Financial Statements
June 30, 2019 and 2018

Office of the State Auditor

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OFFICE OF THE STATE AUDITOR

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For the Biennium Ended June 30, 2019

OFFICIALS

Joshua C. Gallion	State Auditor
Donald LaFleur	Director
Brianna Ludwig	Director of Communications
Ron Tolstad	Technical Specialist
Dan Cox	Chief Strategist
Heidi Morman	Accountant/Human Recourses
Allison Bader	Manager – Agency
Robyn Hoffmann	Manager – Agency
Dennis Roller	Manager – Mineral Royalty
Craig Hashbarger	Manager – Performance/Local Government

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Governor of North Dakota
The Legislative Assembly

Office of the State Auditor
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Office of the State Auditor as of and for the year ended June 30, 2019, and the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Auditor as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Office of the State Auditor'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 audits. We conducted our audits 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.

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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 each major fund of the Office of the State Auditor as of and for the year ended June 30, 2019, and the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Auditor as of and for the year ended June 30, 2018, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Correction of Error
As discussed in Note 10 to the financial statements, certain errors resulting in misstatements of amounts previously reported for capital assets, deferred inflows and outflows as of June 30, 2017, were discovered during the current year. Accordingly, adjustments have been made to beginning net position as of July 1, 2017 to correct the errors. Our opinions are not modified with respect to these matters.

Change in Accounting Principle
As discussed in Note 10 to the financial statements, the Office of the State Auditor has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2017. In accordance with GASB Statement No. 75, the 2017 financial statements have not been restated to reflect this change. Our opinions are not modified with respect to this matter.

Emphasis of Matter
As discussed in Note 1, the financial statements of the Office of the State Auditor are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of North Dakota that is attributable to the transactions of the Office of the State Auditor. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2019 and 2018, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Budgetary Comparison Schedule, Schedule of Employer's Share of Net Pension Liability and Schedule of Employer Contributions, Schedule of Employer's Share of Net OPEB Liability and Employer Contributions, and 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.

Management has omitted the management's discussion and analysis 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 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 the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office of the State Auditor's financial statements. The Office of the State Auditor Officials and Audit Personnel are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2020, on our consideration of the Office of the State Auditor's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Office of the State Auditor's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
January 13, 2020

OFFICE OF THE STATE AUDITOR
Statement of Net Position
June 30, 2019

		Governmental Activities 2019
ASSETS		
Cash and Investments	$	99,154
Due from Local Governments		176,561
Due from Federal Government		158,149
Due from Other State Agencies		75,476
Due from State General Fund		465,793
Capital Assets, Net		16,621
Total Assets	$	991,754
DEFERRED OUTFLOWS OF RESOURCES		
Derived from Pension and OPEB	$	2,626,964
Total Assets & Deferred Outflows of Resources	$	3,618,718
LIABILITIES		
Accounts Payable	$	80,802
Salary and Benefits Payable		471,431
Due to Other State Agencies		35,921
Due to State General Fund		182,248
Long-Term Liabilities		
Due Within One Year		
Long Term Debt		260
Compensated Absences Payable		39,368
Due After One Year		
Compensated Absences Payable		354,310
Net Pension and OPEB Liability		6,357,578
Total Liabilities	$	7,521,918
DEFERRED INFLOWS OF RESOURCES		
Derived from Pension and OPEB		551,451
Total Liabilities & Deferred Inflows of Resources	$	8,073,369
NET POSITION		
Net Investment in Capital Assets	$	16,361
Unrestricted		(4,471,012)
Total Net Position	$	(4,454,651)

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR

Statement of Activities

For the Year Ended June 30, 2019

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
			Operating	Capital	Governmental Activities
		Charges for	Grants and	Grants and	Primary
Functions/Programs	Expenses	Services	Contributions	Contributions	Government
Primary Government					
Administration	$ 1,075,409	$ -	$ -	$ -	$ (1,075,409)
State Agency Audits	3,587,743	1,002,034	-	-	(2,585,709)
NDUS Performance Audits	499,579	-	-	-	(499,579)
Mineral Royalty Audits	650,288	-	584,313	-	(65,975)
Local Government Audits	864,483	792,821	-	-	(71,662)
Interest on Long-Term Debt	191	-	-	-	(191)
Total Primary Government	$ 6,677,693	$1,794,855	$ 584,313	$ -	$ (4,298,525)
	General Revenues				
	Interest Income				$ 137
	Transfers				3,650,535
	Total General Revenues				$ 3,650,672
	Change in Net Position				$ (647,853)
	Net Position - January 1				$ (3,806,798)
	Net Position - December 31				$ (4,454,651)

The notes to the financial statements are an integral part of this statement.

