

**NORTH DAKOTA BOARD OF MEDICINE
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Dakota Board of Medicine
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Board of Medicine, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the North Dakota Board of Medicine'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 error or fraud.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Board of Medicine, as of December 31, 2015, and the respective changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Also discussed in Note 12 to the financial statements, the North Dakota Board of Medicine adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is 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, schedule of employer's share of net pension liability and schedule of employer contributions, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Dakota Board of Medicine's basic financial statements. The Schedule of Revenues and Expenses – Compared to Budget, and the Schedule of Expenses as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues and Expenses – Compared to Budget and the Schedule of Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues and Expenses – Compared to Budget and the Schedule of Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The listing of Officers and Members of the Board 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 this schedule.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of the North Dakota Board of Medicine'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 North Dakota Board of Medicine's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
Bismarck, North Dakota

December 20, 2016

NORTH DAKOTA BOARD OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF DECEMBER 31, 2015

As management of the North Dakota Board of Medicine, we offer readers of the North Dakota Board of Medicine's financial statements this narrative overview and analysis of the financial activities of the Board of Medicine for the fiscal year ended December 31, 2015 and comparative data for 2014. We encourage readers to consider the information presented here in conjunction with the Board of Medicine's financial statements and footnotes, which are presented within this report.

Financial Highlights

The assets of the North Dakota Board of Medicine totaled \$2,423,573 and \$2,414,014, as of the end of the years 2015 and 2014, respectively. The deferred outflows totaled \$10,796 and \$- as of the end of the years 2015 and 2014, respectively. The liabilities totaled \$169,350 and \$36,701 for 2015 and 2014, respectively, while the deferred inflows were \$470,377 and \$414,168 as of the end of the years 2015 and 2014, respectively. The assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by \$1,794,642 and \$1,963,145 for the years ended December 31, 2015 and 2014, respectively. A prior period adjustment of \$113,664 was recorded for the implementation of GASB 68.

As of December 31, 2015 and 2014, the majority of the assets are cash and cash equivalents and investments held at the North Dakota State Investment Board (SIB).

Assets held at the North Dakota State Investment Board, total \$2,157,078 and \$2,131,264, respectively as of December 31, 2015 and 2014.

Total cash in bank as of the end of the year 2015 and 2014 is \$223,557 and \$246,686, respectively. This is comprised of checking and money market accounts.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the North Dakota Board of Medicine's basic financial statements. The North Dakota Board of Medicine's basic financial statements comprise four components: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, 3) Statements of Cash Flows and 4) Notes to Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the North Dakota Board of Medicine's finances, in a manner similar to a private-sector business.

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

NORTH DAKOTA BOARD OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
AS OF DECEMBER 31, 2015

The total assets for the Board as of December 31, 2015 and 2014 were approximately \$2.4 million and \$2.3 million, respectively, and were comprised mainly of cash and investments. For the year ended December 31, 2015, net position decreased approximately \$55,000. Included in this decrease are payments of \$272,801 to the Physician Health Program. Net position increased approximately \$133,000 during the year ended December 31, 2014, namely due to the increase in license and renewal fees.

Total deferred outflows of resources as of December 31, 2015 and 2014 were \$10,796 and \$-, due to the employer pension contributions subsequent to the measurement date reported.

Total liabilities as of December 31, 2015 and 2014 were \$169,350, and 36,701, respectively, which is mainly due to net pension liability and the compensated absences accrual.

Total deferred inflows of resources as of December 31, 2015 and 2014 were \$470,377 and \$414,168, mainly due to the payment of license fees on an annual basis.

The Board approved and paid \$272,801 and \$330,000 during the years ended December 31, 2015 and 2014, respectively, to the Physicians Health Program.

