NORTH DAKOTA BOARD OF MEDICINE
BISMARCK, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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BradyMartz

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, 2020, 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, 2020, and the 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 contributions – pension, schedule of employer's share of net pension liability, schedule of employer contributions – OPEB, schedule of employer's share of net OPEB liability and notes to the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 12, 2021, 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 solely 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 the effectiveness of North Dakota Board of Medicine's 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 12, 2021

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, 2020 and comparative data for 2019. 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 $2,997,850 and $2,729,909, as of the end of the years 2020 and 2019, respectively. The deferred outflows totaled $615,618 and $219,456 as of the end of the years 2020 and 2019, respectively. The liabilities totaled $1,060,108 and $456,714 for 2020 and 2019, respectively, while the deferred inflows were $728,996 and $732,856 as of the end of the years 2020 and 2019, respectively. The assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by $1,824,364 and $1,759,795 for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, 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 $2,696,185 and $2,449,162, respectively as of December 31, 2020 and 2019.

Total cash in bank as of the end of the years 2020 and 2019 is $236,140 and $189,043, respectively. This is comprised of checking and money market accounts.

Overview of the Financial Statements

This discussion and analysis are 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, deferred outflows, 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, 2020 and 2019 were approximately $3 million and $2.7 million, respectively, and were comprised mainly of cash and investments. For the years ended December 31, 2020 and 2019, net position increased approximately $65,000, and increased approximately $157,000, respectively. Included in these increases are payments of $312,000 annually to the Professional Health Program.

Total deferred outflows of resources as of December 31, 2020 and 2019 were $615,618 and $219,456, which is the amount of pension expense to be recognized in future years.

Total liabilities as of December 31, 2020 and 2019 were $1,060,108, and $456,714, respectively, which is mainly due to net pension liability and the compensated absences accrual.

Total deferred inflows of resources as of December 31, 2020 and 2019 were $728,996 and $732,856, mainly due to the payment of license fees on an annual basis.

The Board paid $312,000 during the years ended December 31, 2020 and 2019, to the Physicians Health Program.

CONDENSED STATEMENT OF FINANCIAL POSITION:

	2020	2019
ASSETS		
Current assets	$ 2,956,576	$ 2,686,836
Capital assets	41,274	43,073
Total Assets	2,997,850	2,729,909
DEFERRED OUTFLOWS OF RESOURCES	615,618	219,456
LIABILITIES		
Current liabilities	47,457	43,709
Long-term liabilities	1,012,651	413,005
Total Liabilities	1,060,108	456,714
DEFERRED INFLOWS OF RESOURCES	728,996	732,856
NET POSITION		
Net investment in capital assets	41,274	43,073
Unrestricted net position	1,783,090	1,716,722
Total net position	$ 1,824,364	$ 1,759,795

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:

	2020	2019
Operating revenues		
Licensure renewal fees	$ 843,118	$ 823,350
Licensure application fees	220,899	180,898
Other	135,398	111,283
Total operating revenues	1,199,415	1,115,531
Operating expenses		
Salaries and benefits	810,239	579,792
Travel and meetings	33,202	45,879
Occupancy	38,514	46,018
Disciplinary proceedings	16,972	45,562
Depreciation	6,084	4,002
General office	163,705	151,626
Total operating expenses	1,068,716	872,879
Net operating income	130,699	242,652
Non-operating revenues		
Investment income	169,550	306,709
Gain on sale of securities	82,331	48,923
Total non-operating revenues	251,881	355,632
Non-operating expenses		
Payments to physician health program	312,000	312,000
Investment expenses	6,011	5,528
Total non-operating expenses	318,011	317,528
Net non-operating income (loss)	(66,130)	38,104
Change in net position	64,569	280,756
Net position - beginning of year	1,759,795	1,603,145
Net position - end of year	$ 1,824,364	$ 1,759,795

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 Director, North Dakota Board of Medicine, 4204 Boulder Ridge Rd Suite 260, Bismarck, ND 58503. 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, 2020

