

**NORTH DAKOTA STATE BOARD OF ARCHITECTURE  
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE TWO YEARS ENDED JUNE 30, 2017

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
North Dakota State Board of Architecture  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the North Dakota State Board of Architecture as of and for the two years ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the North Dakota State Board of Architecture's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

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 Architecture as of June 30, 2017, and the respective changes in financial position for the two years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis and the budgetary comparison schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017, on our consideration of the North Dakota State Board of Architecture's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota State Board of Architecture's internal control over financial reporting and compliance.



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

October 16, 2017

**NORTH DAKOTA STATE BOARD OF ARCHITECTURE**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 478,848
Prepaid expense	<u>6,500</u>
Total assets	<u>485,348</u>
 <b>LIABILITIES</b>	
Accounts payable	<u>8,611</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Pre-payment of licences	<u>146,400</u>
 <b>NET POSITION</b>	
Unrestricted	<u>330,337</u>
Total net position	<u><u>\$ 330,337</u></u>

See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF ARCHITECTURE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE TWO YEARS ENDED JUNE 30, 2017**

Functions/Programs Governmental Activities:	<u>Program Revenues</u>		Net Revenue
	<u>Expenses</u>	<u>Charges for Services</u>	
Licensing and oversight	\$ 139,939	\$ 175,115	\$ 35,176
Unrestricted investment earnings			1,763
Total change in net position			36,939
Net position, July 1, 2015			293,398
Net position, June 30, 2017			\$ 330,337

See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF ARCHITECTURE**  
**BALANCE SHEET**  
**JUNE 30, 2017**

**ASSETS**

Cash and cash equivalents	\$ 478,848
Prepaid expense	<u>6,500</u>
Total assets	<u><u>\$ 485,348</u></u>

**LIABILITIES**

Accounts payable	<u>\$ 8,611</u>
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**DEFERRED INFLOWS OF RESOURCES**

Pre-payment of licenses	<u>146,400</u>
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**FUND BALANCE**

Unassigned	323,837
Nonspendable	<u>6,500</u>
Total fund balance	<u>330,337</u>

Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 485,348</u></u>
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See Notes to the Financial Statements

**NORTH DAKOTA STATE BOARD OF ARCHITECTURE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE TWO YEARS ENDED JUNE 30, 2017**

Revenues:	
Fees:	
Architect license fees	\$ 160,490
Landscape architect license fees	<u>14,625</u>
Total fees	<u>175,115</u>
Interest Income	<u>1,763</u>
Total revenues	<u>176,878</u>
Expenditures:	
Program expenditures:	
Board member fees	750
Officer travel	5,497
Central office travel	1,523
Postage and shipping	2,647
Telephone	2,367
Board administrator fees	66,150
Legal and accounting	8,200
Dues and registration	19,295
Central office	3,405
Printing	399
Rent	9,975
Bank and credit card fees	14,942
Website	600
Enforcement:XTO	<u>4,189</u>
Total expenditures	<u>139,939</u>
Revenues over expenditures	36,939
Fund balance - July 1, 2015	<u>293,398</u>
Fund balance - June 30, 2017	<u><u>\$ 330,337</u></u>

See Notes to the Financial Statements



**NORTH DAKOTA STATE BOARD OF ARCHITECTURE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

For financial reporting purposes, the North Dakota State Board of Architecture includes all funds, programs, and activities over which it is financially accountable. The North Dakota State Board of Architecture does not have any component units as defined by the Government Accounting Standards Board, and is not a component unit of another reporting entity.

The North Dakota State Board of Architecture was created by North Dakota Statute (NDCC 43-03) to carry out duties imposed upon it by such statute. The main duties of the Board are to adopt rules and regulations to govern its proceedings, for the examination of candidates for registration, and for the regulation of the practice of architecture. Effective July 1, 2004, the Board's responsibility was expanded to include landscape architects. The Board's purpose is to protect the public health, safety and welfare against incompetent and unscrupulous practice.