CONDENSED STATEMENT OF FINANCIAL POSITION:

	<u>2015</u>	<u>2014*</u>
ASSETS		
Current assets	\$ 2,379,065	\$ 2,344,489
Capital assets	<u>44,508</u>	<u>69,525</u>
Total Assets	<u>2,423,573</u>	<u>2,414,014</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>10,796</u>	<u>-</u>
LIABILITIES		
Current liabilities	39,143	34,643
Long-term liabilities	<u>130,207</u>	<u>2,058</u>
Total Liabilities	<u>169,350</u>	<u>36,701</u>
DEFERRED INFLOWS OF RESOURCES	<u>470,377</u>	<u>414,168</u>
NET POSITION		
Net investment in capital assets	44,508	69,525
Unrestricted net position	<u>1,750,134</u>	<u>1,893,620</u>
Total net position	<u>\$ 1,794,642</u>	<u>\$ 1,963,145</u>

* 2014 balances do not represent the effects of GASB 68.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the entity's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

NORTH DAKOTA BOARD OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
AS OF DECEMBER 31, 2015

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION:

	<u>2015</u>	<u>2014*</u>
Operating revenues		
Licensure renewal fees	\$ 709,940	\$ 716,414
Licensure application fees	110,025	106,150
Other	<u>84,467</u>	<u>71,916</u>
Total operating revenues	<u>904,432</u>	<u>894,480</u>
Operating expenses		
Salaries and benefits	445,469	398,530
Travel and meetings	41,212	41,835
Occupancy	41,376	41,576
Disciplinary proceedings	35,763	27,153
Depreciation	8,667	10,155
Amortization	16,350	16,350
General office	<u>121,306</u>	<u>74,596</u>
Total operating expenses	<u>710,143</u>	<u>610,195</u>
Net operating income (loss)	<u>194,289</u>	<u>284,285</u>
Non-operating revenues		
Investment income	34,618	39,676
Gain on sale of securities	<u>(4,778)</u>	<u>6,255</u>
Total non-operating revenues	<u>29,840</u>	<u>45,931</u>
Non-operating expenses		
Payments to physician health program	272,801	195,025
Investment expenses	<u>6,167</u>	<u>2,072</u>
Total non-operating expenses	<u>278,968</u>	<u>197,097</u>
Net non-operating income (loss)	<u>(249,128)</u>	<u>(151,166)</u>
Change in net position	<u>(54,839)</u>	<u>133,119</u>
Net position - beginning of year, as Previously reported	1,963,145	1,830,026
GASB 68 adjustment	<u>(113,664)</u>	<u>-</u>
Net position - beginning of year, restated	<u>1,849,481</u>	<u>1,830,026</u>
Net position - end of year	<u>\$ 1,794,642</u>	<u>\$ 1,963,145</u>

* 2014 balances do not represent the effects of GASB 68.

NORTH DAKOTA BOARD OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
AS OF DECEMBER 31, 2015

Capital Assets

A portion of the Board of Medicine's net position reflects the investment in capital assets (i.e. furniture, equipment and software). The Board uses these capital assets in the normal course of business. See Note 4 for a breakdown of these capital assets.

Requests for Information

This financial report is designed to provide a general overview of the North Dakota Board of Medicine's finances for all those with an interest in the North Dakota Board of Medicine's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Executive Secretary, North Dakota Board of Medicine, 418 E Broadway Ave Suite 12, Bismarck, ND 58501. You can also contact the North Dakota Board of Medicine online at LMcDonald@ndbom.org or visit on the web at www.ndbom.org.

NORTH DAKOTA BOARD OF MEDICINE
STATEMENT OF NET POSITION
DECEMBER 31, 2015

ASSETS	
Current assets	
Cash and cash equivalents	\$ 207,734
Investments	2,157,078
Prepaid dues	14,253
Total current assets	<u>2,379,065</u>
Noncurrent assets	
Capital assets	
Software, net	25,888
Furniture and equipment, net	18,620
Total capital assets	<u>44,508</u>
Total assets	<u>2,423,573</u>
DEFERRED OUTFLOW OF RESOURCES	
Pension	<u>10,796</u>
LIABILITIES	
Current liabilities	
Accounts payable	12,873
Payroll liabilities	938
Compensated absences, due within one year	22,503
Investment expense payable	2,829
Total current liabilities	<u>39,143</u>
Long-term liabilities	
Compensated absences, due in more than one year	2,901
Net pension liability	127,306
Total non-current liabilities	<u>130,207</u>
Total liabilities	<u>169,350</u>
DEFERRED INFLOW OF RESOURCES	
Pre-payment of licenses	455,153
Pension	15,224
Total deferred inflow of resources	<u>470,377</u>
NET POSITION	
Net investment in capital assets	44,508
Unrestricted	1,750,134
Total net position	<u>\$ 1,794,642</u>

