

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of the North Dakota Board of Medicine, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the North Dakota Board of Medicine basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Dakota Board of Medicine, as of December 31, 2021, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the North Dakota Board of Medicine and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota Board of Medicine's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North Dakota Board of Medicine's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota Board of Medicine's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary 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 accompanying Schedule of Revenues and Expenses – Compared to Budget and the Schedule of Expenses, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2022, 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 the 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 & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

November 14, 2022

NORTH DAKOTA BOARD OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 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, 2021 and comparative data for 2020. 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 \$3,411,831 and \$2,997,850, as of the end of the years 2021 and 2020, respectively. The deferred outflows totaled \$329,195 and \$615,618 as of the end of the years 2021 and 2020, respectively. The liabilities totaled \$342,415 and \$1,060,108 for 2021 and 2020, respectively, while the deferred inflows were \$1,208,362 and \$728,996 as of the end of the years 2021 and 2020, respectively. The assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by \$2,190,249 and \$1,824,364 for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, 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 \$3,146,303 and \$2,696,185, respectively as of December 31, 2021 and 2020.

Total cash balance as of the end of the years 2021 and 2020 is \$210,547 and \$236,140, respectively. This is comprised of a checking account.

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.

NORTH DAKOTA BOARD OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2021

The total assets for the Board as of December 31, 2021 and 2020 were approximately \$3.4 million and \$3 million, respectively, and were comprised mainly of cash and investments. For the years ended December 31, 2021 and 2020, net position increased approximately \$366,000, and \$65,000, 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, 2021 and 2020 were \$329,195 and \$615,618, which is the amount of pension expense to be recognized in future years.

Total liabilities as of December 31, 2021 and 2020 were \$342,415, and \$1,060,108, respectively, which is mainly due to net pension liability and the compensated absences accrual.

Total deferred inflows of resources as of December 31, 2021 and 2020 were \$1,208,362 and \$728,996, mainly due to the payment of license fees on an annual basis.

The Board paid \$312,000 during the years ended December 31, 2021 and 2020, to the Professional Health Program.

CONDENSED STATEMENT OF FINANCIAL POSITION:

	2021	2020
ASSETS		
Current assets	\$ 3,369,162	\$ 2,956,576
Capital assets	42,669	41,274
	<u>3,411,831</u>	<u>2,997,850</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>329,195</u>	<u>615,618</u>
LIABILITIES		
Current liabilities	51,261	47,457
Long-term liabilities	291,154	1,012,651
	<u>342,415</u>	<u>1,060,108</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,208,362</u>	<u>728,996</u>
NET POSITION		
Net investment in capital assets	37,215	41,274
Unrestricted net position	2,153,034	1,783,090
	<u>\$ 2,190,249</u>	<u>\$ 1,824,364</u>

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

NORTH DAKOTA BOARD OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2021

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

	<u>2021</u>	<u>2020</u>
Operating revenues		
Licensure renewal fees	\$ 963,778	\$ 843,118
Licensure application fees	198,804	220,899
Other	<u>112,238</u>	<u>135,398</u>
Total operating revenues	<u>1,274,820</u>	<u>1,199,415</u>
Operating expenses		
Salaries and benefits	479,342	810,239
Travel and meetings	42,102	33,202
Occupancy	38,980	38,514
Disciplinary proceedings	17,320	16,972
Depreciation	8,454	6,084
General office	<u>160,591</u>	<u>163,705</u>
Total operating expenses	<u>746,789</u>	<u>1,068,716</u>
Net operating income	<u>528,031</u>	<u>130,699</u>
Non-operating revenues		
Investment income	40,989	286,588
Gain on sale of securities	<u>116,679</u>	<u>82,331</u>
Total non-operating revenues	<u>157,668</u>	<u>368,919</u>
Non-operating expenses		
Payments to physician health program	312,000	312,000
Investment expenses	<u>7,814</u>	<u>6,011</u>
Total non-operating expenses	<u>319,814</u>	<u>318,011</u>
Net non-operating income (loss)	<u>(162,146)</u>	<u>50,908</u>
Change in net position	365,885	64,569
Net position - beginning of year	<u>1,824,364</u>	<u>1,759,795</u>
Net position - end of year	<u>\$ 2,190,249</u>	<u>\$ 1,824,364</u>

