

***EDUCATION STANDARDS
AND PRACTICES BOARD***

AUDIT REPORT

JUNE 30, 2014

EDUCATION STANDARDS AND PRACTICES BOARD
June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Education Standards and Practices Board
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 Education Standards and Practices Board, Bismarck, North Dakota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board'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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure 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.

INDEPENDENT AUDITOR'S REPORT

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 Education Standards and Practices Board as of June 30, 2014 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 17 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2016, on our consideration of the Education Standards and Practices Board'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 Education Standards and Practices Board's internal control over financial reporting and compliance.



Mahlum Goodhart, PC
Mandan, North Dakota
September 6, 2016

Education Standards and Practices Board
Management's Discussion and Analysis
June 30, 2014

This section of the Education Standards and Practices Board's annual financial report presents our discussion and analysis of the Board's financial performance during the year ended June 30, 2014. Please read it in conjunction with the Board's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of Education Standards and Practices Board exceeded its liabilities at the close of the 2014 fiscal year by \$1,341,632 (*net position*). Of this amount, \$746,495 (*unrestricted net position*) may be used to meet the Board's ongoing obligations.
- As of the close of the 2014 fiscal year, Education Standards and Practices Board's governmental funds reported ending fund balances of \$1,359,090.
- Education Standards and Practices Board received a grant from the North Dakota Department of Public Instruction to create a mentor and coaching program for teachers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The Board's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of statements that present different views of the Board. Because the Board is engaged in a single governmental program, the statements have been presented in a combined format.

- The *government-wide financial statements* provide both *long-term* and *short-term* information about the Board's overall finances. These statements are presented in the right column on pages 8 and 9 following the adjustments column.
- The *fund financial statements* focus on *individual parts* of the government, reporting the Board's operations in *more detail* than the government-wide financial statements. These statements are presented in the left column on pages 8 and 9 before the adjustments column. The *governmental funds* statements tell how *general government* services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Education Standards and Practices Board
Management's Discussion and Analysis
June 30, 2014

Government-Wide Statements

The government-wide statements report information about the Board as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the government's assets and liabilities. The statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The two government-wide statements report the Board's net position and how they have changed. Net position – the difference between the Board's assets and liabilities – are one way to measure the Board's financial health or position. Over time, increases or decreases in the Board's net position are an indicator of whether its financial health is improving or deteriorating, respectively. But to assess the overall health of the Board, you also need to consider nonfinancial factors.

The governmental activities of the Board include supervising the licensure of teachers; setting standards for and approving teacher preparation programs; and issuing minor equivalency endorsements, developing and revising, consistent with state law, professional codes or standards relating to ethics, conduct, and professional performance and practices.

Fund Financial Statements

The fund financial statements provide more detailed information about the Board's most significant *funds* – not the Board as a whole. Funds are accounting devices that the Board uses to keep track of specific sources of funding and spending for particular purposes. The Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Board has only one type of funds:

- *Governmental funds* – Most of the Board's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide a reconciliation at the bottom of each financial statement that explains the differences between the governmental funds total column and the government-wide statement column.

The Board adopts an annual budget for its governmental funds. Budgetary comparison statements have been provided for the general fund and the special revenue fund to demonstrate compliance with the budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As stated earlier, net position may serve over time as a useful indicator of a government's financial position. The Board's assets exceeded liabilities by \$1,341,632 at June 30, 2014 and by \$1,361,726 at June 30, 2013. The net position decreased by \$20,094 for the year ended June 30, 2014 and increased by \$590,239 for the year ended June 30, 2013.

Unrestricted net position may be used to fund Board activities in the next fiscal year.