See Notes to the Financial Statements

NORTH DAKOTA BOARD OF MEDICINE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating revenue	
Licensure renewal fees	\$ 709,940
Licensure application fees	110,025
Resident licensure fees	5,670
Licensure of physicians assistants	24,210
Disciplinary expense reimbursements	28,958
Reciprocity fees	23,880
Miscellaneous income	<u>1,749</u>
Total operating revenue	<u>904,432</u>
Operating expenses	
Salaries and benefits	445,469
Travel and meetings	41,212
Occupancy	41,376
Disciplinary proceedings	35,763
Depreciation	8,667
Amortization	16,350
General office	<u>121,306</u>
Total operating expenses	<u>710,143</u>
Net operating income	<u>194,289</u>
Non-operating revenue	
Investment income	34,618
Loss on sale of securities	<u>(4,778)</u>
Total non-operating revenue	<u>29,840</u>
Non-operating expenses	
Payments to physician health program	272,801
Investment expense	<u>6,167</u>
Total non-operating expenses	<u>278,968</u>
Net non-operating income (expense)	<u>(249,128)</u>
Change in Net Position	<u>(54,839)</u>
Net position - beginning of year, as Previously reported	1,963,145
GASB 68 & 71 Adjustment - See Note 12	<u>(113,664)</u>
Net position - beginning of year, restated	<u>1,849,481</u>
Net position, ending of year	<u><u>\$ 1,794,642</u></u>

See Notes to the Financial Statements

NORTH DAKOTA BOARD OF MEDICINE
STATEMENT OF CASH FLOWS
DECEMBER 31, 2015

Cash flows from operating activities:	
Receipts from fees	\$ 909,406
Receipts for disciplinary expense reimbursement	28,958
Other cash receipts	1,749
Payments to suppliers for goods and services	(237,810)
Payments to employees for services	<u>(425,307)</u>
Net cash provided by operating activities	<u>276,996</u>
Cash flows from investing activities:	
Investment income	9,541
Realized loss on investments	(4,778)
Investment expenses	(4,763)
Payments to physician health program	<u>(272,801)</u>
Net cash used by investing activities	<u>(272,801)</u>
Net change in cash and cash equivalents	4,195
Cash and cash equivalents - beginning of year	<u>203,539</u>
Cash and cash equivalents - end of year	<u><u>\$ 207,734</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	\$ 194,289
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	8,667
Amortization	16,350
Deferred inflow - pre-payment of licenses	40,985
Deferred inflow - pension	15,224
Deferred outflow - pension	(10,796)
Effects on operating cash flows due to changes in:	
Prepaid expenses	(5,304)
Accounts payable	1,847
Compensated absences	2,092
Net Pension Liability	<u>13,642</u>
Total adjustments	<u>82,707</u>
Net cash provided by operating activities	<u><u>\$ 276,996</u></u>
Supplemental disclosure of non-cash investing activities:	
Unrealized loss on investments	\$ (17,852)

See Notes to the Financial Statements

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Activity

The functions of the North Dakota Board of Medicine (the Board) are to license physicians qualified to practice medicine and to discipline those who violate the Medical Practice Act. Governing laws for the North Dakota Board of Medicine are contained in Chapter 43-17 of the North Dakota Century Code.

The Board is composed of thirteen members, ten of whom are licensed doctors of medicine, one of whom is a licensed doctor of osteopathy, and two of whom are designated as public members. Members of the board are appointed by the Governor to four year terms. No member may serve more than two consecutive terms. The terms of office are arranged so that no more than four terms expire on July 31st of each year.

