

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

AUDITED FINANCIAL STATEMENTS

FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

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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

Opinion

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-year period ended June 30, 2023, 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.

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, 2023, and the respective changes in financial position thereof for the two-year period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of North Dakota State Board of Law Examiners, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota State Board of Law Examiners' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North Dakota State Board of Law Examiners internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota State Board of Law Examiners ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of employer's proportionate share of net pension liability, schedule of employer's contributions – pension, schedule of employer's proportionate share of net OPEB liability, schedule of employer's contributions – OPEB, and the notes to the 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 December 27, 2023, 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**

December 27, 2023

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023

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, 2023 with comparative information for the prior two-year period ending June 30, 2021.

Financial Highlights

- The assets and deferred outflows of resources of the Board exceeded its liabilities and deferred inflows of resources as of June 30, 2023, by \$1,158,095 (net position).
- The Board's total net position increased for the two-year period ending June 30, 2023, by \$39,620.
- 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, 2023

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, 2023

Net Position as of June 30, 2023

	Governmental Activities 2023	Governmental Activities 2021
Current assets	\$ 1,412,020	\$ 1,350,375
Total Assets	1,412,020	1,350,375
Deferred Outflow of Resources	183,476	169,060
Liabilities		
Current liabilities	34,880	41,257
Long term liabilities	285,702	291,444
Total liabilities	320,582	332,701
Deferred Inflows of Resources	116,819	68,259
Net Position		
Unrestricted	1,158,095	1,118,475
Total Net Position	\$ 1,158,095	\$ 1,118,475

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2023

Changes in Net Position
For the Two-Year Period Ended June 30, 2023

	Governmental Activities 2023	Governmental Activities 2021
	<hr/>	<hr/>
Revenues		
General Revenues		
Interest and dividends on investments	\$ 3,218	\$ 10,568
Program Revenues		
Attorney's license fees	2,541,669	2,527,490
Registration fees	1,520	1,900
Temporary license fees	1,200	2,000
Section and bar foundation membership fees	74,870	71,841
Pro bono fund contributions	10,440	6,936
Examination, information and motion fees	110,150	126,550
Other income	12,224	8,262
	<hr/>	<hr/>
Total revenues	2,755,291	2,755,547
	<hr/>	<hr/>
Expenses		
Governmental activities		
Regulatory program	2,715,671	2,683,500
	<hr/>	<hr/>
Total expenses	2,715,671	2,683,500
	<hr/>	<hr/>
Increase (decrease) in net position	39,620	72,047
Net position - beginning of period	1,118,475	1,046,428
	<hr/>	<hr/>
Net position - end of period	\$ 1,158,095	\$ 1,118,475
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NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
MANAGEMENT DISCUSSION AND ANALYSIS - CONTINUED
JUNE 30, 2023

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 \$1,158,095 on June 30, 2023, 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, 2023

ASSETS

Cash and cash equivalents	\$ 1,105,313
Investments	306,707
Capital assets:	
Equipment	40,481
Less accumulated depreciation	<u>(40,481)</u>
 Total assets	 <u>1,412,020</u>

DEFERRED OUTFLOW OF RESOURCES

Cost sharing defined benefit plan - pension	177,163
Cost sharing defined benefit plan - OPEB	<u>6,313</u>
Total deferred outflow of resources	<u>183,476</u>

LIABILITIES

Current liabilities	
Accounts payable	26,602
Compensated absences due within one year	<u>8,278</u>
Total current liabilities	<u>34,880</u>
 Non-current liabilities:	
Compensated absences due in more than one year	8,278
Net pension liability	265,005
Net other post employment benefit liability	<u>12,419</u>
Total non-current liabilities	<u>285,702</u>
 Total liabilities	 <u>320,582</u>

DEFERRED INFLOWS OF RESOURCES

Cost sharing defined benefit plan - pension	114,858
Cost sharing defined benefit plan - OPEB	<u>1,961</u>
Total deferred inflow of resources	<u>116,819</u>