Education Standards and Practices Board
Management's Discussion and Analysis
June 30, 2014

	Governmental Activities	
	6/30/2014	6/30/2013
Assets:		
Current and other assets	\$ 1,383,775	\$ 1,550,987
Capital assets, net of accumulated depreciation	<u>25,138</u>	<u>28,046</u>
Total Assets	<u>1,408,913</u>	<u>1,579,033</u>
Liabilities:		
Current liabilities	24,685	180,975
Long-term liabilities	<u>42,596</u>	<u>36,332</u>
Total Liabilities	<u>67,281</u>	<u>217,307</u>
Net Position:		
Invested in capital assets, net of related debt	25,138	28,046
Restricted for Teacher Support Program	569,999	583,811
Unrestricted	<u>746,495</u>	<u>749,869</u>
Total Net Position	<u>\$ 1,341,632</u>	<u>\$ 1,361,726</u>

	Governmental Activities	
	FYE 6/30/2014	FYE 6/30/2013
Revenues:		
Program Revenues:		
Licensing Fees	\$ 586,885	\$ 580,870
Grants	1,100,000	1,626,443
Fingerprinting & Portfolio	70,749	70,259
Other Income	42,750	32,050
General Revenues:		
Investment Earnings	<u>8,649</u>	<u>4,825</u>
Total Revenues	1,809,033	2,314,447
Expenses:		
Licensing & Regulation	761,245	771,140
Teacher Support Program Grant	1,060,919	946,326
Depreciation	<u>6,963</u>	<u>6,742</u>
Total Expenses	<u>1,829,127</u>	<u>1,724,208</u>
Change in Net Position	(20,094)	590,239
Net Position, Beginning of Year	<u>1,361,726</u>	<u>771,487</u>
Net Position, End of Year	<u>\$ 1,341,632</u>	<u>\$ 1,361,726</u>

Education Standards and Practices Board
Management's Discussion and Analysis
June 30, 2014

The Board's total revenues were \$1,809,033 and \$2,314,447, for the years ended June 30, 2014 and 2013, respectively. Licensing fees were 32% and 25% and grant revenues were 61% and 70% of the Board's revenue for the fiscal years 2014 and 2013, respectively. The total cost of all programs and services was \$1,829,127 and \$1,724,208, for the years ended June 30, 2014 and 2013, respectively.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

- Revenues from governmental fund types totaled \$1,809,033 and \$2,314,447, for the years ended June 30, 2014 and 2013, respectively.
- Expenditures totaled \$1,819,955 and \$1,738,011, for the years ended June 30, 2014 and 2013, respectively.
- Total fund balances decreased by \$10,922 for the year ended June 30, 2014 and increased by \$576,436 for the year ended June 30, 2013.

GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

General Fund:

- The Board budget was not amended during the 2014 fiscal year.
- For the year ended June 30, 2014, actual revenues were \$34,880 more than budgeted.
- Actual expenditures were \$79,166 less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the Board's investment in capital assets was \$25,138 (net of accumulated depreciation). The investment in capital assets at the end of fiscal year 2013 was \$28,046. This investment includes furniture, fixtures and office equipment. Additional information on the Board's capital assets can be found in Note 3 of this report.

Long Term Debt

The Board has recorded a liability for compensated absences. The Board is liable for compensated absences in the event an employee leaves employment. The liabilities recorded at June 30, 2014 and 2013 were \$42,596 and \$36,332.

Additional information on the Board's long-term debt can be found in Note 4 of this report.

Education Standards and Practices Board
Management's Discussion and Analysis
June 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For 2015,

- Revenues are budgeted at \$627,000 and transfers in at \$60,000.
- Expenditures are budgeted at \$814,445.

The Board has added no major new programs to the 2015 budget. If these estimates are realized, the Board will report a decrease in the general fund balance of \$127,445 by the close of the 2015 fiscal year.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Education Standards and Practices Board, 2718 Gateway Avenue, Suite 204, Bismarck, ND 58503-0585.