NORTH DAKOTA BOARD OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2021

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, 2021

ASSETS

Current assets

Cash and cash equivalents	\$ 210,547
Investments	3,146,303
Securities lending collateral	10,245
Prepaid expenses	2,067
Total current assets	<u>3,369,162</u>

Noncurrent assets

Capital assets, net	<u>42,669</u>
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Total assets	<u>3,411,831</u>
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DEFERRED OUTFLOW OF RESOURCES

Cost sharing defined benefit plan - pension	322,816
Cost sharing defined benefit plan - OPEB	6,379
Total deferred outflows of resources	<u>329,195</u>

LIABILITIES

Current liabilities

Accounts payable	2,538
Payroll liabilities	7,454
Compensated absences, due within one year	25,461
Securities lending collateral	10,245
Investment expense payable	3,396
Capital lease payable, due within one year	2,167
Total current liabilities	<u>51,261</u>

Long-term liabilities

Compensated absences, due in more than one year	8,498
Capital lease payable, due in more than one year	3,287
Net pension liability	266,006
Net OPEB liability	13,363
Total non-current liabilities	<u>291,154</u>

Total liabilities	<u>342,415</u>
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DEFERRED INFLOW OF RESOURCES

Pre-payment of licenses	611,226
Cost sharing defined benefit plan - pension	589,433
Cost sharing defined benefit plan - OPEB	7,703
Total deferred inflow of resources	<u>1,208,362</u>

NET POSITION

Net investment in capital assets	37,215
Unrestricted	<u>2,153,034</u>

Total net position	<u>\$ 2,190,249</u>
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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, 2021

Operating revenue	
Licensure renewal fees	\$ 963,778
Licensure application fees	198,804
Resident licensure fees	6,615
Licensure of physicians assistants	30,695
Disciplinary expense reimbursements	9,162
Reciprocity fees	45,408
Miscellaneous income	<u>20,358</u>
Total operating revenue	<u>1,274,820</u>
Operating expenses	
Salaries and benefits	479,342
Travel and meetings	42,102
Occupancy	38,980
Disciplinary proceedings	17,320
Depreciation	8,454
General office	<u>160,591</u>
Total operating expenses	<u>746,789</u>
Net operating income	<u>528,031</u>
Non-operating revenue	
Investment income	40,989
Gain on sale of securities	<u>116,679</u>
Total non-operating revenue	<u>157,668</u>
Non-operating expenses	
Payments to physician health program	312,000
Investment expense	<u>7,814</u>
Total non-operating expenses	<u>319,814</u>
Net non-operating income (expense)	<u>(162,146)</u>
Change in net position	365,885
Net position - beginning of year	<u>1,824,364</u>
Net position - end of year	<u><u>\$ 2,190,249</u></u>

See Notes to the Financial Statements

NORTH DAKOTA BOARD OF MEDICINE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

