NORTH DAKOTA BOARD OF MEDICINE
BISMARCK, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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BRADY MARTZ
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, 2016, 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 fraud or error.

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, 2016, 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.

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 November 14, 2017, 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

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

November 14, 2017

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, 2016 and comparative data for 2015. 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 $2,543,424 and $2,423,573, as of the end of the years 2016 and 2015, respectively. The deferred outflows totaled $176,802 and $10,796 as of the end of the years 2016 and 2015, respectively. The liabilities totaled $393,061 and $169,350 for 2016 and 2015, respectively, while the deferred inflows were $487,139 and $470,377 as of the end of the years 2016 and 2015, respectively. The assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by $1,840,026 and $1,794,642 for the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, 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 $2,269,466 and $2,157,078, respectively as of December 31, 2016 and 2015.

Total cash in bank as of the end of the year 2016 and 2015 is $220,555 and $223,557, 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.

The total assets for the Board as of December 31, 2016 and 2015 were approximately $2.5 million and $2.4 million, respectively, and were comprised mainly of cash and investments. For the year ended December 31, 2016, net position increased approximately $45,000. Included in this increase are payments of $200,000 to the Physician Health Program. Net position decreased approximately $55,000 during the year ended December 31, 2015, namely due to the increase in license and renewal fees.

Total deferred outflows of resources as of December 31, 2016 and 2015 were $176,802 and $10,796, which is the amount of pension expense to be recognized in future years.

Total liabilities as of December 31, 2016 and 2015 were $393,061, and $169,350, respectively, which is mainly due to net pension liability and the compensated absences accrual.

Total deferred inflows of resources as of December 31, 2016 and 2015 were $487,139 and $470,377, mainly due to the payment of license fees on an annual basis.

The Board approved and paid $200,000 and $272,801 during the years ended December 31, 2016 and 2015, respectively, to the Physicians Health Program.

CONDENSED STATEMENT OF FINANCIAL POSITION:

	2016	2015
ASSETS		
Current assets	$ 2,523,316	$ 2,379,065
Capital assets	20,108	44,508
Total Assets	2,543,424	2,423,573
DEFERRED OUTFLOWS OF RESOURCES	176,802	10,796
LIABILITIES		
Current liabilities	65,404	39,143
Long-term liabilities	327,657	130,207
Total Liabilities	393,061	169,350
DEFERRED INFLOWS OF RESOURCES	487,139	470,377
NET POSITION		
Net investment in capital assets	20,108	44,508
Unrestricted net position	1,819,918	1,750,134
Total net position	$ 1,840,026	$ 1,794,642

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.

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

	2016	2015
Operating revenues		
Licensure renewal fees	$ 759,517	$ 709,940
Licensure application fees	116,195	110,025
Other	72,756	84,467
Total operating revenues	948,468	904,432
Operating expenses		
Salaries and benefits	489,310	445,469
Travel and meetings	50,618	41,212
Occupancy	42,484	41,376
Disciplinary proceedings	41,383	35,763
Depreciation	8,050	8,667
Amortization	16,350	16,350
General office	157,778	121,306
Total operating expenses	805,973	710,143
Net operating income (loss)	142,495	194,289
Non-operating revenues		
Investment income	100,541	34,618
Gain (loss) on sale of securities	7,882	(4,778)
Total non-operating revenues	108,423	29,840
Non-operating expenses		
Payments to physician health program	200,000	272,801
Investment expenses	5,534	6,167
Total non-operating expenses	205,534	278,968
Net non-operating income (loss)	(97,111)	(249,128)
Change in net position	45,384	(54,839)
Net position - beginning of year, as Previously reported	1,794,642	1,963,145
GASB 68 adjustment	-	(113,664)
Net position - beginning of year, restated	1,794,642	1,849,481
Net position - end of year	$ 1,840,026	$ 1,794,642