NET POSITION

Unrestricted	<u>1,158,095</u>
 Total net position	 <u><u>\$ 1,158,095</u></u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
STATEMENT OF ACTIVITIES
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

Functions/Programs Governmental Activities:	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue
Regulatory program	\$ 2,715,671	\$ 2,752,073	\$ 36,402
General revenues:			
Unrestricted investment earnings			3,218
Total change in net position			39,620
Net position, beginning of year			1,118,475
Net position, end of year			\$ 1,158,095

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
BALANCE SHEET
JUNE 30, 2023

ASSETS

Cash and cash equivalents	\$ 1,105,313
Investments	<u>306,707</u>
Total assets	<u><u>\$ 1,412,020</u></u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts payable	<u>\$ 26,602</u>
Total liabilities	<u>26,602</u>
Fund Balance	
Assigned	980,000
Unassigned	<u>405,418</u>
Total fund balance	<u>1,385,418</u>
Total liabilities and fund balance	<u><u>\$ 1,412,020</u></u>

**Reconciliation of the Balance Sheet
to the Statement of Net Position
June 30, 2023**

Total fund balance	\$ 1,385,418
Cost sharing defined benefit - pension	177,163
Cost sharing defined benefit - OPEB	6,313
Liability for compensated absences	(16,556)
Net pension liability	(265,005)
Net OPEB liability	(12,419)
Cost sharing defined benefit - pension	(114,858)
Cost sharing defined benefit - OPEB	<u>(1,961)</u>
Net position of governmental activities	<u><u>\$ 1,158,095</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-YEAR PERIOD ENDED JUNE 30, 2023

REVENUES

Annual license fees	\$ 2,541,669
Registration fees	1,520
Temporary license fees	1,200
Section and bar foundation membership fees	74,870
Pro bono fund contributions	10,440
Interest and dividends	3,218
Examination, information and motion fees	110,150
Other income	12,224
Total revenues	2,755,291

EXPENDITURES

\$75 Statutory remittance for lawyer discipline	515,850
Remittance of annual license fees	1,620,775
Remittance of registration fees	732
Remittance of temporary license fees	600
Other remittances to State Bar Association	90,855
Salaries and fringe benefits	310,724
Bar exam fees and supplies	76,579
Appeals and formal proceedings	5,570
Bar board members expenditures	16,132
Insurance	1,480
Computer fees	6,497
Office supplies	4,854
Professional fees	0
License expenditures	9,139
Conference expenditures	15,516
Postage and printing	7,275
Telephone	1,712
Miscellaneous expense	7
Total expenditures	2,684,297

Excess of revenues over expenditures 70,994

Fund balance - beginning of period	1,314,424
Fund balance - end of period	\$ 1,385,418

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-YEAR PERIOD ENDED JUNE 30, 2023

**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, 2023**

Net changes in fund balance	\$ 70,994
Change in deferred outflow - pension	10,594
Change in deferred outflow - OPEB	3,822
Change in compensated absences liability	(5,943)
Change in net pension liability	13,915
Change in net OPEB liability	(5,202)
Change in deferred inflow - pension	(49,442)
Change in deferred inflow - OPEB	882
Change in net position of governmental activities	<u>\$ 39,620</u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

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-YEAR PERIOD ENDED JUNE 30, 2023

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-YEAR PERIOD ENDED JUNE 30, 2023

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-YEAR PERIOD ENDED JUNE 30, 2023

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.

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.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

At June 30, 2023, the carrying amount of the Board's deposits and investments were \$1,412,020 and the bank balance was \$1,425,766. 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, 2023, \$1,041,301 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, 2023. 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 7/1/2021	Additions	Retirements	Balance 6/30/2023
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-year period ended June 30, 2023 was charged to the regulatory function.