The financial statements of the North Dakota Board of Medicine have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. These financial statements represent the financial position, results of operations and cash flows of the Board for the fiscal year ended December 31, 2015. 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 Board's accounting policies are described below.

Reporting Entity

In evaluating how to define the Board for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in Governmental Accounting Standards Board. The Board has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the Board's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board. Based upon the application of these criteria, the Board is not includable as a component unit within another reporting entity and the Board does not have a component unit.

Fund Accounting

The Board uses fund accounting to report on its financial position and the results of its operations. The activities of the various funds are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, reserves, net position, revenues and expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions and activities.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

The following fund type is used by the Board:

Proprietary Fund Type

The Proprietary Funds measurement focus is based upon determination of net income, financial position, and changes in financial position. These funds are used to account for activities that are similar to those found in the private sector. They are maintained on the accrual basis of accounting. The following is the Board's Proprietary Fund type:

Enterprise Fund: account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis by financing or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Board has only one major proprietary fund; which is the Operating Fund, which accounts for the operations of the Board.

Basis of Accounting

The Board follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The accounting objective of this measurement focus is the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or non-current) associated with their activities are reported. Proprietary Fund equity is classified as net position.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board are license renewal fees and application fees. Operating expenses include administration expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Budget

The Board follows the procedures established by North Dakota law for the budgeting process. The budget may be amended with Board approval.

Cash and Cash Equivalents

For the purposes of reporting cash flows, the Board considers all checking, savings, and certificates of deposit, with an original maturity of three months or less, to be cash equivalents.

Investments

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International securities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at December 31, 2015. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments.

The fair value of real estate investment securities is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed. Investments in the external investment pool are stated at fair value which is the same as the value of the pool shares.

The net increase (decrease) in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis.

Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Capital Assets

A capital asset, which includes furniture and equipment, is recorded at historical cost. Equipment with a cost of \$2,000 or more is capitalized for the year ended December 31, 2015. Costs incurred for repairs and maintenance are expensed as incurred. Depreciation is recorded based on the straight line method over the estimated useful life of 5 years.

Software with a cost of \$2,000 or more is capitalized for the year ended December 31, 2015. Costs incurred for repairs and maintenance or service contracts are expensed as incurred. Amortization is recorded based on the straight line method over the estimated useful life of 5 years.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. Accordingly, the first item, *Pension*, is reported as deferred outflow of resources on the Statement of Net Position as this amount represents the actuarial differences within the NDPERS plan. See note 8 for further details.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Board has two types of items that qualify for reporting in this category. Accordingly, the first item, *Pre-payment of licenses*, is reported as deferred inflow of resources on the Statement of Net Position as this amount represents unearned licenses revenue of \$455,153. The second item, *Pension*, is reported as deferred inflow of resources on the Statement of Net Position as this amount represents the actuarial differences within the NDPERS pension plan as well as amounts paid to the plan after the measurement date. See note 8 for further details.

Compensated Absences

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

Sick leave is accrued at the rate of one day per month, for all employees, without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the Board is liable for ten percent of the employee's accumulated unused sick leave.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Pre-payment of Licenses

Pre-payment of Licenses consists of licensing fees received in advance of the period the license is effective for. License fees are required to be paid for one year at a time.

Equity Classifications

Equity is classified as net position and displayed in two components:

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation.

Unrestricted net position – All other net position that does not meet the definition of “invested in capital assets.”

Pensions

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 Employee 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amount reported in the financial statements. Actual results could differ from those estimates.

NOTE 2 DEPOSITS

Custodial Credit Risk

For deposits, custodial risk is the risk that in the event of the failure of a depository financial institution, the Board will not be able to recover the deposits. The Board does not have a formal policy that limits custodial risk for deposits. Deposits at the State Treasury are uncollateralized but are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

The Board maintains cash on deposit at various financial institutions. At December 31, 2015, the amounts on deposit were insured by the FDIC up to \$250,000 (per financial institution). The Board's cash deposits were fully insured on December 31, 2015.