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, 2016

ASSETS	
Current assets	
Cash and cash equivalents	$ 220,555
Investments	2,269,466
Securities lending collateral	16,106
Prepaid expenses	17,189
Total current assets	2,523,316
Noncurrent assets	
Capital assets	
Software, net	9,538
Furniture and equipment, net	10,570
Total capital assets	20,108
Total assets	2,543,424
DEFERRED OUTFLOW OF RESOURCES	
Pension	176,802
LIABILITIES	
Current liabilities	
Accounts payable	12,426
Compensated absences, due within one year	24,544
Securities lending collateral	16,106
Investment expense payable	12,328
Total current liabilities	65,404
Long-term liabilities	
Compensated absences, due in more than one year	4,188
Net pension liability	323,469
Total non-current liabilities	327,657
Total liabilities	393,061
DEFERRED INFLOW OF RESOURCES	
Pre-payment of licenses	467,119
Pension	20,020
Total deferred inflow of resources	487,139
NET POSITION	
Net investment in capital assets	20,108
Unrestricted	1,819,918
Total net position	$ 1,840,026

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, 2016

Operating revenue	
Licensure renewal fees	$ 759,517
Licensure application fees	116,195
Resident licensure fees	5,455
Licensure of physicians assistants	25,670
Disciplinary expense reimbursements	11,285
Reciprocity fees	25,260
Miscellaneous income	5,086
Total operating revenue	948,468
Operating expenses	
Salaries and benefits	489,310
Travel and meetings	50,618
Occupancy	42,484
Disciplinary proceedings	41,383
Depreciation	8,050
Amortization	16,350
General office	157,778
Total operating expenses	805,973
Net operating income	142,495
Non-operating revenue	
Investment income	100,541
Gain on sale of securities	7,882
Total non-operating revenue	108,423
Non-operating expenses	
Payments to physician health program	200,000
Investment expense	5,534
Total non-operating expenses	205,534
Net non-operating income (expense)	(97,111)
Change in net position	45,384
Net position - beginning of year	1,794,642
Net position - end of year	$ 1,840,026

See Notes to the Financial Statements

NORTH DAKOTA BOARD OF MEDICINE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities:	
Receipts from fees	$ 944,063
Receipts for disciplinary expense reimbursement	11,285
Other cash receipts	5,086
Payments to suppliers for goods and services	(295,646)
Payments to employees for services	(451,967)
Net cash provided by operating activities	212,821
Cash flows from investing activities:	
Realized loss on investments	7,882
Investment income	106,075
Investment expenses	(113,957)
Payments to physician health program	(200,000)
Net cash used by investing activities	(200,000)
Net change in cash and cash equivalents	12,821
Cash and cash equivalents - beginning of year	207,734
Cash and cash equivalents - end of year	$ 220,555
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	$ 142,495
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	8,050
Amortization	16,350
Deferred inflow - pre-payment of licenses	11,966
Deferred inflow - pension	4,796
Deferred outflow - pension	(166,006)
Effects on operating cash flows due to changes in:	
Prepaid expenses	(2,936)
Accounts payable	(447)
Compensated absences	3,328
Net pension liability	196,163
Total adjustments	70,326
Net cash provided by operating activities	$ 212,821
Supplemental disclosure of non-cash investing activities:	
Unrealized gain on investments	$ 47,227

See Notes to the Financial Statements

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, 2016. 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.

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 Board's policy to use restricted resources first, and then unrestricted resources as they are needed.

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, 2016. 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.

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. 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. 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 $467,119. 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.

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 a financial institution. The amounts on deposit were insured by the FDIC up to $250,000 per financial institution.

The Board has a concentration of credit risk for cash deposits at Wells Fargo Bank, N.A. These deposits may at times exceed amounts covered by insurance provided by the FDIC. The maximum loss that could have resulted from that risk totaled $24,339 at December 31, 2016.

NOTE 3 INVESTMENTS

Total investments of the Board at fair value as of December 31, 2016 consisted of the following:

Domestic equities	$ 316,534
International equities	157,632
Domestic fixed income	1,741,258
Real assets	46,179
Invested cash	7,863
	$ 2,269,466

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, 2017. December 31, 2016 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.