ASSETS	
Current assets	
Cash and cash equivalents	$ 236,140
Investments	2,696,185
Securities lending collateral	1,898
Prepaid expenses	22,353
Total current assets	2,956,576
Noncurrent assets	
Capital assets, net	41,274
Total assets	2,997,850
DEFERRED OUTFLOW OF RESOURCES	
Cost sharing defined benefit plan - pension	606,325
Cost sharing defined benefit plan - OPEB	9,293
Total deferred outflows of resources	615,618
LIABILITIES	
Current liabilities	
Accounts payable	4,434
Payroll liabilities	9,258
Compensated absences, due within one year	28,735
Securities lending collateral	1,898
Investment expense payable	3,132
Total current liabilities	47,457
Long-term liabilities	
Compensated absences, due in more than one year	9,246
Net pension liability	978,098
Net OPEB liability	25,307
Total non-current liabilities	1,012,651
Total liabilities	1,060,108
DEFERRED INFLOW OF RESOURCES	
Pre-payment of licenses	578,334
Cost sharing defined benefit plan - pension	150,003
Cost sharing defined benefit plan - OPEB	659
Total deferred inflow of resources	728,996
NET POSITION	
Net investment in capital assets	41,274
Unrestricted	1,783,090
Total net position	$ 1,824,364

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, 2020

Operating revenue	
Licensure renewal fees	$ 843,118
Licensure application fees	220,899
Resident licensure fees	7,770
Licensure of physicians assistants	28,500
Disciplinary expense reimbursements	40,417
Reciprocity fees	45,847
Miscellaneous income	12,864
Total operating revenue	1,199,415
Operating expenses	
Salaries and benefits	810,239
Travel and meetings	33,202
Occupancy	38,514
Disciplinary proceedings	16,972
Depreciation	6,084
General office	163,705
Total operating expenses	1,068,716
Net operating income	130,699
Non-operating revenue	
Investment income	169,550
Gain on sale of securities	82,331
Total non-operating revenue	251,881
Non-operating expenses	
Payments to physician health program	312,000
Investment expense	6,011
Total non-operating expenses	318,011
Net non-operating income (expense)	(66,130)
Change in net position	64,569
Net position - beginning of year	1,759,795
Net position - end of year	$ 1,824,364

See Notes to the Financial Statements

NORTH DAKOTA BOARD OF MEDICINE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

Cash flows from operating activities:	
Receipts from fees	$ 1,217,720
Receipts for disciplinary expense reimbursement	40,417
Other cash receipts	12,864
Payments to suppliers for goods and services	(255,952)
Payments to employees for services	(651,666)
Net cash provided by operating activities	363,383
Cash flows from investing activities:	
Investment income	(6,011)
Investment expenses	6,011
Payments to physician health program	(312,000)
Net cash used by investing activities	(312,000)
Net change in cash and cash equivalents	47,097
Cash and cash equivalents - beginning of year	189,043
Cash and cash equivalents - end of year	$ 236,140
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	$ 130,699
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,084
Deferred inflow - pre-payment of licenses	50,041
Deferred inflow - pension	(54,869)
Deferred inflow - OPEB	968
Deferred outflow - pension	(388,759)
Deferred outflow - OPEB	(7,402)
Effects on operating cash flows due to changes in:	
Accounts receivable	21,545
Prepaid expenses	(1,873)
Accounts payable	(1,686)
Payroll liabilities	2,479
Compensated absences	(7,354)
Net pension liability	611,614
Net OPEB liability	1,896
Total adjustments	232,684
Net cash provided by operating activities	$ 363,383
Supplemental disclosure of non-cash investing activities:	
Unrealized gain/(loss) on investments	$ 117,038

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, nine of whom are licensed doctors of medicine, one of whom is a licensed doctor of osteopathy, one of whom is a physician's assistant 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, 2020. 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, 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, 2020. 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.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables. The Board estimates an allowance for doubtful receivables based on experience and customer credit worthiness. Accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Accounts receivables are generally due when billed and past due receivables do not bear interest. There was no allowance for doubtful accounts established as of the year ended December 31, 2020 as the Board determined all receivables were collectible.