Education Standards and Practices Board
Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2014

	<u>Governmental Funds Balance Sheet</u>			Adjustments	Statement of Net Position
	General Fund	Special Revenue Fund	Total		
ASSETS					
Cash and Cash Equivalents	\$ 132,109	\$ 20,323	\$ 152,432	\$ -	\$ 152,432
Investments	671,006	-	671,006	-	671,006
Accounts Receivable	-	500,000	500,000	-	500,000
Due from General Fund	-	1,929	1,929	(1,929)	-
Prepaid Expenses	3,150	57,187	60,337	-	60,337
Furniture & Equipment, Net of Accumulated Depreciation	-	-	-	25,138	25,138
Total Assets	<u>\$ 806,265</u>	<u>\$ 579,439</u>	<u>\$ 1,385,704</u>	<u>23,209</u>	<u>1,408,913</u>
LIABILITIES					
Accounts Payable	\$ 7,153	\$ 6,155	\$ 13,308	-	13,308
Due to Teacher Support Fund	1,929	-	1,929	(1,929)	-
Payroll Taxes Payable	8,092	3,285	11,377	-	11,377
Long-Term Liabilities:					
Due within One Year	-	-	-	42,596	42,596
Total Liabilities	<u>17,174</u>	<u>9,440</u>	<u>26,614</u>	<u>40,667</u>	<u>67,281</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Restricted for Grant	-	512,812	512,812	(512,812)	-
Nonspendable - Prepaid Expenses	3,150	57,187	60,337	(60,337)	-
Unassigned	<u>785,941</u>	<u>-</u>	<u>785,941</u>	<u>(785,941)</u>	<u>-</u>
Total Fund Balances	<u>789,091</u>	<u>569,999</u>	<u>1,359,090</u>	<u>(1,359,090)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 806,265</u>	<u>\$ 579,439</u>	<u>\$ 1,385,704</u>		
Net Position:					
Invested in Capital Assets				25,138	25,138
Restricted for Teacher Support Program				569,999	569,999
Unrestricted				<u>746,495</u>	<u>746,495</u>
Total Net Position				<u>\$ 1,341,632</u>	<u>\$ 1,341,632</u>

Explanation of adjustments between the governmental funds balance sheet and the government-wide statement of net position:

Total Fund Balances - Governmental Funds \$ 1,359,090

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.
The cost of the assets is \$133,362 and the accumulated depreciation is \$108,224. 25,138

Long term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet:

 Compensated Absences (42,596)

Net Position - Governmental Activities \$ 1,341,632

The accompanying notes are an integral part of these financial statements.

Education Standards and Practices Board
Statement of Activities and
Governmental Fund Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2014

	<u>Expenditures, and Changes in Fund</u>			Adjustments	Statement of Activities
	General Fund	Special Revenue Fund	Total		
Expenditures/Expenses:					
Licensing & Regulation	\$ 759,036	\$ -	\$ 759,036	\$ 9,172	\$ 768,208
Teacher Support Program	-	1,060,919	1,060,919	-	1,060,919
Total Expenditures/Expenses	<u>759,036</u>	<u>1,060,919</u>	<u>1,819,955</u>	<u>9,172</u>	<u>1,829,127</u>
Program Revenues:					
Licensing Fees	586,885	-	586,885	-	586,885
Teacher Support Program Grant	-	1,100,000	1,100,000	-	1,100,000
Fingerprinting & Portfolio	70,749	-	70,749	-	70,749
Other Income	42,750	-	42,750	-	42,750
Total Program Revenues	<u>700,384</u>	<u>1,100,000</u>	<u>1,800,384</u>	<u>-</u>	<u>1,800,384</u>
Net Program Revenue					<u>(28,743)</u>
General Revenues:					
Investment Earnings	8,496	153	8,649	-	8,649
Interfund Transfers	53,046	(53,046)	-	-	-
Total General Revenues and Transfers	<u>61,542</u>	<u>(52,893)</u>	<u>8,649</u>	<u>-</u>	<u>8,649</u>
Excess of Revenues Over Expenditures	2,890	(13,812)	(10,922)	10,922	-
Change in Net Position	-	-	-	(20,094)	(20,094)
Fund Balance/Net Position:					
Beginning of the Year	<u>786,201</u>	<u>583,811</u>	<u>1,370,012</u>	<u>(8,286)</u>	<u>1,361,726</u>
End of the Year	<u>\$ 789,091</u>	<u>\$ 569,999</u>	<u>\$ 1,359,090</u>	<u>\$ (17,458)</u>	<u>\$ 1,341,632</u>