At December 31, 2015, the carrying amount of the Board's cash deposit was \$207,734, respectively, and the bank balance was \$223,557, respectively. The difference results from checks outstanding or deposits not yet processed.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 3 INVESTMENTS

Total investments of the Board at fair value as of December 31, 2015 consisted of the following:

Domestic equities	\$ 302,628
International equities	151,522
Domestic fixed income	1,658,247
Real assets	44,381
Invested cash	<u>300</u>
	<u>\$2,157,078</u>

The calculation of realized gains and losses is independent of the calculation of net increase (decrease) in the fair value of plan investments and unrealized gains and losses on investments sold in the current year that had been held for more than one year and were included in the net increase (decrease) reported in the prior year(s) and the current year.

All investments of the Board are to be made by the North Dakota State Investment Board (SIB). Chapter 21-10-07 of the North Dakota Century Code requires that all investments made by this state agency, be made using the prudent investor rule.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates. The SIB has chosen to use the Segmented Time Distribution disclosure method. The tables detailing the Board's portion of the investment pool are reported below by investment type and maturity as of June 30, 2016. December 31, 2015 information is not available from SIB. Readers may refer to the North Dakota Retirement and Investment Office financial statements regarding highly sensitive securities that are disclosed at the SIB level.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Type (In Thousands)	Market Value	Less than 1 Year	1-6 Years	6-10 Years	10+ Years
Asset Backed Securities	\$ 329	\$ 4	\$ 168	\$ 35	\$ 122
Bank Loans	1	-	1	-	-
Commercial Mortgage-Backed	61	-	-	3	58
Corporate Bonds	586	63	433	52	38
Government Agencies	24	5	17	1	1
Government Bonds	485	62	402	9	12
Gov't Mortgage Backed and CMB	124	-	3	10	111
Index Linked Government Bonds	4	1	-	1	2
Municipal/Provincial Bonds	5	-	1	2	2
Non-Government Backed CMOs	13	-	3	1	9
Other Fixed Income	1	-	1	-	-
Funds/Pooled Investments	89	17	35	37	-
Total Debt Securities	<u>\$ 1,722</u>	<u>\$ 152</u>	<u>\$ 1,064</u>	<u>\$ 151</u>	<u>\$ 355</u>

Credit Risk

All investments of the fund are invested in an external investment pool managed by SIB. The pool is not rated. The Board does not have a formal credit risk policy that limits the credit risk of the investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Board does not have a formal investment policy governing foreign currency risk. The board is invested in an external investment pool managed by SIB. The tables detailing the exposure to foreign currency through the System's portion of the investment pool reported below is as of June 30, 2016. December 31, 2015 information for foreign currency risk is not available from SIB.

Currency (in thousands)	Short Term	Debt	Equity	Total
Australian dollar	\$ -	\$ -	\$ 5	\$ 5
British pound sterling	-	-	20	20
Canadian dollar	-	-	1	1
Israeli shekel	-	-	1	1
Danish krone	-	-	2	2
Euro	(1)	1	29	29
Hong Kong dollar	-	-	6	6
Japanese yen	1	-	24	25
Mexican peso	-	-	1	1
New Zealand dollar	-	-	1	1
Norwegian krone	-	-	2	2
Singapore dollar	-	-	1	1
South African rand	-	-	1	1
South Korean won	-	-	1	1
Swedish krona	-	-	3	3
Swiss franc	-	-	9	9
International commingled funds (various currencies)	-	-	32	32
Total securities subject to foreign currency risk	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 139</u>	<u>\$ 140</u>

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2015:

	Beginning Balance 1/1/15	Additions	Deletions	Ending Balance 12/31/2015
Capital assets, being depreciated/amortized:				
Furniture and equipment	\$ 163,744	\$ -	\$ -	\$ 163,744
Software	81,751	-	-	81,751
Total capital assets	245,495	-	-	245,495
Less accumulated depreciation/amortization for:				
Furniture and equipment	136,457	8,667	-	145,124
Software	39,513	16,350	-	55,863
Total accumulated depreciation/amortization	175,970	25,017	-	200,987
Total capital assets, being depreciated/amortized, net	69,525	(25,017)	-	44,508
Governmental activity capital assets, net	<u>\$ 69,525</u>	<u>\$ (25,017)</u>	<u>\$ -</u>	<u>\$ 44,508</u>

NOTE 5 LEASES

The Board leases its office space with variable rates from \$3,235 to \$3,435 per month through November 30, 2018.