Capital Assets

A capital asset, which includes furniture, equipment and the office build-out, 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 - 15 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. The board has two items that qualify for reporting in this category, cost sharing defined benefit plan – pension and cost sharing defined benefit plan – OPEB, which represent actuarial differences within NDPERS pension and NDPERS OPEB plans as well as amounts paid to the plans after the measurement date. See note 8 and note 9 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 three 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. The second item and third items, Cost sharing defined benefit plan - pension and Cost sharing defined benefit plan - OPEB, represent actuarial differences within NDPERS pension and NDPERS OPEB plans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. See note 8 and note 9 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.

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.

Restricted net position – Consists of net position with constraints placed on the use by a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or b) law through constitutional provisions or enabling legislation. The Board has no restricted net position.

Unrestricted net position – All other net position that does not meet the definition of “net investment of capital assets” or “restricted net position”.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public 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.

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, 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 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 $33,346 at December 31, 2020.

NOTE 3 INVESTMENTS

Total investments of the Board at fair value as of December 31, 2020 consisted of the following:

Global equities	$ 727,362
Global fixed income	1,801,755
Global real estate	159,016
Invested cash	8,052
Total	$ 2,696,185

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 investment decisions 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 investment decisions 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, 2020. December 31, 2020 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	1-5 Years	6-10 Years	10+ Years
Fixed Income Pool	$ 1,684,000	$ 61,000	$ 642,000	$ 286,000	$ 695,000
Large Cap Domestic Equity Pool	56,000	1,000	26,000	2,000	27,000
Small Cap Domestic Equity Pool	47,000	-	22,000	1,000	24,000
Total Debt Securities	$ 1,787,000	$ 62,000	$ 690,000	$ 289,000	$ 746,000

Credit Risk

All investments of the Board 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.

Fair Value Measurement

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar assets or liabilities in active markets;
Quoted prices for identical or similar assets or liabilities in inactive markets;
And model-derived valuations in which all significant inputs are observable.

Level 3 Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The following table shows the fair value leveling of the Board's investment portfolio as held by the SIB as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Global equities	$ 727,362	$ -	$ -	$ 727,362
Global fixed income	-	1,801,755	-	1,801,755
Total investments at fair value	$ 727,362	$ 1,801,755	$ -	2,529,117
Investments measured at net asset value				
Real assets				159,016
Investments at other than fair value:				
Invested cash				8,052
Total investments				$ 2,696,185

Securities classified in Level 1 are valued using quoted prices in active markets for those securities. Securities classified in Level 2 are valued using methodologies such as various bid evaluations, market averages and other matrix pricing techniques as well as values derived from associated traded securities or last trade data. In instances where inputs used to measure fair value fall into different levels, the fair value is categorized based on the lowest level input that is significant to the valuation.

Investments valued at the net asset value (NAV) per share (or its equivalent) have been classified separately in the tables above and include investments considered to be *alternative investments* as defined by the AICPA. The definition includes investments for which a readily determinable fair value does not exist (that is, investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or NASDAQ). These types of investments can be held within any of the asset classes used by the SIB based on underlying portfolio holdings and analysis of risk and return relationships. These investments can be structured in different ways, including limited partnerships, limited liability companies, common trusts and mutual funds. Some are closed-ended with a specific life and capital commitment while others are open-ended with opportunity for ad hoc contributions or withdrawals and termination upon proper notice.

Real assets — includes investments in private vehicles through limited partnerships or commingled vehicles that have an ownership interest in direct real estate properties. The investment strategies may include “value added” strategies, which derive their return from both income and appreciation, “opportunistic”, which derive their return primarily through appreciation, and “alternative” which invest in less traditional types of property. Both domestic and international real estate funds are utilized. The SIB has a dedicated asset class for these types of investments. There are currently 11 different real estate funds in the portfolio. Three of those funds are open-ended vehicles that accept redemption requests quarterly with a 30-90 day notification period. One fund is in wind-down and will be distributing the final proceeds within the next 6-12 months. The remaining seven funds are closed-ended limited partnerships that are not eligible for redemptions.