NOTE 4 ACCRUED COMPENSATED ABSENCES

A summary of changes in accrued compensated absences for the two-year period ended June 30, 2023 is as follows:

	Balance 7/1/2021	Additions	Reductions	Balance 6/30/2023	Due Within One Year
Compensated absences	<u>\$ 10,613</u>	<u>\$ 24,242</u>	<u>\$ (18,299)</u>	<u>\$ 16,556</u>	<u>\$ 8,278</u>

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NOTE 5 FUND BALANCE

At June 30, 2023, 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		100,000
Employee Liability		30,000
Discipline/Lawyer's Assistance		50,000
Special Projects		50,000
Technology Upgrades		400,000
Total Assigned		<u>980,000</u>
Unassigned		<u>405,418</u>
Fund Balance	\$	<u><u>1,385,418</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-year period ended June 30, 2023:

\$75 Lawyer discipline statutory contribution	\$	515,850
Annual license fees		1,620,775
Registration fees		732
Temporary license fees		600
Section membership fees		39,410
Bar foundation membership fees		35,460
Pro bono fund contributions		10,440
Other		5,545
Total SBAND remittance	\$	<u><u>2,228,812</u></u>

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
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FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

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. The Main Plan will be closed to new employees with the passage of House Bill 1040. The effective date is dependent upon NDPERS implementing the changes to set up a new defined contribution (DC) plan. If the DC plan is set up by December 31, 2023, then the effective date of the Main Plan closure will be January 1, 2024. If the changes cannot be accomplished by then, the effective date will be January 1, 2025.

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

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NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive 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. Employer contribution rates increase by 1% beginning January 1, 2024.

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, 2023, the Employer reported a liability of \$265,005 for its proportionate share of the net pension liability, respectively. The net pension liability was measured as of June 30, 2022, 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, 2022, the Employer's proportion was 0.0092696%, which was an increase of 0.0004039% from its proportion measured as of June 30, 2020.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

For the two-year period ended June 30, 2023, the Employer recognized pension expense of \$32,538. At June 30, 2023, 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	\$ 1,382	\$ (5,062)
Changes of assumptions	158,477	(98,247)
Net difference between projected and actual earnings on pension plan investments	9,699	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(11,550)
Employer contributions subsequent to the measurement date	<u>7,605</u>	<u>-</u>
Total	<u>\$ 177,163</u>	<u>\$ (114,859)</u>

\$7,605 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-year period ending June 30, 2025.

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:

2024	\$ 12,804
2025	17,376
2026	389
2027	24,130

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

Actuarial Assumptions

The total pension liability in the July 1, 2022 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	5.10%, 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	5.75%
International Equity	21%	6.45%
Private Equity	7%	9.20%
Global Fixed Income	23%	0.34%
Global Real Assets	19%	4.35%

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-YEAR PERIOD ENDED JUNE 30, 2023

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 6.50%; the municipal bond rate is 3.69%; and the resulting Single Discount Rate is 5.10%.

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 5.10 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 (4.10 percent) or 1-percentage-point higher (6.10 percent) than the current rate:

	1% Decrease 4.10%	Current Discount Rate 5.10%	1% Increase 6.10%
Employer's proportionate share of the net pension liability	\$ 349,788	\$ 265,005	\$ 195,400

Pension Plan Fiduciary Net Position

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

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-YEAR PERIOD ENDED JUNE 30, 2023

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, 2023, the Employer reported a liability of \$12,419 respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022, 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, 2022, the Employer's proportion was 0.0010423 percent, which was a decrease of .0075369 from its proportion measured as of June 30, 2020.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

For the two-year period ended June 30, 2023, the Employer recognized OPEB expense of \$498. At June 30, 2023, the Employer 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	\$ 294	\$ (107)
Changes of assumptions	3,129	-
Net difference between projected and actual earnings on OPEB plan investments	1,672	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(1,854)
Employer contributions subsequent to the measurement date	<u>1,218</u>	<u>-</u>
Total	<u>\$ 6,313</u>	<u>\$ (1,961)</u>

\$1,218 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-year period ending June 30, 2025.