Explanation of the adjustments between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities:

Governmental Funds - Excess of Revenues Over Expenditures	\$ (10,922)
Depreciation expense on capital assets is reported in the government-wide statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(6,963)
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. The cost of new capital assets for the year is \$4,055.	4,055
The increase in accrued leave payable does not provide current financial resources; therefore is not reported as an expenditure in the governmental funds.	<u>(6,264)</u>
Statement of Activities - Change in Net Position	<u>\$ (20,094)</u>

The accompanying notes are an integral part of these financial statements.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity

In 1995, the North Dakota Legislature created the Education Standards and Practices Board. The Board had previously functioned as an administrative division of the North Dakota Department of Public Instruction. The Board became an autonomous entity on July 1, 1997.

The Education Standards and Practices Board is a governmental organization. The ten-member Board of Directors, which is appointed by the Governor of North Dakota, must include four classroom teachers from public schools, two school board members, one non-public classroom teacher, two school administrators and one dean or chair of a college of education. Members are appointed to three-year terms and may not serve more than two consecutive terms.

The Board supervises the licensure of teachers; sets standards for and approves teacher preparation programs; issues minor equivalency endorsements, develops and revises, consistent with state law, professional codes or standards relating to ethics, conduct, and professional performance and practices; and provides recommendations for in-service education of persons engaged in the profession of teaching in public schools.

Reporting Entity

Generally accepted accounting principles require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities which should be presented with the Education Standards and Practices Board as a reporting entity.

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, during the Board's year ended June 30, 2014, the full scope of the Board's activities is considered to be a governmental activity.

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.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds

General Fund – The general fund is the principal operating fund of the Board. It is used to account for all financial resources which are not accounted for in other funds.

Special Revenue Fund – This fund carries out the functions of the Teacher Quality Enhancement Grant.

Basis of Accounting

The government-wide statements are reported using the economic resources measurement 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 when 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, generally within 30 days of year-end. The revenues that are determined to be susceptible to accrual are fees, fines and interest.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due and collectible.

Budgets

Budgets for revenues and expenditures are adopted on a basis consistent with generally accepted accounting principles. The Board is required to adopt a budget for the General Fund and each Special Revenue Fund. Each year the Board estimates and itemizes all administrative expenses and obligations of the Board, including expenses of directors, management fees, legal and other related expense. Revenues expected to be generated from the renewal of licenses, registration and certification of new licenses, and other related revenues are also estimated.

Net Position/Fund Balance

The difference between fund assets and liabilities is “Net Position” on the government-wide statements and “Fund Balance” on the governmental fund statements.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit with terms of less than three months.

Investments consist of certificates of deposit carried at cost with a term of more than three months and investments held by brokers. The certificates of deposit had interest rates of 0.50 – 3.35 percent and terms of 12 to 60 months in 2014. Investments held by brokers consisted of mutual funds.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation

Capital assets are reported at cost less accumulated depreciation. Equipment with an original cost of \$100 or more and an estimated useful life in excess of one year are capitalized and reported in the government-wide financial statements. Depreciation is computed on a straight-line basis over the estimated useful life of the assets, generally five years for equipment and seven years for furniture.

Compensated Absences

Annual and sick leave are part of permanent employees' compensation. In general, accrued annual leave cannot exceed 30 days at year-end while sick leave is not limited. Employees earn annual leave at a variable rate based on years of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement. Employees vest in sick leave at ten years of credible service, at which time the employer is liable for 10% of the accumulated unused sick leave.

The government-wide financial statements present the cost of compensated absences as a liability. The governmental fund financial statements recognize compensated absences when the liability is incurred and payable from available expendable resources.

Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories; or (b) legally or contractually 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 Board – the highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board removed the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the Board's "intent" to be used for special purposes, but are neither restricted nor committed. 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.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 – DEPOSITS AND INVESTMENTS

In accordance with North Dakota statutes, the Board maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System. North Dakota laws require all public deposits to be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

At June 30, 2014, the carrying amount of deposits was \$671,795, and the bank balances were \$744,421. The deposits of the Board can be categorized to indicate the level of risk assumed. Category 1 includes bank balances that are insured or collateralized by insured or registered securities held by the government sponsored investment pool or its agent in the pool’s name. Category 2 includes bank balances collateralized with securities held by the pledging financial institution’s trust department or agent in the Board’s name. Category 3 includes bank balances collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the Board’s name. At June 30, 2014, category 1 deposits were \$744,421.

The board has not adopted a deposit policy limiting the district’s deposits with any one depositor.

The table below summarizes the Board’s cash and cash equivalents and investments by type as of June 30, 2014:

	Maturities	Fair Value
Deposits with financial institutions	-	\$ 152,431
Certificates of Deposit	12-60 months	519,364
Edward Jones Mutual Funds	-	88,731
Securian Mutual Funds	-	62,912
		\$ 823,438

As reported in the Statement of Net Position:

Cash and Cash Equivalents	\$ 152,432
Investments	671,006
Total	\$ 823,438

The mutual funds are bond funds which are generally not allowed by state law. The brokers holding these funds are members of the Securities Investment Protection Corporation therefore are not subject to custodial credit risk.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2014

NOTE 3 – CAPITAL FIXED ASSETS

Following is a summary of capital assets for the year ended June 30, 2014:

	Capital Assets	Accumulated Depreciation	Net
Balance 6/30/13	\$ 129,307	\$ 101,261	\$ 28,046
Increases	4,055	6,963	(2,908)
Decreases	-	-	-
Balance 6/30/14	<u>\$ 133,362</u>	<u>\$ 108,224</u>	<u>\$ 25,138</u>

Depreciation expense for the year ended June 30, 2014 was \$6,963.

NOTE 4 – LONG-TERM LIABILITIES

A summary of changes in general long-term liabilities for the year ended June 30, 2014 is as follows:

	Compensated Absences	Current Portion
Balance 6/30/13	\$ 36,332	\$ 36,332
Earned	6,264	6,264
Used	-	-
Balance 6/30/14	<u>\$ 42,596</u>	<u>\$ 42,596</u>

All reported as current as employees may terminate at anytime and be owed the accrued leave immediately.

NOTE 5 – BOARD OF DIRECTORS

The Board of Directors of the Organization consisted of the following individuals at June 30, 2014:

Michael Heilman	Chairperson/Administrative Representative
Mike Bitz	Vice-Chairperson/Administrative Representative
Laura Mihalick	School Board Representative
Tim Tausend	School Board Representative
Rod Jonas	Teacher Education Representative
Kimberley Belgarde	Teacher Representative
Karen Christensen	Teacher Representative
Loni Miller	Teacher Representative
Mary Eldredge-Sandbo	Teacher Representative

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2014

NOTE 6 – PENSION PLAN

The Board participates in the following retirement program:

North Dakota Public Employees Retirement System (NDPERS)

The Board participates in the North Dakota Public Employees' Retirement System administered by the State of North Dakota. The following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Board. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee'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 employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 7% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The Board has elected to implement a salary reduction agreement and is currently contributing the participant's entire share. The Board is required to contribute 7.12% of each participant's salary as the employer's share. In addition to the 7.12% employer contribution, the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The Board's required and actual contributions to NDPERS for the fiscal years ending June 30, 2014, 2013, and 2012 were \$55,593, \$47,257, and \$34,087, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

Education Standards and Practices Board
Notes to the Financial Statements
June 30, 2014

NOTE 7 – OPERATING LEASE

The Board rents office space for \$1,200 per month. Rent paid for the year ended June 30, 2014 was \$14,400. The lease was renewed in July 2013 for two years.