Cash flows from operating activities:	
Receipts from fees	\$ 1,278,192
Receipts for disciplinary expense reimbursement	9,162
Other cash receipts	20,358
Payments to suppliers for goods and services	(232,149)
Payments to employees for services	<u>(484,761)</u>
Net cash provided by operating activities	<u>590,802</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(2,000)
Payments on capital lease obligation	<u>(2,395)</u>
Net cash used by capital and related financing activities:	<u>(4,395)</u>
Cash flows from investing activities:	
Purchase of investments	(300,000)
Investment income	(7,814)
Investment expenses	7,814
Payments to physician health program	<u>(312,000)</u>
Net cash used by investing activities	<u>(612,000)</u>
Net change in cash and cash equivalents	(25,593)
Cash and cash equivalents - beginning of year	<u>236,140</u>
Cash and cash equivalents - end of year	<u><u>\$ 210,547</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	\$ 528,031
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	8,454
Deferred inflow - pre-payment of licenses	32,892
Deferred inflow - pension	439,430
Deferred inflow - OPEB	7,044
Deferred outflow - pension	287,631
Deferred outflow - OPEB	(1,208)
Effects on operating cash flows due to changes in:	
Prepaid expenses	20,286
Accounts payable	(1,896)
Payroll liabilities	(1,804)
Compensated absences	(4,022)
Net pension liability	(712,092)
Net OPEB liability	<u>(11,944)</u>
Total adjustments	<u>62,771</u>
Net cash provided by operating activities	<u><u>\$ 590,802</u></u>
Non-cash investing and financing activities:	
Unrealized gain/(loss) on investments	\$ (13,599)
Equipment directly financed through capital lease	7,849

See Notes to the Financial Statements

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

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, 2021. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

Reporting Entity

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

Fund Accounting

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

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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, 2021. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments.

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

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

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

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

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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, 2021 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.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
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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 three 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.

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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 \$2,109 at December 31, 2021.

NOTE 3 INVESTMENTS

Total investments of the Board at fair value as of December 31, 2021 consisted of the following:

Global equities	\$ 850,541
Global fixed income	2,092,604
Global real estate	188,982
Invested cash	<u>14,176</u>
Total	<u><u>\$ 3,146,303</u></u>

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

All 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, 2021. December 31, 2021 information is not available from SIB.

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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	\$ 1,790,000	\$ 68,000	\$ 599,000	\$ 434,000	\$ 689,000
Large Cap Domestic Equity Pool	51,000	-	25,000	-	26,000
Total Debt Securities	<u>\$ 1,841,000</u>	<u>\$ 68,000</u>	<u>\$ 624,000</u>	<u>\$ 434,000</u>	<u>\$ 715,000</u>

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, 2021:

	Level 1	Level 2	Level 3	Total
Global equities	\$ 850,541	\$ -	\$ -	\$ 850,541
Global fixed income	-	2,092,604	-	2,092,604
Total investments at fair value	<u>\$ 850,541</u>	<u>\$ 2,092,604</u>	<u>\$ -</u>	2,943,145
Investments measured at net asset value				
Real assets				188,982
Investments at other than fair value:				
Invested cash				<u>14,176</u>
Total investments				<u>\$ 3,146,303</u>

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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, 2021:

	Beginning Balance 1/1/21	Additions	Deletions	Ending Balance 12/31/21
Capital assets, being depreciated/amortized:				
Furniture and equipment	\$ 151,614	\$ 9,849	\$ 2,581	\$ 158,882
Software	51,844	-	-	51,844
Total capital assets	203,458	9,849	2,581	210,726
Less accumulated depreciation/amortization for:				
Furniture and equipment	110,340	8,454	2,581	116,213
Office Improvements	51,844	-	-	51,844
Total accumulated depreciation/amortization	162,184	8,454	2,581	168,057
Net investment in capital assets	\$ 41,274	\$ 1,395	\$ -	\$ 42,669

NORTH DAKOTA BOARD OF MEDICINE
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NOTE 5 LEASES

Capital Leases

The Board has financed the acquisition of copier. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The cost and accumulated depreciation of the capitalized asset is included in the appropriate section of the statement of financial position as of December 31, 2021:

Capitalized leased Equipment	\$7,849
Less accumulated depreciation	<u>(1,962)</u>
	<u><u>\$5,887</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2021 were as follows:

2022	\$ 2,167
2023	2,781
2024	506
Less interest	<u>(340)</u>
Present value of minimum lease payments	<u><u>\$ 5,114</u></u>

Operating 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 operating lease expense, including postage machine rent, was \$38,980 for the year ended December 31, 2021.