	Major Funds			Total Governmental Funds
	General	Federal	Operating	
ASSETS				
Cash and Investments	$ -	$ -	$ 99,154	$ 99,154
Due from Local Governments	-	-	176,561	176,561
Due from Federal Government	-	158,149	-	158,149
Due from Other State Agencies	75,476	-	-	75,476
Due from General Fund	-	1,800	-	1,800
Due from State General Fund	465,781	-	12	465,793
Total Assets	$ 541,257	$ 159,949	$ 275,727	$ 976,933
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts Payable	$ 68,192	$ 6,215	$ 6,395	$ 80,802
Salaries and Benefits Payable	363,424	45,370	62,637	471,431
Due to Other State Agencies	32,365	1,592	1,964	35,921
Due to Federal Fund	1,800	-	-	1,800
Due to State General Fund	75,476	106,772	-	182,248
Total Liabilities	$ 541,257	$ 159,949	$ 70,996	$ 772,202
Fund Balances				
Committed				
Operating	$ -	$ -	$ 204,731	$ 204,731
Total Fund Balances	$ -	$ -	$ 204,731	$ 204,731
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 541,257	$ 159,949	$ 275,727	$ 976,933

The notes to the financial statements are an integral part of this statement.

Total *Fund Balances* for Governmental Funds		$ 204,731
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		16,621
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.		
Deferred Outflows Related to Pensions and OPEB	$ 2,626,964	
Deferred Inflows Related to Pensions and OPEB	(551,451)	2,075,513
Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term are reported in the statement of net position.		
Long-Term Debt	$ (260)	
Net Pension and OPEB Liability	(6,357,578)	
Compensated Absences Payable	(393,678)	(6,751,516)
Total Net Position of Governmental Activities		$ (4,454,651)

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2019

	Major Funds			Total Governmental Funds
	General	Federal	Operating	
Revenues				
Intergovernmental	$ -	$ 584,313	$ -	$ 584,313
Charges for Services	1,002,034	-	792,821	1,794,855
Interest Income	-	-	137	137
			-	
Total Revenues	$ 1,002,034	$ 584,313	$ 792,958	$ 2,379,305
Expenditures				
Current				
Administration	$ 958,457	$ -	$ -	$ 958,457
State Audits	3,240,128	-	-	3,240,128
NDUS Performance Audits	450,838	-	-	450,838
Mineral Royalty Audits	-	584,313	-	584,313
Local Government Audits	-	-	786,904	786,904
Debt Service			-	
Principal	2,955	-	-	2,955
Interest and Fees	191	-	-	191
Total Expenditures	$ 4,652,569	$ 584,313	$ 786,904	$ 6,023,786
Excess (Deficiency) of Revenues Over Expenditures	$ (3,650,535)	$ -	$ 6,054	$ (3,644,481)
Other Financing Sources (Uses)				
Transfers In	$ 4,652,569	$ -	$ -	$ 4,652,569
Transfers Out	(1,002,034)	-	-	(1,002,034)
Total Other Financing Sources (Uses)	$ 3,650,535	$ -	$ -	$ 3,650,535
Net Change in Fund Balances	$ -	$ -	$ 6,054	$ 6,054
Fund Balance - January 1	$ -	$ -	$ 198,677	$ 198,677
Fund Balance - December 31	$ -	$ -	$ 204,731	$ 204,731

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Net Change in *Fund Balances* - Total Governmental Funds		$ 6,054
The change in net position reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Current Year Capital Outlay	$ 9,599	
Current Year Depreciation Expense	(9,770)	(171)
In the statement of activities, only the loss on disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.		
Loss on Disposal of Capital Assets	$ (1,025)	(1,025)
The proceeds of debt issuances are reporting as other financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Repayment of Debt	$ 2,955	2,955
The net pension liability and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.		
Decrease in Net Pension Liability and OPEB	$ 12,964	
Decrease in Deferred Intflows of Resources Related to Pensions and OPEB	(439,094)	
Increase in Deferred Outflows of Resources Related to Pensions and OPEB	(266,489)	(692,619)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		
Decrease in Compensated Absences Liability	$ 36,953	36,953
Change in Net Position of Governmental Activities		$ (647,853)

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR
Statement of Net Position
June 30, 2018