NOTE 8 – DESIGNATED FUNDS

The Board has designated funds for unemployment insurance at June 30, 2014 in the amount of:

Unemployment Insurance \$ 28,961

NOTE 9 – INTERFUND TRANSFERS

At June 30, 2014, fund transfers consisted of the following:

Fund	In	Out	Purpose
General Fund	\$ 53,046	\$ -	<i>Grant funds for administrative costs</i>
Special Revenue Fund	-	53,046	<i>Grant funds for administrative costs</i>
	\$ 53,046	\$ 53,046	

NOTE 10 – INTERFUND BALANCES

At June 30, 2014, interfund balances consisted of the following:

Fund	Due To	Due From	Purpose
General Fund	\$ -	\$ 1,929	<i>Excess transfer for administrative costs</i>
Special Revenue Fund	1,929	-	<i>Excess transfer for administrative costs</i>
	\$ 1,929	\$ 1,929	

NOTE 11 – RISK MANAGEMENT

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

Management believes the current coverage is adequate. The errors and omissions insurance is provided through the State of North Dakota Risk Management Fund.

The Board 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 year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

***REQUIRED
SUPPLEMENTARY INFORMATION***

Education Standards and Practices Board
Statement of Revenues, Expenditures, and Changes in Fund Balances
Comparison to Budget - General Fund
For the Year Ended June 30, 2014

	Budget (Original & Final)	Actual	Favorable (Unfavorable) Variance
Revenues:			
Licensing Fees	\$ 563,000	\$ 586,885	\$ 23,885
Fingerprinting	60,000	70,749	10,749
Portfolio	1,000	-	(1,000)
Fines	5,000	6,500	1,500
National Board PTS	25,000	36,250	11,250
Investment Earnings	<u>20,000</u>	<u>8,496</u>	<u>(11,504)</u>
Total Revenues	<u>674,000</u>	<u>708,880</u>	<u>34,880</u>
Expenditures:			
Board Expenses	30,500	29,945	555
Credit Card Fees	12,050	15,285	(3,235)
Consulting Services	15,000	12,762	2,238
CPU Usage	37,000	16,745	20,255
Dues & Memberships	12,000	11,600	400
Educational Supplies	400	465	(65)
Fingerprinting Expense	60,000	69,524	(9,524)
Legal Fees	6,000	4,740	1,260
National Board PTS	25,000	36,250	(11,250)
Office Equipment & Maintenance	9,000	3,343	5,657
Office Supplies	16,200	13,262	2,938
Online Application Program	24,000	32,110	(8,110)
Portfolio Payment	1,000	400	600
Postage	1,000	12,889	(11,889)
Program Approval	7,500	28,305	(20,805)
Property & Liability Insurance	1,500	1,616	(116)
Rent	12,600	12,600	-
Rules	1,700	1,737	(37)
Salaries, Payroll Taxes, and Benefits	549,252	438,020	111,232
Staff Education & Training	400	2,109	(1,709)
Staff Travel & Expenses	2,300	10,486	(8,186)
Telephone	5,000	4,843	157
Unemployment Reserve	1,800	-	1,800
Web Design/Computer Programming	<u>7,000</u>	<u>-</u>	<u>7,000</u>
Total Expenditures	<u>838,202</u>	<u>759,036</u>	<u>79,166</u>
Excess of Revenues Over Expenditures	(164,202)	(50,156)	114,046
Other Financing Sources (Uses)			
Transfers In (Out)	<u>50,000</u>	<u>53,046</u>	<u>3,046</u>
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>53,046</u>	<u>3,046</u>
Net Change in Fund Balances	(114,202)	2,890	117,092
Fund Balance - Beginning of Year	<u>786,201</u>	<u>786,201</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 671,999</u>	<u>\$ 789,091</u>	<u>\$ 117,092</u>

The accompanying notes are an integral part of these financial statements.

