funds* is to provide information on near-term inflows, outflow, and balances of spendable resources, which is useful in assessing the Board's financing requirements.

**Factors Affecting Revenues**

The revenue of the Board relies heavily on the number of attorneys licensed to practice law in North Dakota, and those wanting to be licensed in the state. This number has remained relatively stable in the past few years, and by all indications will not have a marked increase in the near future. The number of law students enrolled in the state's law schools, the population of the state, and the market economy all affect the ability to attract and retain attorneys in the state.

**Requests for Information**

This financial report is designed to provide a general overview of the Board's finances for those with an interest. Questions or requests for additional financial information should be addressed to the State Board of Law Examiners, 600 East Boulevard Avenue, Bismarck, ND 58505-0530.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2021**

**ASSETS**

Cash and cash equivalents	\$ 1,043,668
Investments	306,707
Capital assets:	
Equipment	40,481
Less accumulated depreciation	<u>(40,481)</u>
Total assets	<u>1,350,375</u>

**DEFERRED OUTFLOW OF RESOURCES**

Cost sharing defined benefit plan - pension	166,569
Cost sharing defined benefit plan - OPEB	<u>2,491</u>
Total deferred outflow of resources	<u>169,060</u>

**LIABILITIES**

Current liabilities	
Accounts payable	35,951
Compensated absences due within one year	<u>5,306</u>
Total current liabilities	<u>41,257</u>
Non-current liabilities:	
Compensated absences due in more than one year	5,307
Net pension liability	278,920
Net other post employment benefit liability	<u>7,217</u>
Total non-current liabilities	<u>291,444</u>
Total liabilities	<u>332,701</u>

**DEFERRED INFLOWS OF RESOURCES**

Cost sharing defined benefit plan - pension	65,416
Cost sharing defined benefit plan - OPEB	<u>2,843</u>
Total deferred inflow of resources	<u>68,259</u>

**NET POSITION**

Unrestricted	<u>1,118,475</u>
Total net position	<u>\$ 1,118,475</u>

See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

Functions/Programs		Program Revenues	
Governmental Activities:	Expenses	Charges for Services	Net (Expense) Revenue
Regulatory program	<u>\$ 2,683,500</u>	<u>\$ 2,744,979</u>	\$ 61,479
General revenues:			
Unrestricted investment earnings			<u>10,568</u>
Total change in net position			72,047
Net position, beginning of year			<u>1,046,428</u>
Net position, end of year			<u>\$ 1,118,475</u>

See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**BALANCE SHEET**  
**JUNE 30, 2021**

**ASSETS**

Cash and cash equivalents	\$ 1,043,668
Investments	<u>306,707</u>
Total assets	<u><u>\$ 1,350,375</u></u>

**LIABILITIES AND FUND BALANCE**

Liabilities	
Accounts payable	<u>\$ 35,951</u>
Total liabilities	<u>35,951</u>
Fund Balance	
Assigned	780,000
Unassigned	<u>534,424</u>
Total fund balance	<u>1,314,424</u>
Total liabilities and fund balance	<u><u>\$ 1,350,375</u></u>

**Reconciliation of the Balance Sheet  
to the Statement of Net Position  
June 30, 2021**

Total fund balance	\$ 1,314,424
Deferred outflow - pension	166,569
Deferred outflow - OPEB	2,491
Liability for compensated absences	(10,613)
Net pension liability	(278,920)
Net OPEB liability	(7,217)
Deferred inflow - pension	(65,416)
Deferred inflow - OPEB	<u>(2,843)</u>
Net position of governmental activities	<u><u>\$ 1,118,475</u></u>

See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**REVENUES**

Annual license fees	\$ 2,527,490
Registration fees	1,900
Temporary license fees	2,000
Section and bar foundation membership fees	71,841
Pro bono fund contributions	6,936
Interest and dividends	10,568
Examination, information and motion fees	126,550
Other income	8,262
Total revenues	<u>2,755,547</u>

**EXPENDITURES**

\$75 Statutory remittance for lawyer discipline	515,925
Remittance of annual license fees	1,608,735
Remittance of registration fees	1,220
Remittance of temporary license fees	1,000
Other remittances to State Bar Association	83,669
Salaries and fringe benefits	282,835
Bar exam fees and supplies	58,355
Appeals and formal proceedings	952
Bar board members expenditures	12,622
Insurance	1,547
Computer fees	1,163
Office supplies	4,156
Professional fees	8,650
License expenditures	9,678
Conference expenditures	19,087
Postage and printing	7,263
Telephone	1,620
Miscellaneous expense	23
Total expenditures	<u>2,620,383</u>