Additionally, the Board also leases a postage machine under an operating lease at \$74 per month through June 30, 2016. The Board also rents parking spaces on a monthly basis.

Total lease expense, including parking rent, was \$42,264 for the year ended December 31, 2015, respectively.

The minimum future lease payments for each fiscal year are as follows:

2016	\$ 40,464
2017	40,120
2018	37,785

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 6 COMPENSATED ABSENCES

The Board's liability for accumulated unpaid leave as of December 31, 2015 was \$25,404, respectively. A summary of changes in compensated absences is as follows:

Balance - January 1	\$	23,312
Additions		22,503
Reductions		<u>(20,411)</u>
Balance - December 31	\$	<u>25,404</u>
Amount due within one year	\$	<u>22,503</u>

NOTE 7 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. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Board pays an annual premium to NDIRF for its general insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence. The Board does participate in the North Dakota Fire and Tornado Fund, state bonding fund, and the North Dakota Workforce Safety & Insurance workers' compensation program.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 8 DEFINED BENEFIT 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 seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member 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 benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition 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.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

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 contribution 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 December 31, 2015, the Employer reported a liability of \$127,306 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015, the Employer's proportion was 0.018722 percent

For the year ended December 31, 2015, the Employer recognized pension expense of \$11,896. At December 31, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,693	\$ -
Changes of assumptions	-	(11,342)
Net difference between projected and actual earnings on pension plan investments	-	(2,687)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(1,195)
Employer contributions subsequent to the measurement date	7,103	-
Total	\$ 10,796	\$ (15,224)

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

\$7,103 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 December 31, 2016.

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

Year ended June 30:

2016	\$	(3,687)
2017		(3,687)
2018		(3,687)
2019		1,866
2020		(2,336)

Actuarial Assumptions

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, 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 actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalent	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Employer's proportionate share of the net pension liability	<u>\$ 195,218</u>	<u>\$ 127,306</u>	<u>\$ 71,742</u>

Pension Plan Fiduciary Net Position

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

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 9 DEFINED CONTRIBUTION PLAN

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

The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000, and is administered in accordance with chapter 54-52.6 of the North Dakota Century Code. The Defined Contribution plan covers all employees who elect to participate in the plan. Effective October 1, 2013, eligibility was expanded to include all employees hired on or after October 1, 2014 through July 31, 2017.

Death and disability benefits are set by statute. Upon the death of a participating employee or former participating employee, the vested balance of that deceased participant is available to the participant's designated beneficiary(ies). An employee who becomes totally and permanently disabled while employed by the Agency is eligible to receive a distribution of the vested balance. To qualify under this section, the employee must meet the criteria established by the plan for being totally disabled.

Benefits are set by statute. Employees are entitled to vested balance. A participating employee is immediately 100% vested in the employee's contributions. A participating employee vests in the employer contributions made on the employee's behalf as follows:

Upon completion of two years of service	50%
Upon completion of three years of service	75%
Upon completion of four years of service	100%

Employees may elect to receive their account balance in a lump sum, lump sum direct rollover, or periodic distribution.

Contributions are set by state statute and are a percentage of salaries and wages. Employee contributions are 7% and employer contributions are established at 7.12%. The Board pays 4% of the employee's required contribution. Employer contributions for the year ending December 31, 2015 were \$16,820.