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2020:

	Beginning Balance 1/1/20	Additions	Deletions	Ending Balance 12/31/2020
Capital assets, being depreciated/amortized:				
Furniture and equipment	$ 171,318	$ 4,286	$ 23,990	$ 151,614
Software	81,751	-	29,907	111,658
Total capital assets	253,069	4,286	53,897	263,272
Less accumulated depreciation/amortization for:				
Furniture and equipment	128,245	6,085	23,990	110,340
Office Improvements	81,751	-	29,907	111,658
Total accumulated depreciation/amortization	209,996	6,085	53,897	221,998
Net investment in capital assets	$ 43,073	$ (1,799)	$ -	$ 41,274

NOTE 5 LEASES

The Board's lease of its office space with a monthly lease payment of $3,203, started December 2019, and runs through November 2026.

The Board also rents a postage machine on a monthly basis.

Total lease expense, including postage machine rent, was $38,514 for the year ended December 31, 2020.

The Board has minimum future lease payments of the following for the years ending December 31:

2021	$ 38,942
2022	39,398
2023	39,854
2024	40,272
2025	40,272

NOTE 6 COMPENSATED ABSENCES

The Board's liability for accumulated unpaid leave as of December 31, 2020 was $37,981. A summary of changes in compensated absences is as follows:

Balance - January 1	$ 45,335
Additions	28,735
Reductions	(36,089)
Balance - December 31	$ 37,981
Amount due within one year	$ 28,735

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 nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; one member elected by the retired public employees; and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020, the 2.00% multiplier was replaced with a 1.75% multiplier. 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. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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, 2020, the Employer reported a liability of $978,098 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the Employer's proportion was 0.0310900 percent, which was an decrease of 0.001780 from its proportion measured at June 30, 2019.

For the year ended December 31, 2020, the Employer recognized pension expense of $190,206. At December 31, 2020, 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	$ 3,806	$ (49,561)
Changes of assumptions	524,322	(86,683)
Net difference between projected and actual earnings on pension plan investments	31,568	-
Changes in proportion and differences between employer contributions and proportionate share	32,227	(13,758)
Employer contributions subsequent to the measurement date	14,401	-
Total	$ 606,325	$ (150,003)

$14,401 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 ending December 31, 2021.

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 ending December 31:	
2021	$ 139,835
2022	111,494
2023	91,172
2024	99,420

Actuarial Assumptions

The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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 Equities	30.00%	6.30%
International Equities	21.00%	6.85%
Private Equity	7.00%	9.75%
Domestic Fixed Income	23.00%	1.25%
Global Real Assets	19.00%	5.01%

Discount Rate

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

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

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 2.45%; and the resulting Single Discount Rate is 4.64%.

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 4.64 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 (3.64 percent) or 1-percentage-point higher (5.64 percent) than the current rate:

1% Decrease 3.64%	Current Discount Rate 4.64%	1% Increase 5.64%
$ 1,269,009	$ 978,098	$ 740,062

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 OTHER POST EMPLOYMENT BENEFITS

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

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

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as *"prefunded credit applied"* on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019, the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The benefits are equal to $5.00 for each of the employee’s, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

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

At December 31, 2020, the Board reported a liability of $25,307 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Board’s proportion of the net OPEB liability was based on the Board's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2020 the Board's proportion was 0.0300850 percent, an increase of 0.0009380 form its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the Board recognized OPEB expense of $4,218. At December 31, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 563	$ (607)
Changes of assumptions	3,393	-
Net difference between projected and actual earnings on OPEB plan investments	870	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,205	(52)
Employer contributions subsequent to the measurement date	2,262	-
Total	$ 9,293	$ (659)

There is $2,262 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2021.

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

Year ending December 31:	
2021	$ 1,391
2022	1,616
2023	1,575
2024	1,264
2025	495
2026	31

Actuarial assumptions.