Excess of revenues over expenditures 135,164

Fund balance - beginning of period	<u>1,179,260</u>
Fund balance - end of period	<u>\$ 1,314,424</u>

See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**Reconciliation of Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Fund to the Statement of Activities  
For the Two Years Ended June 30, 2021**

Net changes in fund balance	\$ 135,164
Change in deferred outflow - pension	113,970
Change in deferred outflow - OPEB	792
Change in compensated absences liability	(1,184)
Change in net pension liability	(134,268)
Change in net OPEB liability	(878)
Change in deferred inflow - pension	(40,158)
Change in deferred inflow - OPEB	(1,391)
Change in net position of governmental activities	<u>\$ 72,047</u>

See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Board was created by North Dakota statute to carry out duties imposed upon it by such statute. The main duties of the Board are administering public examinations for admission to the bar and collection of annual fees for licenses to practice law. The Board consists of three members who are appointed by the Supreme Court.

In accordance with GASB Statement No. 61 for financial reporting purposes, the North Dakota State Board of Law Examiners (the Board) includes all funds, programs, and activities over which it is financially accountable. The Board does not have any component units as defined by the Governmental Accounting Standards Board, and is not a component unit of another reporting entity. Criteria used to determine a potential component unit includes: 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 benefits to, or impose specific financial burdens on the Board.

**Government-Wide and Fund Financial Statements**

The Statement of Net Position and Statement of Activities report information on all non-fiduciary activities of the Board. The Board reports all activities as governmental activities, which are financed through fees and licenses. The Statement of Net Position presents the reporting entity's assets, deferred outflow of resources, liabilities, and deferred inflows of resources with the difference reported as net position. The net position is reported in three categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation.

*Restricted net position* consists of funds received that are restricted for a specific purpose.

*Unrestricted net position* consists of net position which does not meet the definition of the preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include license renewals and other fees.

Separate fund financial statements are provided for the Board's governmental fund.

**Fund Accounting Structure**

The Board uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

The Board reports the operating fund as a major governmental fund. It is used to account for the collection of fees, license renewals, and transactions relating to the practice of law within the state of North Dakota.

**Fund Balance Classifications**

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

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

*Restricted* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board of Directors – the Board’s highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – This classification reflects the amounts constrained by the Board’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board has authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts that are not classified as non-spendable and are neither restricted nor committed.

*Unassigned* – This fund balance is the residual classification for the fund.

When both restricted and unrestricted resources are available for use, the Board’s preference is to first use restricted resources, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

**Measurement Focus and Basis of Accounting**

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.



**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due and payable.

**Cash and Cash Equivalents**

Cash and cash equivalents consists of funds on deposit in checking and savings accounts.

**Investments**

Investments include certificates of deposit that are reported at cost. All investment income is recognized in the statements of revenues, expenditures and changes in fund balance.

**Capital Assets**

Capital assets, which consist of software, are valued at historical cost or at estimated historical cost if actual historical cost is not available.

Fixed assets in governmental funds are recorded as expenditures in the funds used to acquire them in the governmental fund financial statements. Capital assets, along with accumulated depreciation and depreciation expense are reported in the applicable governmental activities column in the government-wide financial statements.

Capital assets are depreciated using the straight-line method.

**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 so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The Board has two items that qualify for reporting in this category named *cost sharing defined benefit plan – pension* and *cost sharing defined benefit plan – OPEB*, which represents actuarial differences within NDPERS pension and OPEB plans as well as amounts paid to the plans after the measurement date. See notes 7 and 8 for further details.

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 that qualify for reporting in this category named *cost sharing defined benefit plan – pension* and *cost sharing defined benefit plan – OPEB*, which represents actuarial differences within the NDPERS pension and OPEB plan as well as amounts paid to the plan after the measurement date. See notes 7 and 8 for further details.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**Accrued Compensated Absences**

The Board allows employees to accrue annual leave at a variable rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at each calendar year end. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is accrued at a variable rate between one and one and a half days per month without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the Board is liable for ten percent of the employee's accumulated unused sick leave.

**Pension**

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.

**Budgets**

A budget is not legally required for the North Dakota State Board of Law Examiners.

**Use of Estimates**

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

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**NOTE 2 DEPOSITS**

**Custodial Credit Risk – Deposits**

Custodial credit risk is risk associated with the failure of a depository financial institution to recover its deposits or collateralized securities that are in the possession of outside parties. This includes coverage by the Federal Deposit Insurance Corporation (FDIC) or pledge of securities.