Education Standards and Practices Board
Statement of Revenues, Expenditures, and Changes in Fund Balances
Comparison to Budget - Special Revenue Fund
For the Year Ended June 30, 2014

	Budget (Original & Final)	Actual	Favorable (Unfavorable) Variance
Revenues:			
Grant Revenue	\$ 1,150,000	\$ 1,100,000	\$ (50,000)
Investment Earnings	-	153	153
Total Revenues	<u>1,150,000</u>	<u>1,100,153</u>	<u>(49,847)</u>
Expenditures:			
Coordinator Travel	10,000	4,932	5,068
Coaches Academy	30,000	91,914	(61,914)
Evaluations	9,000	-	9,000
Manual Training & Course Responders	-	19,005	(19,005)
New Teacher Center	90,000	50,240	39,760
Mentor Stipends	440,000	444,045	(4,045)
Mentor Training	80,000	78,850	1,150
Miscellaneous Expense	41,000	56,438	(15,438)
Office Equipment & Maintenance	5,000	1,416	3,584
Payroll Taxes	-	9,665	(9,665)
Rent	1,800	1,800	-
Retirement & Health Insurance	-	24,884	(24,884)
Salaries	149,528	129,211	20,317
Seminars	11,000	6,971	4,029
Special Projects	-	80,519	(80,519)
Sub Reimbursement	137,500	54,428	83,072
Trainer Expense	-	559	(559)
Advanced Coach Training	-	6,042	(6,042)
Total Expenditures	<u>1,004,828</u>	<u>1,060,919</u>	<u>(56,091)</u>
Excess of Revenues Over Expenditures	145,172	39,234	(105,938)
Other Financing Sources (Uses)			
Transfers In (Out)	-	(53,046)	(53,046)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(53,046)</u>	<u>(53,046)</u>
Net Change in Fund Balances	145,172	(13,812)	(158,984)
Fund Balance - Beginning of Year	<u>583,811</u>	<u>583,811</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 728,983</u>	<u>\$ 569,999</u>	<u>\$ (158,984)</u>

The accompanying notes are an integral part of these financial statements.

Education Standards and Practices Board
Notes to Required Supplementary Information
June 30, 2014

NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Board adopts an annual budget consistent with accounting principles generally accepted in the United States for the general fund and the special revenue fund. The following procedures are used in establishing the budgetary data reflected in the financial statements:

- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the Board at the revenue and expenditure function/object level.
- The current budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

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*

Board of Directors
Education Standards and Practices Board
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 each major fund of the Education Standards and Practices Board, Bismarck, North Dakota, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Education Standards and Practices Board's basic financial statements and have issued our report thereon dated September 6, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Education Standards and Practices Board'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 Education Standards and Practices Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Education Standards and Practices Board'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, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings 2014-001, 2014-002, and 2014-003 to be material weaknesses.

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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Education Standards and Practices Board'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2014-004 and 2014-005.

Education Standards and Practices Board's Response to Findings

Education Standards and Practices Board's responses to the findings identified in our audit are described in the accompanying schedule of findings. Education Standards and Practices Board's responses were 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.



Mahlum Goodhart, PC
Mandan, North Dakota
September 6, 2016

Education Standards and Practices Board
Schedule of Findings
For the Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Governmental Activities & Major Funds	Unmodified
Internal control over financial reporting: Material weaknesses identified?	Yes
Control deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	Yes

Section II - Financial Statement Findings

Finding 2014-001: Segregation of Duties

Condition – The entity has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – There is a limited number of staff members available for these duties.

Effect – There is limited segregation of duties due to the small number of employees being responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. Due to the size of the entity, it is not feasible to obtain proper separation of duties and the degree of internal control is severely limited.

Recommendation – This is not unusual in organizations of this size, but the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the board's knowledge of matters relating to the organization's operations.

Management Response – We are aware of the condition but it is not feasible to add staff.

Finding 2014-002: Preparation of Financial Statements and Audit Notes

Condition – The financial statements and related notes are prepared by the entity's auditors.

Criteria – An appropriate system of internal controls requires that the entity must make a determination that the financial statements are properly stated according to GAAP requirements. This requires the entity to maintain knowledge of current accounting principles and required financial statement disclosures.