The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	6.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33.00%	6.10%
Small Cap Domestic Equities	6.00%	7.00%
International Equities	21.00%	6.45%
Domestic Fixed Income	40.00%	1.15%

Discount rate.

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate.

The following presents the net OPEB liability of the Plans as of June 30, 2020, calculated using the discount rate of 6.5%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Employer's proportionate share of the net OPEB liability	$ 33,191	$ 25,307	$ 18,641

OPEB plan fiduciary net position

Detailed information about the OPEB 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 10 NORTH DAKOTA PROFESSIONAL HEALTH PROGRAM (NDPHP)

The Board contributed $312,000 to the NDPHP during the year ended December 31, 2020. 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 designated $26,000 a month through June 2023, or a total of $780,000, through the year ending December 31, 2023. These designated funds are included in the unrestricted net position of the Board as of the year ended December 31, 2020.

NOTE 11 NEW GASB PRONOUNCEMENTS

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 June 15, 2021. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information* Arrangements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities,* be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans,* or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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

NOTE 12 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Board's year end. Subsequent events have been evaluated through November 12, 2021, which is the date these financial statements were available to be issued.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION
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
2020	$ 26,877	$ (26,877)	$ -	$ 377,483	7.12%
2019	25,303	(25,303)	-	355,376	7.12%
2018	26,784	(26,784)	-	376,174	7.12%
2017	25,621	(25,621)	-	359,846	7.12%
2016	24,192	(24,192)	-	339,774	7.12%
2015	15,308	(15,308)	-	215,003	7.12%

*Complete data for this schedule is not available prior to 2015.

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
2020	0.031090%	$ 978,098	$ 342,964	285.19%	48.91%
2019	0.031268%	366,484	325,242	112.68%	71.66%
2018	0.031032%	523,699	318,798	164.27%	62.80%
2017	0.027234%	437,740	278,015	157.45%	61.98%
2016	0.033190%	323,469	334,479	96.71%	70.46%
2015	0.018720%	127,306	166,788	76.33%	77.15%

*Complete data for this schedule is not available prior to 2015. The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30th.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
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
2020	$ 4,274	$ (4,274)	$ -	$ 377,483	1.14%
2019	4,051	(4,051)	-	355,376	1.14%
2018	4,288	(4,288)	-	376,174	1.14%

*Complete data for this schedule is not available prior to 2018.

See Notes to the Required Supplementary Information

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

	Employer's proportion of the net OPEB liability (asset)	Employer's proportionate share of the net OPEB liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2020	0.030085%	$ 25,307	$ 351,486	7.20%	63.38%
2019	0.029147%	23,411	325,242	7.20%	63.13%
2018	0.029135%	22,946	318,798	7.20%	59.78%

*Complete data for this schedule is not available prior to 2018. The amounts presented for each year were determined as of the measurement date of the collective net OPEB liability, which is June 30th.

NOTE 1 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB

Changes of pension benefit terms.

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

Changes of OPEB benefit terms.

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

NOTE 2 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB

Changes of pension assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.5% to 7.0%
- The assumed rate of price inflation was lowered from 2.5 to 2.25 percent for the July 1, 2020 valuation
- The assumed rate of total payroll growth was updated for the July 1, 2020 valuation
- Mortality table updates were made for the July 1, 2020 valuation

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

Changes of OPEB assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.25% to 6.50%.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF REVENUE AND EXPENSES – COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2020

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Licensure renewal fees	$ 830,000	$ 843,118	$ 13,118
Licensure application fees	145,000	220,899	75,899
Resident licensure fees	6,600	7,770	1,170
Licensure of physicians assistants	25,000	28,500	3,500
Reciprocity fees	35,000	45,847	10,847
Total fees	1,041,600	1,146,134	104,534
Disciplinary expense reimbursements	15,000	40,417	25,417
Investment income	85,000	251,881	166,881
Miscellaneous	9,100	12,864	3,764
Total revenues	1,150,700	1,451,296	300,596
EXPENSES			
Salaries and benefits	624,873	810,239	(185,366)
Travel and meetings	58,110	33,202	24,908
Occupancy	38,475	38,514	(39)
Disciplinary proceedings	70,000	16,972	53,028
Investment expenses	-	6,011	(6,011)
Depreciation and amortization	-	6,084	(6,084)
Payments to physician health program	312,000	312,000	-
General office	141,563	163,705	(22,142)
Total expenses	1,245,021	1,386,727	(141,706)
REVENUES OVER (UNDER) EXPENSES	$ (94,321)	$ 64,569	$ 158,890