At June 30, 2021, the carrying amount of the Board's deposits was \$1,350,375 and the bank balance was \$1,361,310. The difference results from checks outstanding or deposits not yet processed. These deposits are exposed to custodial credit risk as uninsured or uncollateralized. As of June 30, 2021, \$976,874 of the Board's bank balance was uninsured or uncollateralized. This amount consists of the balance that is deposited with the Bank of North Dakota as of June 30, 2021. The Bank of North Dakota is a state-owned bank that does not participate in the FDIC program. These deposits are backed by the full faith and credit of the State of North Dakota. All other deposits are covered by FDIC.

**NOTE 3 CAPITAL ASSETS**

The following is a summary of the governmental activities capital assets:

	Balance 7/1/2019	Additions	Retirements	Balance 6/30/2021
Software	\$ 40,481	\$ -	\$ -	\$ 40,481
Less accumulated depreciation	(40,481)	-	-	(40,481)
Net capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

A total of \$0 in depreciation for the two years ended June 30, 2021 was charged to the regulatory function.

**NOTE 4 ACCRUED COMPENSATED ABSENCES**

A summary of changes in accrued compensated absences for the two years ended June 30, 2021 is as follows:

	Balance 7/1/2019	Additions	Reductions	Balance 6/30/2021	Due Within One Year
Compensated absences	<u>\$ 9,429</u>	<u>\$ 15,992</u>	<u>\$ (14,808)</u>	<u>\$ 10,613</u>	<u>\$ 5,306</u>

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**NOTE 5 FUND BALANCE**

At June 30, 2021, a summary of the governmental fund balance classifications are as follows:

Assigned	
One fiscal year of operating expenses without	
State Bar Association of North Dakota payments	\$ 350,000
Litigation/Attorney's Fees Reserves	200,000
Employee Liability	30,000
Discipline/Lawyer's Assistance	50,000
Special Projects	50,000
Technology Upgrades	100,000
Total Assigned	<u>780,000</u>
Unassigned	<u>534,424</u>
Fund Balance	<u><u>\$ 1,314,424</u></u>

**NOTE 6 REMITTANCES TO STATE BAR ASSOCIATION OF NORTH DAKOTA**

The Board is required by statute to remit \$75 of every annual license fee (resident and nonresident) collected to the State Bar Association of North Dakota (SBAND) for the lawyer discipline system, and 80% of the remainder of the annual license fees collected to the SBAND for its operations. Registration fees paid by nonresident attorneys are also remitted to the SBAND in the same manner as the annual license fees. For temporary license fees collected, the Board remits 50% to the SBAND. The Board also remits 100% of section and bar foundation membership fees and 100% of contributions for the pro bono fund to the SBAND.

SBAND remittance for two years ended June 30, 2021:

\$75 Lawyer discipline statutory contribution	\$ 515,925
Annual license fees	1,608,735
Registration fees	1,220
Temporary license fees	1,000
Section membership fees	38,205
Bar foundation membership fees	33,561
Pro bono fund contributions	6,936
Other	4,967
Total SBAND remittance	<u><u>\$ 2,210,549</u></u>

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**NOTE 7 PENSION PLAN**

**North Dakota Public Employees Retirement System (Main System)**

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

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

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

**Pension Benefits**

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equals or exceeds 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. 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 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 LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

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

**Refunds of Member Account Balance**

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive 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 covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% 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 Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2021, the Employer reported a liability of \$278,920 for its proportionate share of the net pension liability, respectively. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate 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, 2020, the Employer's proportion was 0.0088657%, which was an increase of 0.0002947% from its proportion measured as of June 30, 2018.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

For the two years ended June 30, 2021, the Employer recognized pension expense of \$51,194. At June 30, 2021, 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	\$ 1,085	\$ (14,133)
Changes of assumptions	149,519	(24,719)
Net difference between projected and actual earnings on pension plan investments	9,002	-
Changes in proportion and differences between employer contributions and proportionate share	-	(26,564)
Employer contributions subsequent to the measurement date	6,963	-
Total	<u>\$ 166,569</u>	<u>\$ (65,416)</u>

\$6,963 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 two years ending June 30, 2023.

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:**

2022	\$ 25,846
2023	23,984
2024	19,947
2025	24,413

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**Actuarial Assumptions**

The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equities	30.00%	6.30%
International Equities	21.00%	6.85%
Private Equity	7.00%	9.75%
Domestic Fixed Income	23.00%	1.25%
Global Real Assets	19.00%	5.01%

**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.



**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

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 7.00%; the municipal bond rate is 2.45%; and the resulting Single Discount Rate is 4.64%.

