

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the North Dakota Board of Medicine, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the North Dakota Board of Medicine's basic financial statements as listed in the table of contents.

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, 2023, 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 13, 2024, 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 13, 2024

NORTH DAKOTA BOARD OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023

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, 2023 and comparative data for 2022. 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 \$5,098,323 and \$3,807,780, as of the years ended 2023 and 2022, respectively. The deferred outflows totaled \$384,785 and \$593,422 as of the years ended 2023 and 2022, respectively. The liabilities totaled \$1,142,490 and \$1,428,802 for 2023 and 2022, respectively, while the deferred inflows were \$2,042,956 and \$1,040,425 as of the end of the years 2023 and 2022, respectively. The assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by \$2,297,662 and \$1,931,975 for the years ended December 31, 2023 and 2022, respectively. The main increase in liability and deferred inflows/outflows in the current year can be attributed to the change in pension plans and pre-payment of licenses.

As of December 31, 2023 and 2022, 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 \$4,282,255 and \$3,090,418, respectively as of December 31, 2023 and 2022.

Total cash balance as of the end of the years 2023 and 2022 is \$219,607 and \$145,369, 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 is 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, 2023

The total assets for the Board as of December 31, 2023 and 2022 were approximately \$5.1 million and \$3.8 million, respectively, and were comprised mainly of cash and investments. For the years ended December 31, 2023 and 2022, net position increased by \$365,687 and decreased by \$258,274, 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, 2023 and 2022 were \$384,785 and \$593,422, which is the amount of pension expense to be recognized in future years.

Total liabilities as of December 31, 2023 and 2022 were \$1,142,490, and \$1,428,802, respectively, which is mainly due to the change in net pension liability, lease liability and the compensated absences accrual.

Total deferred inflows of resources as of December 31, 2023 and 2022 were \$2,042,956 and \$1,040,425, respectively, mainly due to the payment of license fees on a biennial basis and changes in the pension and OPEB plans.

The Board paid \$323,000 and \$312,000 during the years ended December 31, 2023 and 2022, to the Professional Health Program, respectively.

CONDENSED STATEMENT OF FINANCIAL POSITION:

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets	\$ 4,551,659	\$ 3,275,356
Capital assets, net	<u>546,663</u>	<u>532,424</u>
Total Assets	<u>5,098,322</u>	<u>3,807,780</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>384,785</u>	<u>593,422</u>
LIABILITIES		
Current liabilities	114,674	97,778
Long-term liabilities	<u>1,027,816</u>	<u>1,331,024</u>
Total Liabilities	<u>1,142,490</u>	<u>1,428,802</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,042,956</u>	<u>1,040,425</u>
NET POSITION		
Net investment in capital assets	77,313	532,424
Unrestricted net position	<u>2,220,348</u>	<u>1,399,551</u>
Total net position	<u>\$ 2,297,661</u>	<u>\$ 1,931,975</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, 2023

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

	<u>2023</u>	<u>2022</u>
Operating revenues		
Licensure renewal fees	\$ 1,044,213	\$ 1,020,148
Licensure application fees	142,697	246,516
Other	<u>73,631</u>	<u>114,650</u>
Total operating revenues	<u>1,260,541</u>	<u>1,381,314</u>
Operating expenses		
Salaries and benefits	513,050	557,001
Travel and meetings	56,111	49,893
Disciplinary proceedings	9,754	22,416
Depreciation	6,749	6,644
Amortization	42,534	38,442
General office	<u>243,379</u>	<u>233,570</u>
Total operating expenses	<u>871,577</u>	<u>907,966</u>
Net operating income	<u>388,964</u>	<u>473,348</u>
Non-operating revenues		
Gain (loss) on investments	349,575	(360,295)
Gain (loss) on sale of securities	<u>(42,770)</u>	<u>(53,410)</u>
Total non-operating revenues	<u>306,805</u>	<u>(413,705)</u>
Non-operating expenses		
Payments to physician health program	323,000	312,000
Investment expense	<u>7,083</u>	<u>5,917</u>
Total non-operating expenses	<u>330,083</u>	<u>317,917</u>
Net non-operating income (loss)	<u>(23,278)</u>	<u>(731,622)</u>
Change in net position	365,686	(258,274)
Net position - beginning of year	<u>1,931,975</u>	<u>2,190,249</u>
Net position - end of year	<u>\$ 2,297,661</u>	<u>\$ 1,931,975</u>

NORTH DAKOTA BOARD OF MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2023

Capital Assets

A portion of the Board of Medicine's net position reflects the investment in capital assets (i.e. furniture, equipment, software, right-of-use office space and equipment). The Board uses these capital assets in the normal course of business. See Notes 4, 5, and 6 for further details.