	Governmental Activities	
	Primary Government	
ASSETS		
Cash and Investments	$	120,443
Due from Local Governments		150,551
Due from Federal Government		150,064
Due from Other State Agencies		327,550
Due from State General Fund		387,665
Capital Assets, Net		17,817
Total Assets	$	1,154,090
DEFERRED OUTFLOWS OF RESOURCES		
Derived from Pension and OPEB	$	3,066,058
Total Assets & Deferred Outflows of Resources	$	4,220,148
LIABILITIES		
Accounts Payable	$	16,552
Salary and Benefits Payable		474,582
Due to Other State Agencies		14,795
Due to State General Fund		431,667
Long-Term Liabilities		
Due Within One Year		
Long Term Debt		2,955
Compensated Absences Payable		43,063
Due After One Year		
Long Term Debt		260
Compensated Absences Payable		387,568
Net Pension and OPEB Liability		6,370,542
Total Liabilities	$	7,741,984
DEFERRED INFLOWS OF RESOURCES		
Derived from Pension and OPEB		284,962
Total Liabilities & Deferred Inflows of Resources	$	8,026,946
NET POSITION		
Net Investment in Capital Assets	$	14,602
Unrestricted		(3,821,400)
Total Net Position	$	(3,806,798)

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR

Statement of Activities

For the Year Ended June 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
			Operating	Capital	Governmental Activities
		Charges for	Grants and	Grants and	Primary
Functions/Programs	Expenses	Services	Contributions	Contributions	Government
Primary Government					
Administration	$ 788,560	$ -	$ -	$ -	$ (788,560)
State Agency Audits	3,786,629	511,392	-	-	(3,275,237)
NDUS Performance Audits	461,373	-	-	-	(461,373)
Mineral Royalty Audits	613,104	-	562,821	-	(50,283)
Local Government Audits	891,366	831,748	-	-	(59,618)
Conferences	6,500	6,500	-	-	-
Interest on Long-Term Debt	475	-	-	-	(475)
Total Primary Government	$ 6,548,007	$1,349,640	$ 562,821	$ -	$ (4,635,546)

General Revenues	
Interest Income	$ 63
Transfers	4,096,489
Total General Revenues	$ 4,096,552
Change in Net Position	$ (538,994)
Net Position - January 1	$ (3,379,993)
Prior Period Adjusments	112,189
Net Position - January 1 - As Restated	$ (3,267,804)
Net Position - December 31	$ (3,806,798)

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR
Balance Sheet – Governmental Funds
June 30, 2018

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Federal	Operating		
ASSETS					
Cash and Investments	$ -	$ -	$ 115,072	$ 5,371	$ 120,443
Due from Local Governments	-	-	150,551	-	150,551
Due from Federal Government	-	150,064	-	-	150,064
Due from Other State Agencies	327,550	-	-	-	327,550
Due from State General Fund	387,659	-	6	-	387,665
Total Assets	$ 715,209	$ 150,064	$ 265,629	$ 5,371	$ 1,136,273
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts Payable	$ 10,181	$ 123	$ 877	$ 5,371	$ 16,552
Salaries and Benefits Payable	365,694	44,676	64,212	-	474,582
Due to Other State Agencies	11,784	1,148	1,863	-	14,795
Due to State General Fund	327,550	104,117	-	-	431,667
Total Liabilities	$ 715,209	$ 150,064	$ 66,952	$ 5,371	$ 937,596
Fund Balances					
Committed					
Operating	$ -	$ -	$ 198,677	$ -	$ 198,677
Total Fund Balances	$ -	$ -	$ 198,677	$ -	$ 198,677
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 715,209	$ 150,064	$ 265,629	$ 5,371	$ 1,136,273

The notes to the financial statements are an integral part of this statement.

Total *Fund Balances* for Governmental Funds		$ 198,677
Total net position reported for government activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		17,817
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.		
Deferred Outflows Related to Pensions and OPEB	$ 3,066,058	
Deferred Inflows Related to Pensions and OPEB	(284,962)	2,781,096
Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term are reported in the statement of net position.		
Long-Term Debt	$ (3,215)	
Net Pension and OPEB Liability	(6,370,542)	
Compensated Absences Payable	(430,631)	(6,804,388)
Total Net Position of Governmental Activities		$ (3,806,798)