Type (In Thousands)	Market Value	Less than 1 Year	1-6 Years	6-10 Years	10+ Years
Fixed Income Pool	$ 253,000	$ 4,000	$ 55,000	$ 120,000	$ 74,000
Short-term Fixed Income Pool	1,398,000	156,000	1,147,000	42,000	53,000
Large Cap Domestic Equity Pool	34,000	-	6,000	-	28,000
Small Cap Domestic Equity Pool	23,000	-	4,000	-	19,000
Total Debt Securities	$ 1,708,000	$ 160,000	$ 1,212,000	$ 162,000	$ 174,000

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.

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2016:

	Beginning Balance 1/1/16	Additions	Deletions	Ending Balance 12/31/2016
Capital assets, being depreciated/amortized:				
Furniture and equipment	$ 163,744	$ -	$ 29,350	$ 134,394
Software	81,751	-	-	81,751
Total capital assets	245,495	-	29,350	216,145
Less accumulated depreciation/amortization for:				
Furniture and equipment	145,124	8,050	29,350	123,824
Software	55,863	16,350	-	72,213
Total accumulated depreciation/amortization	200,987	24,400	29,350	196,037
Total capital assets, being depreciated/amortized, net	44,508	(24,400)	-	20,108
Governmental activity capital assets, net	$ 44,508	$ (24,400)	$ -	$ 20,108

NOTE 5 LEASES

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

The Board also rents parking spaces and a postage machine on a monthly basis.

Total lease expense, including parking and postage machine rent, was $44,759 for the year ended December 31, 2016.

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

2017	$ 40,120
2018	37,785

NOTE 6 COMPENSATED ABSENCES

The Board's liability for accumulated unpaid leave as of December 31, 2016 was $28,732, respectively. A summary of changes in compensated absences is as follows:

Balance - January 1	$ 25,404
Additions	24,544
Reductions	(21,216)
Balance - December 31	$ 28,732
Amount due within one year	$ 24,544

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.

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.

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, 2016, the Employer reported a liability of $323,469 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Employer's proportion was 0.033190 percent, which was an increase of 0.014468 from its proportion measured at June 30, 2015.

For the year ended December 31, 2016, the Employer recognized pension expense of $60,171. At December 31, 2016, 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	$ 4,859	$ (2,995)
Changes of assumptions	29,820	(16,070)
Net difference between projected and actual earnings on pension plan investments	45,129	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	84,898	(955)
Employer contributions subsequent to the measurement date	12,096	-
Total	$ 176,802	$ (20,020)

$12,096 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, 2017.

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:	
2017	$ 28,185
2018	28,185
2019	38,030
2020	30,574
2021	19,712

Actuarial Assumptions

The total pension liability in the July 1, 2016 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, 2016, 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:

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 Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. 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, 2016, 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, 2016. 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, 2016.

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:

	1% Decrease (7%)	**Current Discount Rate (8%)**	**1% Increase (9%)**
Employer's proportionate share of the net pension liability	$ 458,834	$ 323,469	$ 209,416

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.

NOTE 9 NORTH DAKOTA PHYSICIAN HEALTH PROGRAM (NDPHP)

The Board contributed $200,000 to the NDPHP during the year ended December 31, 2016. 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, 2017. These assigned funds are included in the unrestricted net position of the Board as of the year ended December 31, 2016.

NOTE 10 NEW GASB PRONOUNCEMENTS

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. 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 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.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of

resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.
This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

NOTE 11 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Board's year end. Subsequent events have been evaluated through November 14, 2017, which is the date these financial statements were available to be issued.

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

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2016	$ 24,192	$ (24,192)	$ -	$ 339,774	7.12%
2015	15,308	(15,308)	-	215,003	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*

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.033190%	$ 323,469	$ 334,479	96.71%	70.46%
2015	0.018722%	127,306	166,788	76.33%	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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes of Assumptions