NOTE 10 NORTH DAKOTA PHYSICIAN HEALTH PROGRAM (NDPHP)

The Board contributed \$272,801 to the NDPHP during the year ended December 31, 2015. The NDPHP is a confidential program that provides for detection, intervention and monitoring of impairment that could interfere with a licensee's ability to engage safely in professional activities.

The Board has also assigned \$240,000 to be paid to NDPHP during the year ending December 31, 2016. These assigned funds are included in the unrestricted net position of the Board as of the year ended December 31, 2015.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 11 NEW GASB PRONOUNCEMENTS

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units and amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Management has not yet determined the effects these statements will have on the Board's financial statements.

NOTE 12 GASB 68 & 71 ADJUSTMENT

The Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* during the year ended December 30, 2015. These statements required the Board to change the accounting for the pension costs related to the Board's participation in the North Dakota Public Employees Retirement System. In addition, the Board also recognized a net pension liability, deferred outflow of resources, and deferred inflows of resources related to the Board's proportionate share of the collective amounts in NDPERS.

As a result, a prior period adjustment was recorded to recognize net pension liability, deferred outflows, and deferred inflows as of January 1, 2015. The cumulative effect of implementing this GASB statement was an increase in deferred inflow of \$5,721 and an increase in net pension liability of \$119,385 on the Statement of Net Position. The adjustments resulted in a net decrease of \$113,664 in the Statement of Revenues, Expenses and Changes in Net Position.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST TEN FISCAL YEARS*

	<u>2015</u>
Statutorily required contribution	\$ 13,257
Contributions in relation to the statutorily required contribution	(13,257)
Contribution deficiency (excess)	-
Employer's covered-employee payroll	186,192
Contributions as a percentage of covered-employee payroll	7.12%

*The Board implemented GASB Statement No. 68 & 71 for its fiscal year ended December 31, 2015. Information for prior years is not available.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS*

	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.018722%
Employer's proportionate share of the net pension liability (asset)	\$ 127,306
Employer's covered-employee payroll	166,788
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%
Plan fiduciary net position as a percentage of the total pension liability	77.15%

*The Board implemented GASB Statement No. 68 & 71 for its fiscal year ended December 31, 2015. Information for prior years is not available.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF REVENUES AND EXPENSES – COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Budget</u>	<u>2015</u>	Variance Favorable (Unfavorable)
REVENUES			
Licensure renewal fees	\$ 660,000	\$ 709,940	\$ 49,940
Licensure application fees	-	110,025	110,025
Resident licensure fees	-	5,670	5,670
Licensure of physicians assistants	17,000	24,210	7,210
Reciprocity fees	-	23,880	23,880
Total fees	677,000	873,725	196,725
Disciplinary expense reimbursements	5,000	28,958	23,958
Investment income	50,000	23,673	(26,327)
Miscellaneous	1,100	1,749	649
Total revenues	733,100	928,105	195,005
EXPENSES			
Salaries and benefits	412,309	445,469	(33,160)
Travel and meetings	59,823	41,212	18,611
Occupancy	41,608	41,376	232
Disciplinary proceedings	50,000	35,763	14,237
Depreciation	-	8,667	(8,667)
Amortization	-	16,350	(16,350)
Payments to physician health program	305,000	272,801	32,199
General office	102,868	121,306	(18,438)
Total expenses	971,608	982,944	(11,336)
REVENUES OVER (UNDER) EXPENSES	<u>\$ (238,508)</u>	<u>\$ (54,839)</u>	<u>\$ 183,669</u>