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2018

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Federal	Operating		
Revenues					
Intergovernmental	$ -	$ 562,821	$ -	$ -	$ 562,821
Charges for Services	511,392	-	831,748	-	1,343,140
Interest Income	-	-	63	-	63
Conference Registration Fees	-	-	-	6,500	6,500
			-		
Total Revenues	$ 511,392	$ 562,821	$ 831,811		$ 1,912,524
Expenditures					
Current					
Administration	$ 709,459	$ -	$ -	$ -	$ 709,459
State Audits	3,470,208	-	-	-	3,470,208
NDUS Performance Audits	425,068	-	-	-	425,068
Mineral Royalty Audits	-	562,821	-	-	562,821
Local Government Audits	-	-	828,442	-	828,442
Conference Expenses	-	-	-	6,500	6,500
Debt Service			-		
Principal	2,671	-	-	-	2,671
Interest and Fees	475	-	-	-	475
Total Expenditures	$ 4,607,881	$ 562,821	$ 828,442		$ 6,005,644
Excess (Deficiency) of Revenues Over Expenditures	$ (4,096,489)	$ -	$ 3,369	$ -	$ (4,093,120)
Other Financing Sources (Uses)					
Transfers In	$ 4,607,881	$ -	$ -	$ -	$ 4,607,881
Transfers Out	(511,392)	-	-	-	(511,392)
Total Other Financing Sources (Uses)	$ 4,096,489	$ -	$ -	$ -	$ 4,096,489
Net Change in Fund Balances	$ -	$ -	$ 3,369	$ -	$ 3,369
Fund Balance - January 1	$ -	$ -	$ 195,308	$ -	$ 195,308
Fund Balance - December 31	$ -	$ -	$ 198,677	$ -	$ 198,677

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE STATE AUDITOR

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Net Change in *Fund Balances* - Total Governmental Funds		$ 3,369
The change in net position reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Current Year Depreciation Expense	$ (10,781)	(10,781)
The proceeds of debt issuances are reporting as other financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Repayment of Debt	$ 2,670	2,670
The net pension liability and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.		
Increase in Net Pension Liability and OPEB	$ (2,399,531)	
Increase in Deferred Intflows of Resources Related to Pensions and OPEB	1,747,096	
Decrease in Deferred Outflows of Resources Related to Pensions and OPEB	66,462	(585,973)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		
Decrease in Compensated Absences Liability	$ 51,721	51,721
Change in Net Position of Governmental Activities		$ (538,994)

The notes to the financial statements are an integral part of this statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Office of the State Auditor have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office of the State Auditor's accounting policies are described below.

A. Reporting Entity

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

Based upon these criteria, there are no component units to be included within the Office of the State Auditor as a reporting entity and the Office of the State Auditor is an agency within the State of North Dakota as a reporting entity.

B. Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information on all activities of the Office of the State Auditor. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions.

The Statement of Net Position presents the reporting entity's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net Investment in capital assets - consists of a capital asset, net of accumulated depreciation.

Restricted net position - results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Net position restricted by enabling legislation is subject to change by a majority vote of the Legislative Assembly.

Unrestricted net position - consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often is designated to indicate management does not consider it 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 presents a comparison between direct expenses and program revenues for each function of the Office of the State Auditor's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (b) grants and contributions that are restricted to meeting the operational requirements of a particular function.

Fund Financial Statements. The fund financial statements provide information about the Office of the State Auditor's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Office of the State Auditor reports the following major governmental funds:

> General Fund – This is the principle operating fund of the agency. It is used to account for all financial resources that are not accounted for in other funds. Included are transactions involving administration, state agency audits, and NDUS performance audits.
>
> Federal Fund - This fund accounts for all the financial resources from the federal government, which finances the Mineral Royalty Audit Division.
>
> Operating Fund - This fund accounts for all activities of the Local Government Division.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.
Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. 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 determined to be susceptible to accrual include federal grants and audit fees. All revenues are determined to be available if collected within one year of fiscal year-end. Revenues earned under the terms of reimbursement agreements with other governments are recorded at the time the related expenditures are made if other eligibility requirements have been met.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. General Budgetary Policies and Procedures

The Office of the State Auditor operates through a biennial appropriation provided by the State Legislature. The Office prepares a biennial budget, which is included in the Governor's budget presented to the Legislative Assembly at the beginning of each legislative session. The Legislative Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override.

Once passed and signed, the appropriation bill becomes the department's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, referendum, or allotment action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate an intent to reject the money. Unexpended appropriations lapse at the end of each biennium.

The biennial budget is prepared primarily on a cash basis. Encumbrance accounting is not used. The legal level of budgetary control is at the funding source and expenditure line item level. Revenues are not formally budgeted and expenditures are not budgeted by fund. The agency appropriation is defined through the use of specific expenditure line items.

E. Cash

Cash consists of money on deposit with the State Treasurer.

F. Receivables

Receivables include amounts “due from other state agencies” (state agency audits) and “due from local governments” (local government audits) for audits performed during the year.

G. Due From State General Fund

“Due from state general fund” is the amount needed from the state general fund to liquidate accrued payroll and liabilities of the Office of the State Auditor general fund.