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

2022	\$ 39,398
2023	39,854
2024	40,272
2025	40,272
2026	36,916

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NOTE 6 COMPENSATED ABSENCES

The Board's liability for accumulated unpaid leave as of December 31, 2021 was \$33,959. A summary of changes in compensated absences is as follows:

Balance - January 1	\$ 37,981
Additions	25,461
Reductions	<u>(29,483)</u>
Balance - December 31	<u>\$ 33,959</u>
 Amount due within one year	 <u>\$ 25,461</u>

NOTE 7 RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Board pays an annual premium to NDIRF for its general insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence. The Board does participate in the North Dakota Fire and Tornado Fund, state bonding fund, and the North Dakota Workforce Safety & Insurance workers' compensation program.

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

NOTE 8 DEFINED BENEFIT PLAN

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of 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.

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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.

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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, 2021, the Employer reported a liability of \$266,006 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2021, the Employer's proportion was 0.025521 percent, which was an decrease of 0.005569 from its proportion measured at June 30, 2020.

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For the year ended December 31, 2021, the Employer recognized pension expense of \$36,500. At December 31, 2021, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 4,593	\$ (27,150)
Changes of assumptions	294,416	(383,858)
Net difference between projected and actual earnings on pension plan investments	-	(98,657)
Changes in proportion and differences between employer contributions and proportionate share	10,237	(79,769)
Employer contributions subsequent to the measurement date	<u>13,570</u>	<u>-</u>
Total	<u>\$ 322,816</u>	<u>\$ (589,433)</u>

\$13,570 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, 2022.

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:	
2022	\$ (47,535)
2023	(64,206)
2024	(57,964)
2025	(110,482)

NORTH DAKOTA BOARD OF MEDICINE
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Actuarial Assumptions

The total pension liability in the July 1, 2021 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%	6.00%
International Equities	21.00%	6.70%
Private Equity	7.00%	9.50%
Domestic Fixed Income	23.00%	0.73%
Global Real Assets	19.00%	4.77%

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.

NORTH DAKOTA BOARD OF MEDICINE
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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 1.92%; and the resulting Single Discount Rate is 7.00%.

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 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
\$ 423,038	\$ 266,006	\$ 135,251

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.

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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, 2021, the Board reported a liability of \$13,363 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, 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, 2021 the Board's proportion was 0.024027 percent, decrease of 0.006058 from its proportion measured as of June 30, 2020.

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For the year ended December 31, 2021, the Board recognized OPEB expense of \$1,664. At December 31, 2021, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 767	\$ (366)
Changes of assumptions	2,069	-
Net difference between projected and actual earnings on OPEB plan investments	-	(4,579)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,678	(2,758)
Employer contributions subsequent to the measurement date	1,864	-
Total	<u>\$ 6,379</u>	<u>\$ (7,703)</u>

\$1,864 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, 2022.

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:

2022	\$ (440)
2023	(473)
2024	(732)
2025	(1,409)
2026	(134)

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Actuarial assumptions.

The total OPEB liability in the July 1, 2021 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, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33.00%	5.85%
Small Cap Domestic Equities	6.00%	6.75%
International Equities	26.00%	6.25%
Domestic Fixed Income	35.00%	0.50%

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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 rates described in this report. 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, 2021, 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	<u>\$ 19,819</u>	<u>\$ 13,363</u>	<u>\$ 7,900</u>

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 BOARD DESIGNATIONS

The Board contributed \$312,000 to the North Dakota Professional Health Program (NDPHP) during the year ended December 31, 2021. 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 \$442,000, 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, 2021.

The Board established a litigation reserve of \$2,000,000 during the year ended December 31, 2021, which is included in unrestricted net position as of December 31, 2021.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 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 14, 2022, 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
2021	\$ 25,000	\$ (25,000)	\$ -	\$ 351,128	7.12%
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
2021	0.025521%	\$ 266,006	\$ 289,002	92.04%	78.26%
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
2021	\$ 4,003	\$ (4,003)	-	\$ 351,128	1.14%
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.