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, 2023

ASSETS	
Current assets	
Cash and cash equivalents	\$ 219,607
Investments	4,282,255
Receivables	19,900
Securities lending collateral	29,379
Prepaid expenses	518
Total current assets	<u>4,551,659</u>
Noncurrent assets	
Capital assets, net	<u>546,663</u>
Total assets	<u>5,098,322</u>
DEFERRED OUTFLOW OF RESOURCES	
Cost sharing defined benefit plan - pension	371,001
Cost sharing defined benefit plan - OPEB	13,784
Total deferred outflows of resources	<u>384,785</u>
LIABILITIES	
Current liabilities	
Accounts payable	14,496
Payroll liabilities	8,090
Compensated absences, due within one year	28,175
Securities lending collateral	29,379
Investment expense payable	2,483
Lease liability, due within one year	32,051
Total current liabilities	<u>114,674</u>
Long-term liabilities	
Compensated absences, due in more than one year	19,869
Lease liability, due in more than one year	437,299
Net pension liability	540,740
Net OPEB liability	29,908
Total non-current liabilities	<u>1,027,816</u>
Total liabilities	<u>1,142,490</u>
DEFERRED INFLOW OF RESOURCES	
Pre-payment of licenses	1,585,862
Cost sharing defined benefit plan - pension	452,801
Cost sharing defined benefit plan - OPEB	4,293
Total deferred inflow of resources	<u>2,042,956</u>
NET POSITION	
Net investment in capital assets	77,313
Unrestricted	<u>2,220,348</u>
Total net position	<u>\$ 2,297,661</u>

See Notes to the Financial Statements

NORTH DAKOTA BOARD OF MEDICINE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

Operating revenue	
Licensure renewal fees	\$ 1,044,213
Licensure application fees	142,697
Resident licensure fees	7,035
Licensure of physicians assistants	2,771
Disciplinary expense reimbursements	7,230
Reciprocity fees	46,031
Genetic counselor	3,015
Naturopathic doctors	5,420
Miscellaneous income	<u>2,129</u>
 Total operating revenue	 <u>1,260,541</u>
Operating expenses	
Salaries and benefits	513,050
Travel and meetings	56,111
Disciplinary proceedings	9,754
Depreciation	6,749
Amortization	42,534
General office	<u>243,379</u>
 Total operating expenses	 <u>871,577</u>
 Net operating income	 <u>388,964</u>
Non-operating revenues (expenses)	
Gain (loss) on investments	349,575
Gain (loss) on sale of securities	(42,770)
Payments to physician health program	(323,000)
Investment expense	<u>(7,083)</u>
 Total non-operating revenues (expenses)	 <u>(23,278)</u>
 Change in net position	 365,686
 Net position - beginning of year	 <u>1,931,975</u>
 Net position - end of year	 <u>\$ 2,297,661</u>

See Notes to the Financial Statements

NORTH DAKOTA BOARD OF MEDICINE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

Cash flows from operating activities:	
Receipts from fees	\$ 2,149,918
Receipts for disciplinary expense reimbursement	7,230
Other cash receipts	5,144
Payments to suppliers for goods and services	(284,896)
Payments to employees for services	<u>(492,233)</u>
Net cash provided by operating activities	<u>1,385,163</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(62,311)</u>
Cash flows from noncapital financing activities:	
Payments on lease liability	<u>(33,620)</u>
Cash flows from investing activities:	
Purchase of investments	(891,941)
Investment income	(7,419)
Investment expenses	7,366
Payments to physician health program	<u>(323,000)</u>
Net cash used by investing activities	<u>(1,214,994)</u>
Net change in cash and cash equivalents	74,238
Cash and cash equivalents - beginning of year	<u>145,369</u>
Cash and cash equivalents - end of year	<u>\$ 219,607</u>
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	\$ 388,964
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,749
Amortization	42,534
Deferred inflow - pre-payment of licenses	920,451
Deferred inflow - pension and OPEB	82,080
Deferred outflow - pension and OPEB	208,637
Effects on operating cash flows due to changes in:	
Accounts receivable	(18,700)
Prepaid expenses	13,665
Accounts payable	10,683
Payroll liabilities	206
Compensated absences	6,393
Net pension liability	(272,994)
Net OPEB liability	<u>(3,505)</u>
Total adjustments	<u>996,199</u>
Net cash provided by operating activities	<u>\$ 1,385,163</u>
Non-cash investing and activities:	
Unrealized gain/(loss) on investments	\$ 264,417

See Notes to the Financial Statements

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 fifteen members, nine of whom are licensed doctors of medicine, one of whom is a licensed doctor of osteopathy, two of whom are physician's assistants, one of whom is a naturopathic doctor 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, 2023. 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, 2023

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, 2023

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, 2023. 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, 2023

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, 2023 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.