Cause – Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the accounting department.

Effect – An appropriate system of internal controls is not present to make a determination that financial statements are properly stated in compliance with GAAP requirements.

Recommendation – Compensating controls over financial statement disclosure requirements could be provided by the use of current disclosure checklists or the outsourcing of the financial statement preparation or review function.

Management Response – We are aware of the condition and will review the statements and notes prepared.

Education Standards and Practices Board
Schedule of Findings
For the Year Ended June 30, 2014

Finding 2014-003: Journal Entries

Condition – Significant journal entries were required to be made during the audit to present accurate financial statements.

Criteria – The entity is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to generally accepted accounting principles.

Cause – Staff was not recording accounts receivable, accounts payable, or prepaid expenses at year end.

Effect – The amount of journal entries made has a material effect on the financial statements.

Recommendation – Management should review all accounts throughout the year and verify that all general ledger accounts are properly reconciled and adjusted for accruals at year-end.

Management Response – We are aware of the condition and will more accurately monitor the monthly and non-monthly investment income and all regular investment accounts. We will monitor our year-end transactions and make sure to account for necessary items and make journal entries before the fiscal year ends.

Finding 2014-004: Noncompliance

Condition – An employee was paid accumulated leave upon retirement that was not subject to payroll taxes.

Criteria – All compensation to employees is subject to payroll taxes.

Cause – The accountant was given instructions to issue a check to a retiring employee. The request was directly to the office accountant instead of to the Board's contract payroll provider.

Effect – The employee received compensation not subject to social security and medicare taxes and it was not included in reporting to the Internal Revenue Service or Social Security Administration.

Recommendation – The Board should consult with the payroll provider to determine appropriate corrective action.

Management Response – We are aware of the condition and we are going to work toward resolving the issue and will work with our accountant's office to calculate the proper payroll taxes and pay them accordingly to clean up accounts.

Finding 2014-005: Noncompliance

Condition – The Board invests funds with two brokers in mutual funds.

Criteria – North Dakota state law restricts professional boards to only invest their money with a bank, the Bank of North Dakota, or a private bank (where deposits should be insured or covered by collateral). Mutual funds or other investments with brokers are not normally allowed by state law.

Cause – The Board was not aware of the limitations on investment of funds.

Effect – Funds in the amount of \$151,643 are invested in mutual funds which do not comply with state law.

Recommendation – The Board should transfer the mutual funds to appropriate depositories.

Management Response – We are aware of the condition and have knowledge that Janet Welk worked with the Attorney General's office to receive guidance on reinvesting the inappropriate funds. The inappropriate funds were moved into CD's to comply with the Attorney General's guidance.

Section III – Prior Year Findings

Findings 2014-001, 2014-002 and 2014-003 are repeat findings.

Education Standards and Practices Board
Auditor's Specific Comments Requested by the North Dakota
Legislative Audit and Fiscal Review Committee
June 30, 2014

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

Audit Report Communications:

1. *What type of opinion was issued on the financial statements?*
Unqualified opinion.
2. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*
Noncompliance with payroll requirements and investments in mutual funds.
3. *Was internal control adequate and functioning effectively?*
Limited due to inadequate segregation of duties.
4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*
No.
5. *Has action been taken on findings and recommendations included in prior audit reports?*
No action was required on findings in prior reports.
6. *Was a management letter issued? If so, provide a summary below, including any recommendations and management responses.*
No.

Audit Committee Communications:

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

There were no significant changes in accounting policies.

No management conflicts of interest were noted.

No contingent liabilities were identified.

There were no significant or unusual transactions.

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 Education Standards and Practices Board's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Accrual adjustments and reclassifications due to posting errors were required for accurate financial reporting.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a 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 addressed by the 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, Education Standards and Practices Board, management, and other state officials and legislative committees and is not intended to be and should not be used by anyone other than these specified parties.

Mahlum Goodhart PC

Mahlum Goodhart, PC
Mandan, North Dakota
September 6, 2016