**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 4.64 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.64 percent) or 1-percentage-point higher (5.64 percent) than the current rate:

1% Decrease 3.64%	Current Discount Rate 4.64%	1% Increase 5.64%
<u>                    </u>	<u>                    </u>	<u>                    </u>
\$ 361,877	\$ 278,920	\$ 211,040

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain this report should be addressed to the Executive Director - NDPERS, P.O. Box 1657, Bismarck, North Dakota 58502-1657.

**NOTE 8 OTHER POST EMPLOYMENT BENEFITS**

***North Dakota Public Employees Retirement System***

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.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

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 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.

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 employees, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

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

At June 30, 2021, the Employer reported a liability of \$7,217 respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, 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 payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2020, the Employer's proportion was 0.0085792 percent, which was an increase of .000653 from its proportion measured as of June 30, 2018.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

For the two years ended June 30, 2021, the Employer recognized OPEB expense of \$1,045. At June 30, 2021, the Employer 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	\$ 160	\$ (173)
Changes of assumptions	968	-
Net difference between projected and actual earnings on OPEB plan investments	248	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(2,670)
Employer contributions subsequent to the measurement date	<u>1,115</u>	<u>-</u>
Total	<u>\$ 2,491</u>	<u>\$ (2,843)</u>

\$1,115 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 two years ending June 30, 2023.

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:**

2022	\$ (350)
2023	(286)
2024	(298)
2025	(302)
2026	(216)
Thereafter	(15)

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**Actuarial Assumptions**

The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.20%
Salary increases	Not applicable
Investment rate of return	6.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2020 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Large Cap Domestic Equities	33.00%	6.10%
Sm Cap Domestic Equities	6.00%	7.00%
International Equities	21.00%	6.45%
Core-Plus Fixed Income	40.00%	1.15%

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**Discount Rate**

The discount rate used to measure the total OPEB liability was 6.50%. 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, 2020, calculated using the discount rate of 6.50%, 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
\$ 9,465	\$ 7,217	\$ 5,316

**OPEB Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. Requests to obtain or review this report should be addressed to the Executive Director - NDPERS, P.O. Box 1657, Bismarck, North Dakota 58502-1657.

**NOTE 9 RISK MANAGEMENT**

The Board is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Board participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

The North Dakota Workforce Safety & Insurance is an enterprise fund of the State of North Dakota. The Bureau is a state insurance fund and a “no fault” insurance system covering the State’s employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and there have been no claims resulting from these risks in any of the past three fiscal years.

**NOTE 10 NEW ACCOUNTING PRONOUNCEMENTS**

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.

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

**NOTE 11 SUBSEQUENT EVENTS**

No significant events occurred subsequent to Board’s year end. Subsequent events have been evaluated through January 24, 2022, which is the date these financial statements were available to be issued.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
**LAST 10 FISCAL YEARS\***

	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability	Employer's covered- employee payroll	Employer's proportionate share of the net pension liability as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2021	0.008866%	\$ 278,920	\$ 90,980	306.57%	48.91%
2020	0.008747%	102,517	86,728	118.21%	71.66%
2019	0.008571%	144,652	83,547	173.14%	62.80%
2018	0.008202%	131,828	95,459	138.10%	61.98%
2017	0.012180%	118,710	124,007	95.73%	70.46%
2016	0.012159%	82,677	109,150	75.75%	77.15%
2015	0.011357%	72,086	95,670	75.35%	77.70%

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

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF NET OPEB LIABILITY**  
**LAST 10 FISCAL YEARS\***

	Employer's proportion of the net OPEB liability	Employer's proportionate share of the net OPEB liability	Employer's covered- employee payroll	Employer's proportionate share of the net OPEB liability as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2021	0.008579%	\$ 7,217	\$ 90,980	7.93%	63.38%
2020	0.008154%	6,549	86,728	7.55%	63.13%
2019	0.007926%	6,340	83,547	7.59%	61.89%
2018	0.007723%	6,122	95,459	6.41%	59.78%

\* Complete data for this schedule is not available prior to 2018.