H. Due From Federal Government

The Office of the State Auditor has a contract with the United States Department of the Interior - Minerals Management Service for audit and related investigations of federal oil and gas leases located in the state of North Dakota. It is the Office of the State Auditor’s policy to recognize federal revenue as allowable expenditures are incurred. Due from federal government represents amounts receivable for reimbursable expenditures incurred by June 30.

I. Transfers

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. “Transfers In” consists of transfers from the state’s general fund and “Transfers Out” consists of transfers to the state’s general fund.

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

K. 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.

L. 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, 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.

M. Net Position/Fund Balances

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources on the agency-wide statements. Fund balance represents the difference between assets and liabilities on the governmental fund statements. Fund balance classifications for governmental funds are reported in two general classifications, nonspendable and spendable. Nonspendable represents the portion of fund balance that is not in spendable form such as inventories and prepaids. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State constitution and external parties, such as the federal government, or through enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the state's legislature, through legislation, that is not considered as enabling legislation, passed into law.

Assigned fund balance classifications are used when the amounts are to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. The assignment of fund balance is generally initiated by the executive branch and later appropriated by the Legislature for a specific purpose.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification would only be used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The balance sheet amounts shown as committed fund balances in the operating fund can be used only for expenses relating to political subdivision audits in accordance with North Dakota Century Code. This commitment of fund balance can only be changed by an act of the State Legislature. The balance sheet amounts shown as assigned in the other governmental funds can only be used for conference activity.

NOTE 2: DEPOSITS

Custodial Credit Risk

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

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "all state funds . . . must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

At June 30, 2019 and 2018, the bank balances of the Office of the State Auditor's deposits were $99,154 and $120,443, respectively. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. All of the Office of the State Auditor's deposits are at the Bank of North Dakota. Deposits with the Bank of North Dakota are considered uninsured; however, these deposits are guaranteed by the state of North Dakota (NDCC Chapter 6-09-10).

NOTE 3: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2019:

Governmental Activities	Balance 7/1/18	Increases	Decreases	Transfers	Balance 6/30/18
Capital assets, being depreciated					
Equipment	$ 36,441	$ 9,599	$ 12,297	$ -	$ 33,743
Total Capital Assets, Being Depreciated	$ 36,441	$ 9,599	$ 12,297	$ -	$ 33,743
Less accumulated depreciation for					
Equipment*	18,624	9,770	11,272	-	17,122
Total Accumulated Depreciation	$ 18,624	$ 9,770	$ 11,272	$ -	$ 17,122
Total Capital Assets Being Depreciated, Net	$ 17,817	$ (171)	$ 1,025	$ -	$ 16,621
Toal Capital Assets, Net	$ 17,817	$ (171)	$ 1,025	$ -	$ 16,621

*Depreciation expense was charged to functions of the Administration function.

The following is a summary of changes in capital assets for the year ended June 30, 2018:

Governmental Activities	Bal 7/1/17 Restated	Increases	Decreases	Transfers	Balance 6/30/18
Capital assets, being depreciated					
Equipment	$ 36,441	$ -	$ -	$ -	$ 36,441
Total Capital Assets, Being Depreciated	$ 36,441	$ -	$ -	$ -	$ 36,441
Less accumulated depreciation for					
Equipment*	7,843	10,781	-	-	18,624
Total Accumulated Depreciation	$ 7,843	$ 10,781	$ -	$ -	$ 18,624
Total Capital Assets Being Depreciated, Net	$ 28,598	$ (10,781)	$ -	$ -	$ 17,817
Toal Capital Assets, Net	$ 28,598	$ (10,781)	$ -	$ -	$ 17,817

*Depreciation expense was charged to functions of the Administration function.

NOTE 4: LONG-TERM LIABILITIES

Primary Government

During the year ended June 30, 2019, the following changes occurred in governmental activities long-term liabilities:

Governmental Activities	Balance 7/1/18	Increases	Decreases	Balance 6/30/19	Due Within One Year
Long-Term Debt					
Leases	$ 3,215	$ -	$ 2,955	$ 260	$ 260
Total Long-Term Debt	$ 3,215	$ -	$ 2,955	$ 260	$ 260
Compensated Absences*	$ 430,631	$ -	$ 36,953	$ 393,678	$ 39,368
Net Pension and OPEB Liability*	6,370,542	-	12,964	6,357,578	-
Total Long-Term Liabilties	$ 6,804,388	$ -	$ 52,872	$ 6,751,516	$ 39,628

During the year ended June 30, 2018, the following changes occurred in governmental activities long-term liabilities:

Governmental Activities	Balance Restated 7/1/17	Increases	Decreases	Balance 6/30/18	Due Within One Year
Long-Term Debt					
Leases	$ 5,885	$ -	$ 2,670	$ 3,215	$ 2,955
Total Long-Term Debt	$ 5,885	$ -	$ 2,670	$ 3,215	$ 2,955
Compensated Absences*	$ 482,352	$ -	$ 51,721	$ 430,631	$ 43,063
Net Pension and OPEB Liability*	3,971,011	2,399,531	-	6,370,542	-
Total Long-Term Liabilties	$ 4,459,248	$ 2,399,531	$ 54,391	$ 6,804,388	$ 46,018

NOTE 5: CAPITAL LEASE

The Office of the State Auditor is obligated under a capital lease for a copy machine. The five-year lease was entered into in August 2014 for a copy machine with a cost of $12,297. In the agency-wide statements, a capital asset and a corresponding liability are recorded at the inception of the lease. The liability is reduced by payments of principal, with the payments of interest allocated to expense. For capital leases in governmental funds, other financing sources and capital outlay are recorded at lease inception. Lease payments are recorded as expenditures.

The future minimum lease payments under the capital lease is $262 to be paid in FY2020 and the present value of the net minimum lease payments at June 30, 2019 is $260.

NOTE 6: OPERATING LEASES

The Office of the State Auditor leases office space under cancelable operating leases. Total expenditures for these leases for the years ended June 30, 2019 and 2018 were $112,869 and $112,116, respectively.

NOTE 7: PENSION PLAN

General Information about the NDPERS 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, 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 equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contributions rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25 and the maximum may not exceed the following:

1 to 12 months of service	Greater of one percent of monthly salary or $25
13 to 24 months of service	Greater of two percent of monthly salary or $25
25 to 36 months of service	Greater of three percent of monthly salary or $25
Longer than 36 months of service	Greater of four percent of monthly salary or $25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019 and June 30, 2018, the following net pension liabilities were reported:

	Net Pension Liability
FY2019	$ (6,090,716)
FY2018	(6,087,836)

The net pension liability for FY2019 and FY2018 were measured as of June 30, 2018 and June 30, 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The proportion of the net pension liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018 and June 30, 2017, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 and June 30, 2016 measurement	Pension Expense
FY2019	0.360908%	-0.017847%	$ 965,838
FY2018	0.378755%	0.000421%	915,607

At June 30, 2019, the following deferred outflows of resources and deferred inflows of resources were reported related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 16,122	$ 207,218
Changes of Assumptions	2,198,622	86,933
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	29,632
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	77,773	204,700
Employer Contributions Subsequent to the Measurement Date	261,803	-
Total	$ 2,554,320	$ 528,483

At June 30, 2018, the following deferred outflows of resources and deferred inflows of resources were reported related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 36,186	$ 29,661
Changes of Assumptions	2,496,423	137,309
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	81,876	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	104,546	100,408
Employer Contributions Subsequent to the Measurement Date	274,672	-
Total	$ 2,993,703	$ 267,378

$261,803 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

2019	$ 587,928
2020	507,473
2021	443,458
2022	222,144
2023	3,031

Actuarial Assumptions

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

Inflation	2.50%	
Salary increases	Service at Beginning of year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 30	10.00%
	30 – 39	7.50%
	40 – 49	6.75%
	50 – 59	6.50%
	60+	5.25%
	* Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, net of investment expenses	
Cost–of-living adjustments	None	

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates are based on the RP-2000 Disabled Retiree Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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

Asset Class	Target Allocation	Long -Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.2%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

Discount Rate

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

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

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount rate

The following presents the Office of the State Auditor's proportionate share of the net pension liability at June 30, 2019 and June 30, 2018 calculated using the discount rate of 6.32 and 6.44 percent, respectively, as well as what the Office of the State Auditor's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

FY2019	**1% Decrease (5.32%)**	**Current Discount Rate (6.32%)**	**1% Increase (7.32%)**
Proportionate Share of the Net Pension Liability	$ 8,276,151	$ 6,090,716	$ 4,267,041

FY2018	**1% Decrease (5.44%)**	**Current Discount Rate (6.44%)**	**1% Increase (7.44%)**
Proportionate Share of the Net Pension Liability	$ 8,264,423	$ 6,087,836	$ 4,277,006

Pension Plan Fiduciary Net Position

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

NOTE 8: OPEB PLAN

General Information about the OPEB Plan

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. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

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

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as *"prefunded credit applied"* on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to $5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

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

At June 30, 2019 and June 30, 2018, the following net OPEB liabilities were reported:

	Net OPEB Liability
FY2019	$ 266,862
FY2018	282,706

The net FY2019 and FY2018 OPEB liabilities were measured as of June 30, 2018 and June 30, 2017 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net OPEB liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2018 and June 30, 2017, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 and June 30, 2016 measurement	Pension Expense
FY2019	0.338843%	-0.018556%	$ 31,276
FY2018	0.357399%	0.357399%	34,233