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

Year ending June 30:

2024	\$ 602
2025	581
2026	638
2027	1,313

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

Actuarial Assumptions

The total OPEB liability in the July 1, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	5.75%, 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, 2022 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Broad US Equity	39.00%	5.75%
International Equities	26.00%	6.00%
Core-Plus Fixed Income	35.00%	0.22%

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

Discount Rate

The discount rate used to measure the total OPEB liability was 5.39%. The projection of cash flows used to determine the discount rate assumed plan member and statutory rates described in this report. 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, 2022, calculated using the discount rate of 5.39%, 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 (4.39 percent) or 1-percentage-point higher (6.39 percent) than the current rate:

	1% Decrease 4.39%	Current Discount Rate 5.39%	1% Increase 6.39%
Employer's proportionate share of the net OPEB liability	\$ 15,851	\$ 12,419	\$ 9,536

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.

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.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

NOTE 10 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

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 December 27, 2023, 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 <u>liability (asset)</u>	Employer's proportionate share of the net pension <u>liability (asset)</u>	Employer's covered- employee <u>payroll</u>	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered- <u>employee payroll</u>	Plan fiduciary net position as a percentage of the total pension <u>liability</u>
2023	0.00920%	\$ 265,005	\$ 103,684	255.59%	54.47%
2022	0.00916%	95,434	97,800	97.58%	78.26%
2021	0.00887%	278,920	90,980	306.57%	48.91%
2020	0.00875%	102,517	86,728	118.21%	71.66%
2019	0.00857%	144,652	83,547	173.14%	63.53%
2018	0.00820%	131,828	95,459	138.10%	61.98%
2017	0.01218%	118,710	124,007	95.73%	70.46%
2016	0.01216%	82,677	109,150	75.75%	77.15%
2015	0.01136%	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 (asset)	Employer's proportionate share of the net OPEB liability (asset)	Employer's covered- employee payroll	Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2023	0.010346%	\$ 12,419	\$ 103,684	11.98%	56.28%
2022	0.009510%	5,289	97,800	5.41%	76.63%
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
2023	\$ 7,605	\$ (7,605)	\$ -	\$ 106,812	7.12%
2022	7,382	(7,382)	-	103,684	7.12%
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
2023	\$ 1,218	\$ (1,218)	\$ -	\$ 106,812	1.14%
2022	1,182	(1,182)	-	103,684	1.14%
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-YEAR PERIOD ENDED JUNE 30, 2023

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 6.50 percent to 6.00 percent effective January 1, 2023 (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, 2020.

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, 2020.

NOTE 2 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB

Changes of pension assumptions.

The investment return assumption was updated from 7.00% to 6.50% beginning with the actuarial valuation as of July 1, 2022. All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2022 were based on an experience review for the period from July 1, 2014 to July 1, 2019, and were adopted for first use commencing with the actuarial valuation as of July 1, 2020.

Changes of OPEB assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2022 valuation:

- The investment return assumption was lowered from 6.50% to 5.75% beginning with the actuarial valuation as of July 1, 2022.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2021.

**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, 2023, 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 December 27, 2023.

Report on 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 2023-003 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 2023-001 and 2023-002 in the accompany schedule of findings and responses to be significant deficiencies.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on the Board's response to the findings identified in our audit and describe 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

December 27, 2023

NORTH DAKOTA STATE BOARD OF LAW EXAMINERS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE TWO-YEAR PERIOD ENDED JUNE 30, 2023

2023-001: 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.

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-YEAR PERIOD ENDED JUNE 30, 2023

2023-002: 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-YEAR PERIOD ENDED JUNE 30, 2023

2023-003: 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.

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.

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 have adjustments proposed by the auditing firm in order for the general ledger accounts to be reflected on a GAAP basis.