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
2021	0.024027%	\$ 13,363	\$ 185,597	7.20%	76.63%
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.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021

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, 2020.

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, 2020.

NOTE 2 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB

Changes of pension assumptions.

Actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

Changes of OPEB assumptions.

Actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF REVENUE AND EXPENSES – COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Licensure renewal fees	\$ 850,000	\$ 963,778	\$ 113,778
Licensure application fees	175,000	198,804	23,804
Resident licensure fees	6,600	6,615	15
Licensure of physicians assistants	25,000	30,695	5,695
Reciprocity fees	<u>40,000</u>	<u>45,408</u>	<u>5,408</u>
Total fees	1,096,600	1,245,300	148,700
Disciplinary expense reimbursements	6,000	9,162	3,162
Investment income	90,000	157,668	67,668
Miscellaneous	<u>10,500</u>	<u>20,358</u>	<u>9,858</u>
Total revenues	<u>1,203,100</u>	<u>1,432,488</u>	<u>229,388</u>
EXPENSES			
Salaries and benefits	501,719	479,342	22,377
Travel and meetings	52,690	42,102	10,588
Occupancy	39,904	38,980	924
Disciplinary proceedings	70,000	17,320	52,680
Investment expenses	-	7,814	(7,814)
Depreciation and amortization	-	8,454	(8,454)
Payments to physician health program	312,000	312,000	-
General office	<u>134,465</u>	<u>160,591</u>	<u>(26,126)</u>
Total expenses	<u>1,110,778</u>	<u>1,066,603</u>	<u>44,175</u>
REVENUES OVER (UNDER) EXPENSES	<u>\$ 92,322</u>	<u>\$ 365,885</u>	<u>\$ 273,563</u>

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Budget	Actual
SALARIES AND BENEFITS		
Executive Director	\$ 127,000	\$ 128,750
Other salaries and wages	218,567	202,090
Retirement benefits	52,649	58,451
Social security taxes	26,431	25,561
Health insurance	77,072	64,490
	<hr/>	<hr/>
Total salaries and benefits	501,719	479,342
	<hr/>	<hr/>
TRAVEL AND MEETINGS		
Staff and board members	52,690	42,102
	<hr/>	<hr/>
OCCUPANCY EXPENSE		
Rent	39,904	38,980
	<hr/>	<hr/>
DISCIPLINARY PROCEEDINGS	70,000	17,320
	<hr/>	<hr/>
GENERAL OFFICE EXPENSE		
Furniture and equipment	20,339	7,991
Computer consultant	26,416	28,092
Office supplies and printing	3,100	3,518
Postage	4,600	3,238
Legal counsel	45,000	50,068
Telephone	3,400	3,203
Dues	3,958	1,574
Maintenance of office equipment	1,600	1,050
Audit	12,400	12,400
Insurance, worker compensation	975	1,048
Publication of rules, meetings	3,277	157
Miscellaneous	9,400	48,005
Interest	-	247
	<hr/>	<hr/>
Total general office expense	134,465	160,591
	<hr/>	<hr/>
PAYMENTS TO PHYSICIANS HEALTH PROGRAM	312,000	312,000
	<hr/>	<hr/>
Investment expenses	-	7,814
Depreciation and amortization	-	8,454
Total non-operating expenses	-	16,268
	<hr/>	<hr/>
Total expenses	\$ 1,110,778	\$ 1,066,603
	<hr/>	<hr/>

**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, 2021, and the related notes to the financial statements, which collectively comprise the North Dakota Board of Medicine's basic financial statements and have issued our report thereon dated November 14, 2022.

Report on 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 2021-001 and 2021-002 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 deficiency 2021-003 described in the accompanying schedule of findings and responses to be a significant deficiency.

Report on Compliance and Other Matters

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

North Dakota Board of Medicine's Responses to Findings

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

Purpose of this Report

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



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

November 14, 2022

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-001: 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.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-002: 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.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

2021-003: 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.