At June 30, 2019, the following deferred outflows of resources and deferred inflows of resources were reported related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 7,991	$ 5,514
Changes of Assumptions	21,896	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	5,741
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	839	11,713
Employer Contributions Subsequent to the Measurement Date	41,918	-
Total	$ 72,644	$ 22,968

At June 30, 2018, the following deferred outflows of resources and deferred inflows of resources were reported related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ -	$ 6,895
Changes of Assumptions	27,382	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	10,689
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	995	-
Employer Contributions Subsequent to the Measurement Date	43,978	-
Total	$ 72,355	$ 17,584

$41,918 is 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 OPEB liability in the year ended June 30, 2020.

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

2019	$ 537
2020	537
2021	537
2022	3,070
2023	2,605
2024	648
Thereafter	(176)

Actuarial assumptions

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

Inflation	2.50%
Salary Increases	Not applicable
Investment Rate of Return	7.50%, net of investment expenses
Cost-of-Living Adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

Discount rate

The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the County's and Health District'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, 2018 and June 30, 2017, respectively, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

FY2019	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate Share of the Net OPEB Liability	$ 337,644	$ 266,862	$ 206,183

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate Share of the Net OPEB Liability	$ 353,914	$ 282,706	$ 221,669

NOTE 9: RISK MANAGEMENT

The Office of the State Auditor is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state and its agencies' employees, and the university system. All state agencies participate in the RMF and their fund contribution is 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 Office of the State Auditor also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of $1,000,000 per occurrence. The State Bonding Fund currently provides the Office with blanket fidelity bond coverage in the amount of $925,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Office participates in the North Dakota Worker's Compensation Bureau, 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 years and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10: PRIOR PERIOD ADJUSTMENTS

Change in Accounting Principle – GASB 75 - OPEB:

Net position as of July 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financing Reporting for Postemployment Benefit Plans Other than Pensions.*

The result of implementing GASB 75 reduced beginning net position for the governmental activities of the Office of the State Auditor, which consists of the net OPEB liability related to the North Dakota Public Employees Retirement System (NDPERS).

Prior Period Errors

Beginning net position adjustments were necessary for capital assets, and also for errors in the prior year's reporting of deferred inflows and outflows relating to pensions.

Adjustments to beginning net position are as follows:

Governmental Activities	Amounts
Beginning Net Position, as Previously Reported	$ (3,379,993)
Adjustments to restate the July 1, 2017 Net Position	
OPEB Liability	(283,777)
Deferred Inflows Related to Pension & OPEB	355,249
Deferred Outflows Related to Pension & OPEB	17,243
Capital Assets - Cost	24,144
Capital Assets - Depreciation	(670)
Net Position July 1, as restated	$ (3,267,804)

NOTE 11: RELATED PARTIES

As noted in “Note 1” of these financial statements, the Office of the State Auditor is an agency of the state of North Dakota; therefore other agencies of the state are related parties.

OFFICE OF THE STATE AUDITOR

Budgetary Comparison Schedule – All Funds
For the Biennium Ended June 30, 2019

	Original Appropriation	Adjustments	Final Appropriation	Actual	Variance with Final Budget
Resources					
General Fund Transfer	$ 9,498,608	$ 16,000	$ 9,514,608	$ 9,260,450	$ (254,158)
General Fund Revenue	-	-	-	1,513,426	1,513,426
Federal Fund Revenue	1,463,285	-	1,463,285	1,147,134	(316,151)
Special Fund Revenue	1,948,202	-	1,948,202	1,624,769	(323,433)
Conference Revenue	-	-	-	6,500	6,500
Amounts Available for Appropriation	$12,910,095	$ 16,000	$12,926,095	$13,552,279	$ 626,184
Charges to Appropriations					
Payroll	$11,767,312	$ -	$11,767,312	$11,001,691	$ 765,621
Operating	1,142,783	-	1,142,783	1,008,440	134,343
Capital Assets		16,000	16,000	12,799	3,201
Conference Expenses	-	-	-	6,500	(6,500)
Total Charges to Appropriations	$12,910,095	$ 16,000	$12,926,095	$12,029,430	$ 896,665

Schedule of Employer's Share of Net Pension Liability
ND Public Employee's Retirement System
Last 10 Fiscal Years

	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.360908%	$ 6,090,716	$ 3,707,674	164.27%	62.80%
2018	0.378755%	6,087,836	3,866,491	157.45%	61.98%
2017	0.378334%	3,687,234	3,812,718	96.71%	70.46%
2016	0.356906%	2,426,900	3,179,602	76.33%	77.15%
2015	0.384925%	2,443,201	3,242,528	75.35%	77.70%

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2019	$ 273,086	$ 275,339	$ (2,253)	$ 3,707,674	7.43%
2018	280,368	287,893	(7,525)	3,866,491	7.45%
2017	276,034	263,759	12,275	3,812,718	6.92%
2016	241,516	246,821	(5,305)	3,179,602	7.76%
2015	230,868	230,868	-	3,242,528	7.12%

The accompanying required supplementary information notes are an integral part of this schedule.