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Budget	Actual
SALARIES AND BENEFITS		
Executive Secretary	$ 160,000	$ 160,000
Other salaries and wages	194,530	210,235
Retirement benefits	166,398	333,347
Social security taxes	26,852	28,771
Health insurance	77,093	77,886
Total salaries and benefits	624,873	810,239
TRAVEL AND MEETINGS		
Staff and board members	46,110	33,470
Federation meeting	12,000	(268)
Total travel and meetings	58,110	33,202
OCCUPANCY EXPENSE		
Rent	38,475	38,514
DISCIPLINARY PROCEEDINGS	70,000	16,972
GENERAL OFFICE EXPENSE		
Furniture and equipment	6,500	7,267
Computer consultant	36,666	29,268
Office supplies and printing	9,100	9,228
Postage	4,600	4,811
Legal counsel	40,000	33,152
Telephone	3,600	3,573
Dues	3,575	1,558
Maintenance of office equipment	1,750	1,564
Audit	8,200	6,000
Insurance, worker compensation	1,030	962
Publication of rules, meetings	2,942	1,627
Miscellaneous	23,600	64,695
Total general office expense	141,563	163,705
PAYMENTS TO PHYSICIANS HEALTH PROGRAM	312,000	312,000
Investment expenses	-	6,011
Depreciation and amortization	-	6,084
Total non-operating expenses	-	12,095
Total expenses	$ 1,245,021	$ 1,386,727

NORTH DAKOTA BOARD OF MEDICINE
OFFICERS AND MEMBERS OF THE BOARD
DECEMBER 31, 2020

R. Sticca, M.D.	Fargo	Chairman
R. Nagala, M.D.	Oakes	Vice Chairman
V. Johnson	Dickinson	Treasurer
B. Miller, M.D.	Bismarck	Member
T. Carver, D.O.	Minot	Member
C. Houle, M.D.	Hettinger	Member
L. Armstrong, M.D.	Bismarck	Member
M. Quast, M.D.	Bismarck	Member
R. Potluri, M.D.	Fargo	Member
S. Solberg, M.D.	Williston	Member
D. Leetun, M.D.	Grand Forks	Member
J. Metzger, PA-C	Argusville	Member
Ann Reich	Bismarck	Member

BradyMartz

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, 2020, 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 12, 2021.

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) as a basis for designing 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 responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2020-001 and 2020-002 described in the accompanying schedule of findings and responses to be material weaknesses.

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 2020-003 and 2020-004 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

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

November 12, 2021

2020-001: 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.

2020-002: Material Weakness – 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.

2020-003: 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.

2020-004: Significant Deficiency – Bank Reconciliations

Criteria
Generally, a system of internal control over bank reconciliations requires an approval of all monthly bank reconciliations and timely completion of the bank reconciliation.

Condition
There is not a system in place to ensure all monthly bank reconciliations are properly reviewed and approved.

Cause
Size and budget constraints limiting the number of personnel within the accounting department are the causes of this significant deficiency. In addition, the remote work environment created some unanticipated challenges in which approval of a disbursement was overlooked on more than one occasion.

Effect
Cash could potentially be materially misstated.

Recommendation
We recommend the Board establish and monitor internal controls to ensure all monthly bank reconciliations are approved and reviewed.

Views of Responsible Officials and Planned Corrective Actions
The Board will review these monthly bank reconciliations as well as all others going forward. The Board will ensure that policies and procedures are in place to mitigate this issue, as well as maintain the adequate records to substantiate approval of all bank reconciliations.