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Budget</u>	<u>Actual</u>
SALARIES AND BENEFITS		
Executive Secretary-treasurer	\$ 132,000	\$ 132,000
Other salaries and wages	178,859	190,118
Retirement benefits	47,437	67,172
Social security taxes	22,479	22,629
Health insurance	<u>31,534</u>	<u>33,550</u>
Total salaries and benefits	<u>412,309</u>	<u>445,469</u>
TRAVEL AND MEETINGS		
Staff and board members	47,823	39,106
Federation meeting	<u>12,000</u>	<u>2,106</u>
Total travel and meetings	<u>59,823</u>	<u>41,212</u>
OCCUPANCY EXPENSE		
Rent	38,920	39,020
Parking	<u>2,688</u>	<u>2,356</u>
Total occupancy expense	<u>41,608</u>	<u>41,376</u>
DISCIPLINARY PROCEEDINGS		
	<u>50,000</u>	<u>35,763</u>
GENERAL OFFICE EXPENSE		
Furniture and equipment	5,000	1,394
Computer consultant	32,020	22,183
Office supplies and printing	7,273	6,679
Postage	5,500	3,445
Legal counsel	30,000	29,101
Telephone	2,550	2,228
Dues	4,100	3,467
Newsletter	275	-
Maintenance of office equipment	700	669
Audit	6,100	6,900
Insurance, worker compensation	-	849
Publication of rules, meetings	2,400	2,138
Miscellaneous	<u>6,950</u>	<u>42,253</u>
Total general office expense	<u>102,868</u>	<u>121,306</u>
PAYMENTS TO PHYSICIANS HEALTH PROGRAM		
	<u>305,000</u>	<u>272,801</u>
Total budgeted expense	971,608	957,927
Depreciation and amortization	<u>-</u>	<u>25,017</u>
Total expenses	<u><u>\$ 971,608</u></u>	<u><u>\$ 982,944</u></u>

NORTH DAKOTA BOARD OF MEDICINE
OFFICERS AND MEMBERS OF THE BOARD
DECEMBER 31, 2015

K.R. Hoerauf, M.D.	Hettinger	Chairman
K. Larson, PA-C	Garrison	Vice Chair
G. Goven, M.D.	Valley City	Treasurer
W. Haug, Jr., M.D.	Grand Forks	Member
M. Colon, M.D.	Fargo	Member
S. Solberg, M.D.	Williston	Member
R.J. Olson, M.D.	Fargo	Member
T. Carver, DO	Minot	Member
B. Miller, M.D.	Bismarck	Member
R. Nagala, M.D.	Oakes	Member
R. Sticca, M.D.	Fargo	Member
A. Reich	Bismarck	Public Member
V. Johnson	Dickinson	Public Member



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
North Dakota Board of Medicine
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 the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Dakota Board of Medicine, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the North Dakota Board of Medicine's basic financial statements and have issued our report thereon dated December 20, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2015-003 described in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies 2015-001 and 2015-002 described in the accompanying schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

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

North Dakota Board of Medicine's Responses to Findings

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

Purpose of this Report

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



BRADY, MARTZ & ASSOCIATES, P.C.
Bismarck, North Dakota

December 20, 2016

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-001

Criteria

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

Condition

The Board's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the Board does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause

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

Effect

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

Recommendation

We recommend that the Board review its current training system to determine if it is cost effective for the Board to obtain this knowledge internally. As a compensating control the Board should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions:

North Dakota State Board of Medicine's internal controls have been established and applied in the context of our organizational structure and resources. Management believes there are adequate internal control measures present to assure Members of the integrity of the Board's accounting practices and procedures. The internal controls are also designed to provide reasonable assurance that financial transactions are executed with management's general authorization.

In light of the auditor's comments regarding the cause of deficiencies in our internal controls, no planned corrective actions are recommended at this time.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-002

Criteria

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

Cause

Size and budget constraints limiting the number of personnel within the accounting department are the causes of this significant deficiency.

Effect

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

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

Views of Responsible Officials and Planned Corrective Actions:

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

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-003 – Material Weakness

Criteria

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

Condition

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

Cause

The Board's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on a GAAP basis.

Effect

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

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the Board reviews its current training system to determine if it is cost effective for the Board to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Actions:

North Dakota State Board of Medical Examiner's internal controls have been established and applied in the context of our organizational structure and resources. Management believes there are adequate internal control measures present to assure board members that the integrity of the Board's general ledger accounts are properly reflected on a GAAP basis. The internal controls are also designed to provide reasonable assurance that financial transactions are executed with management's general authorization.