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF REVENUES AND EXPENSES – COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget	2016	Variance Favorable (Unfavorable)
REVENUES			
Licensure renewal fees	$ 680,000	$ 759,517	$ 79,517
Licensure application fees	75,000	116,195	41,195
Resident licensure fees	5,200	5,455	255
Licensure of physicians assistants	18,000	25,670	7,670
Reciprocity fees	18,000	25,260	7,260
Total fees	796,200	932,097	135,897
Disciplinary expense reimbursements	5,000	11,285	6,285
Investment income	50,000	108,423	58,423
Miscellaneous	1,300	5,086	3,786
Total revenues	852,500	1,056,891	204,391
EXPENSES			
Salaries and benefits	450,567	489,310	(38,743)
Travel and meetings	59,732	50,618	9,114
Occupancy	42,708	42,484	224
Disciplinary proceedings	50,000	41,383	8,617
Investment expenses	-	5,534	(5,534)
Depreciation	-	8,050	(8,050)
Amortization	-	16,350	(16,350)
Payments to physician health program	250,000	200,000	50,000
General office	88,486	157,778	(69,292)
Total expenses	941,493	1,011,507	(70,014)
REVENUES OVER (UNDER) EXPENSES	$ (88,993)	$ 45,384	$ 134,377

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget	Actual
SALARIES AND BENEFITS		
Executive Secretary-treasurer	$ 160,000	$ 160,000
Other salaries and wages	179,774	183,451
Retirement benefits	53,449	90,002
Social security taxes	23,420	22,203
Health insurance	33,924	33,654
Total salaries and benefits	450,567	489,310
TRAVEL AND MEETINGS		
Staff and board members	47,732	40,993
Federation meeting	12,000	9,625
Total travel and meetings	59,732	50,618
OCCUPANCY EXPENSE		
Rent	40,020	40,020
Parking	2,688	2,464
Total occupancy expense	42,708	42,484
DISCIPLINARY PROCEEDINGS	50,000	41,383
GENERAL OFFICE EXPENSE		
Furniture and equipment	1,000	640
Computer consultant	29,340	64,919
Office supplies and printing	7,300	5,873
Postage	4,000	3,320
Legal counsel	22,000	20,698
Telephone	2,400	2,202
Dues	3,400	3,400
Maintenance of office equipment	725	804
Audit	6,950	6,950
Publication of rules, meetings	2,296	69
Miscellaneous	9,075	48,903
Total general office expense	88,486	157,778
PAYMENTS TO PHYSICIANS HEALTH PROGRAM	250,000	200,000
Total budgeted expense	941,493	981,573
Investment expenses	-	5,534
Depreciation and amortization	-	24,400
Total expenses	$ 941,493	$ 1,011,507

NORTH DAKOTA BOARD OF MEDICINE
OFFICERS AND MEMBERS OF THE BOARD
DECEMBER 31, 2016

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

BRADY MARTZ
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, 2016, 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 November 14, 2017.

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 a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2016-001 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 2016-002 and 2016-003 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompany schedule of findings and responses as item 2016-004.

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

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

November 14, 2017

2016-001: Material Weakness – Journal Entries

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

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

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

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

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

Views of Responsible Officials and Planned Corrective Actions
North Dakota 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 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.

2016-002: Significant Deficiency – Preparation of Financial Statements

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

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

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

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

Recommendation
We recommend that the Board 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.

2016-003: Significant Deficiency – Segregation of Duties

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

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

Cause
Size and budget constraints limiting the number of personnel within the accounting department 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.

2016-004: Significant Deficiency – Deposits

Criteria
In accordance with North Dakota Century Code 21-04-09, if a public corporation desires to deposit an amount greater than a depositories insurance (FDIC, FSLIC, or NCUE) and did not receive a personal or surety bond, the excess amount must be protected by a bond or by collateral, which, when computed at market value, shall be at least ten percent more than the amount of the excess deposit.

Condition
The Board had a balance of $274,339 on deposit at one financial institution as of December 31, 2016 that was covered by $250,000 of FDIC coverage, leaving $24,339 of deposits exposed to custodial credit risk.

Cause
The Board's deposits were under collateralized by $24,339.

Effect
The Board did not have all their deposits adequately covered by FDIC coverage and / or pledged securities as of December 31, 2016 and is not in compliance with North Dakota Century Code 21-04-09.

Recommendation
We recommend the Board review all bank accounts and pledged securities to ensure all deposits are adequately covered by FDIC coverage and / or pledged securities.

Views of Responsible Officials and Planned Corrective Actions
North Dakota Board of Medicine will review its holdings with each bank and discuss options including diversifying funds with another bank or obtaining a pledge of securities in order to mitigate this depository issue.