Schedule of Employer's Share of Net OPEB Liability
ND Public Employees Retirement System
Last 10 Fiscal Years

	District's Proportion of the Net OPEB Liability (Asset)	District's Proportionate Share of the Net OPEB (Asset)	District's Covered-Employee Payroll	District's Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2019	0.338843%	$ 266,862	$ 3,707,674	7.20%	61.89%
2018	0.357399%	282,706	3,866,491	7.31%	59.78%

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2019	$ 43,489	$ 44,085	(596)	$ 3,707,674	1.19%
2018	44,945	46,096	(1,151)	3,866,491	1.19%

The accompanying required supplementary information notes are an integral part of this schedule.

NOTE 1: SCHEDULE OF PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

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

NOTE 2: PENSION AND OPEB - CHANGES OF ASSUMPTIONS

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

CPAs & BUSINESS ADVISORS

Independent Auditor's Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee

Governor of North Dakota
The Legislative Assembly

Office of the State Auditor
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the June 30, 2019 and 2018, audits of the Office of the State Auditor are as follows:

Audit Report Communications

1. **What type of opinion was issued on the financial statements?**

   Unmodified

2. **Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?**

   Yes

3. **Was internal control adequate and functioning effectively?**

   Yes

4. **Were there any indications of lack of efficiency in financial operations and management of the agency?**

   No

5. **Was action taken on prior audit findings and recommendations?**

   No

6. **Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.**

   No

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Audit Committee Communications

1. **Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions?**

   The SAO changed accounting policies related to accounting for OPEB to adopt the provisions of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2017.

2. **Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates?**

   The most sensitive estimates affecting the financial statements were the valuation of the work-in–process receivables, net pension liability, and net OPEB liability. The estimate of the WIP receivables is based on the percentage of the audit completed divided by the total budgeted hours for the audit. The auditor's conclusion regarding the reasonableness of this estimate is based on accuracy of the estimates based on these factors. Management's estimate of the net pension liability and net OPEB liability are based on an actuary's calculation in accordance with the employment contracts. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

3. **Identify any significant audit adjustments?**

   Adjustment to WIP receivables.

4. **Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to the financial accounting, reporting, or auditing matter that could be significant to the financial statements?**

   None

5. **Identify any serious difficulties encountered in performing the audit.**

   None

6. **Identify any major issues discussed with management prior to retention.**

   None

7. **Identify any management consultations with other accountants about auditing and accounting matters.**

   None

8. **Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions to be assessed by auditors are directly related to the operations of an information technology system.**

   None

This report is intended solely for the information and use of the Legislative Audit and Fiscal Review Committee, management, and other state officials, and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
January 13, 2020

CPAs & BUSINESS ADVISORS

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

Governor of North Dakota
The Legislative Assembly

Office of the State Auditor
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Office of the State Auditor as of and for the year ended June 30, 2019, and the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Auditor as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Office of the State Auditor's basic financial statements, and have issued our report thereon dated January 13, 2020.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Office of the State Auditor'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 the Office of the State Auditor's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Auditor's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office of the State Auditor'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*.

Office of the State Auditor's Response to Findings

Office of the State Auditor's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Office of the State Auditor's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Eide Bailly LLP

Bismarck, North Dakota
January 13, 2020

2019-001 Audit Adjustments

Material Weakness

Criteria: The work in process balance should not include jobs that are fully billed or will not be billed.

Condition: The work in process balance did not appropriately reflect the amount earned by the Office of the State Auditor at the end of each fiscal year.

Cause: The discrepancy was caused by jobs being improperly included in the work in process balance and going undetected by someone within the entity.

Effect: The financial statements needed to be adjusted by $4,515 for the year ended June 30, 2019, and $19,491 for the year ended June 30, 2018.

Recommendation: We recommend the work in process and accounts receivable worksheets be appropriately reviewed to ensure correct formulas and to prevent job balances from being improperly included.

Views of Responsible Officials: The Office of the State Auditor concurs with this recommendation and will put procedures in place to ensure accounts receivables and work in progress are properly computed and reported.