**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER'S CONTRIBUTIONS - PENSION**  
**LAST 10 FISCAL YEARS\***

	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
2021	\$ 6,963	\$ (6,963)	\$ -	\$ 97,800	7.12%
2020	6,478	(6,478)	-	90,980	7.12%
2019	6,175	(6,175)	-	86,728	7.12%
2018	5,949	(5,949)	-	83,547	7.12%
2017	6,798	(6,798)	-	95,459	7.12%
2016	8,829	(8,829)	-	124,007	7.12%
2015	6,225	(6,225)	-	109,150	5.70%

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

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER'S CONTRIBUTIONS - OPEB**  
**LAST 10 FISCAL YEARS\***

	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
2021	\$ 1,115	\$ (1,115)	\$ -	\$ 97,800	1.14%
2020	1,037	(1,037)	-	90,980	1.14%
2019	989	(989)	-	86,728	1.14%
2018	952	(952)	-	83,547	1.14%

\* Complete data for this schedule is not available prior to 2018.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**NOTE 1 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB**

***Changes of pension benefit terms.***

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (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 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. 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, 2019.

***Changes of OPEB benefit terms.***

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, 2019.

**NOTE 2 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB**

***Changes of pension assumptions.***

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

- The investment return assumption was lowered from 7.5% to 7.0%
- The assumed rate of price inflation was lowered from 2.5 to 2.25 percent for the July 1, 2020 valuation
- The assumed rate of total payroll growth was updated for the July 1, 2020 valuation
- Mortality table updates were made for the July 1, 2020 valuation
- All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

***Changes of OPEB assumptions.***

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

- The investment return assumption was lowered from 7.25% to 6.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

**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 Law Examiners  
Bismarck, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of North Dakota State Board of Law Examiners, as of and for the two years ended June 30, 2021, and the related notes to the financial statements, which collectively comprise North Dakota State Board of Law Examiners' basic financial statements, and have issued our report thereon dated January 24, 2022.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the North Dakota State Board of Law Examiners' internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota State Board of Law Examiners' internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota State Board of Law Examiners' 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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described as item 2021-003 in the accompanying schedule of findings and responses 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 deficiencies described as items 2021-001 and 2021-002 in the accompany schedule of findings and responses to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Dakota State Board of Law Examiners' 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 financial statements. 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 Law Examiners' Responses to Findings**

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. North Dakota State Board of Law Examiners' 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.**  
**BISMARCK, NORTH DAKOTA**

January 24, 2022

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**2021-001: Significant Deficiency: Preparation of Financial Statements**

Criteria

An appropriate system of internal control requires the Board to prepare financial statements in compliance with accounting principles generally accepted in the United States of America. This requires the Board's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The Board's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the Board currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The Board has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The Board elected to not allocate resources for the preparation of the basic financial statements.

Effect

There is an increased risk of material misstatement to the Board's financial statements.

Recommendation

We recommend the Board consider the additional risk of having the auditors assist in the preparation of the basic financial statements and note disclosures and to consider preparing them in the future. As a compensating control, the Board should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Due to the financial, efficiency and time constraints, it has been determined by North Dakota State Board of Law Examiners' management that it is in the best interest of North Dakota State Board of Law Examiners and all interested parties to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**2021-002: Significant Deficiency: Segregation of Duties**

Criteria

Generally, a system of internal control has the proper separation 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

Size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The areas should 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:

This condition is a repeat from the prior years and the board has segregated the accounting duties to the appropriate individuals to the extent possible. Because of the very limited number of staff available for the Board, all of the accounting duties cannot be totally segregated in such a way as to eliminate this reportable condition. The only alternative available to the board would be the hiring of additional staff, and current cash flows do not justify it. The board has reviewed the internal controls and procedures in place and believes the procedures in place provide adequate controls under these circumstances.

**NORTH DAKOTA STATE BOARD OF LAW EXAMINERS**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2021**

**2021-003: Material Weakness: Journal Entries**

Criteria

The Board is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition

During our audit, adjusting journal entries were proposed in order to properly reflect the financial statements in accordance to GAAP.

Cause

The Board's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on a GAAP basis for the implementation of new Governmental Accounting Standards Board (GASB) pronouncements.

Effect

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with GAAP prior to the audit.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. We also recommend accounting personnel adjust the pension and OPEB accounts going forward on an annual basis.

Views of Responsible Officials and Planned Corrective Actions

Due to financial and efficiency constraints, as well as time constraints of the bookkeeper, it is the position of the North Dakota State Board of Law Examiners that it is in the best interest of the Board and all interested parties, to utilize the expertise of the auditor to determine and train the bookkeeper as is necessary for implementation of GASB Statement No. 68 and 75. The Board believes the current bookkeeper has done a good job reconciling all the accounts each year.