**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 that are financed through fees. The Statement of Net Position presents the reporting entity's assets and liabilities, with the difference reported as net position. The net position are reported as unrestricted net position with constraints on resources which are imposed by management, but can be removed or modified.

**Unrestricted net position** consists of net position accumulated with no restrictions on their use. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have 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 North Dakota State Board of Architecture 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.

The Board reports the North Dakota State Board of Architecture's operating fund as a major governmental fund. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**NORTH DAKOTA STATE BOARD OF ARCHITECTURE**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017**

**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.

Major revenues that are susceptible to accrual include licensing fees and interest. 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.

**Cash and Cash Equivalents**

The Board considers all cash, money market accounts and certificates of deposit to be cash and cash equivalents.

**Pre-payment of Licenses**

Pre-payment of Licenses consists of licensing fees received in advance of the period the license is effective for. License fees are required to be paid for two years at a time. The second year's fees are recorded as revenue during the second year of the license.

**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 – prepaid expenses; or (b) legally or contractually required 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 governing board of the North Dakota State Board of Architecture - the Board's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the park board 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.

**NORTH DAKOTA STATE BOARD OF ARCHITECTURE**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017**

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 and executive director have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

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.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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. The Board does not have a formal deposit policy for custodial credit risk for deposits.

North Dakota State Board of Architecture maintains interest bearing cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000 per financial institution. At June 30, 2017, the Board had \$100,258 of deposits that were exposed to custodial credit risk.

**NOTE 3 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 fund:

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 ARCHITECTURE**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017**

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 4 NEW ACCOUNTING PRONOUNCEMENT**

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease 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 this statement will have on the Board's financial statements.

**NOTE 5 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Board's year end. Subsequent events have been evaluated through October 16, 2017, which is the date these financial statements were available to be issued.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**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 Architecture  
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 the North Dakota State Board of Architecture, as of and for the two years ended June 30, 2017, and the related notes to the financial statements, which collectively comprise North Dakota State Board of Architecture's basic financial statements and have issued our report thereon dated October 16, 2017.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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 material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 in the accompanying schedule of findings and responses as item #1 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 in the accompany schedule of findings and responses as items #2 and #3 to be significant deficiencies.

### **Compliance and Other Matters**

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

### **North Dakota State Board of Architecture's Response to Findings**

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

### **Purpose of this Report**

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



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

October 16, 2017

**NORTH DAKOTA STATE BOARD OF ARCHITECTURE**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE TWO YEARS ENDED JUNE 30, 2017**

**#1 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 with 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 Board reviews its current training system to determine if it is cost effective for the Board to obtain this knowledge internally.

**Views of Responsible Officials and Planned Corrective Actions**

Due to the financial, efficiency and time constraints, it has been determined by the Board and the management of the North Dakota State Board of Architecture that it is in the best interest of the North Dakota State Board of Architecture and all interested parties to have adjustments proposed by the auditing firm in order to for the general ledger accounts to be reflected on a GAAP basis.

**NORTH DAKOTA STATE BOARD OF ARCHITECTURE**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE TWO YEARS ENDED JUNE 30, 2017**

#2 Significant Deficiency: Preparation of the Financial Statements

Criteria

An appropriate system of internal control requires the Board to determine that financial statements are properly stated 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 does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause

The Board's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with accounting principles generally accepted in the United States of America. However, the Board is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation

We recommend that the Board reviews its current training system to determine if it is cost effective for the Board to obtain this knowledge internally. 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 Architecture's management that it is in the best interest of North Dakota State Board of Architecture 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 ARCHITECTURE**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE TWO YEARS ENDED JUNE 30, 2017**

#3 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 significant deficiency. The only alternative available to the board would be the hiring of additional staff, and current cash flows do not justify it. To mitigate the improper segregation of duties, the Board Secretary / Treasurer reviews monthly financial information. The board has reviewed the internal controls and procedures in place and believes the procedures in place provide adequate controls under these circumstances.