Leases

The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the Board has control of the right to use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial lease term of more than 12 months, or that contain an option to purchase that the Board is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the Board uses its incremental borrowing rate based on the information available at the lease commencement date. The Board has made an accounting policy election to use a risk free rate based on US Treasury Tbill rate as of the lease commencement. The Board accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets.

The Board continues to record rent expense for short term leases on a straight-line basis over the lease term. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Board is reasonably certain to exercise.

The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The Board's lease agreements do not include any material residual value guarantees or restrictive covenants.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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 9 and note 10 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 9 and note 10 for further details.

Compensated Absences

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

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

Equity Classifications

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

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

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”.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

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

NOTE 2 DEPOSITS

Custodial Credit Risk

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

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

The Board has a concentration of credit risk for cash deposits at Wells Fargo Bank, N.A. These deposits may at times exceed amounts covered by insurance provided by the FDIC. No loss could have resulted from this risk at December 31, 2023.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE 3 INVESTMENTS

Total investments of the Board at fair value as of December 31, 2023 consisted of the following:

Global equities	\$ 1,147,676
Global fixed income	2,836,117
Global real estate	253,826
Invested cash	<u>44,636</u>
Total	<u><u>\$ 4,282,255</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, 2023. December 31, 2023 information is not available from SIB.

Readers may refer to the North Dakota Retirement and Investment Office financial statements regarding highly sensitive securities that are disclosed at the SIB level.

Type (In Thousands)	Market Value	Less than 1 Year	1-5 Years	6-10 Years	10+ Years
Fixed Income Pool	\$ 2,263,000	\$ 59,000	\$ 774,000	\$ 333,000	\$ 1,097,000
Large Cap Domestic Equity Pool	54,000	2,000	33,000	-	19,000
Total Debt Securities	<u><u>\$ 2,317,000</u></u>	<u><u>\$ 61,000</u></u>	<u><u>\$ 807,000</u></u>	<u><u>\$ 333,000</u></u>	<u><u>\$ 1,116,000</u></u>

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Global equities	\$ 1,147,676	\$ -	\$ -	\$ 1,147,676
Global fixed income	<u>-</u>	<u>2,836,117</u>	<u>-</u>	<u>2,836,117</u>
Total investments at fair value	<u>\$ 1,147,676</u>	<u>\$ 2,836,117</u>	<u>\$ -</u>	3,983,793
Investments measured at net asset value				
Real assets				253,826
Investments at other than fair value:				
Invested cash				<u>44,636</u>
Total investments				<u>\$ 4,282,255</u>

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.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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, 2023:

	Beginning Balance 1/1/23	Additions	Deletions	Ending Balance 12/31/23
Capital assets, being depreciated/amortized:				
Furniture and equipment	\$ 157,402	\$ 3,311	\$ 2,049	\$ 158,664
Software	51,844	59,000	-	110,844
Right-of-use office space	527,946	-	-	527,946
Right-of-use equipment	8,532	-	-	8,532
Total capital assets	<u>745,724</u>	<u>62,311</u>	<u>2,049</u>	<u>805,986</u>
Less accumulated depreciation/amortization for:				
Furniture and equipment	120,894	6,749	2,049	125,594
Software	51,844	3,184	-	55,028
Right-of-use office space	35,592	35,592	-	71,184
Right-of-use equipment	3,759	3,758	-	7,517
Total accumulated depreciation/amortization	<u>212,089</u>	<u>49,283</u>	<u>2,049</u>	<u>259,323</u>
Net investment in capital assets	<u>\$ 533,635</u>	<u>\$ 13,028</u>	<u>\$ -</u>	<u>\$ 546,663</u>

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE 5 LEASES

The Board leases office space in Bismarck, North Dakota a copier, and a postage machine. The terms of the leases range from 2 to 15 years through December 2036.

Following is the total lease expense for the year ended December 31, 2023.

Lease expense		
Amortization expense by class of underlying asset		
Office Space	\$	35,592
Equipment		<u>3,759</u>
Total amortization expense		<u>39,351</u>
Interest on lease liabilities		<u>9,911</u>
Total	\$	<u><u>49,262</u></u>

NOTE 6 LONG TERM DEBT

Following is a schedule of activity in the lease liability for the year ended December 31, 2023.

	Beginning of Year	Additions	Subtractions	End of Year	Amounts Due Within One Year
Lease Liabilities	\$ 503,008	\$ -	\$ (33,658)	\$ 469,350	\$ 32,051

Following is a schedule by years of future minimum rental payments required under the lease:

	Principal	Interest	Total Payments
For the year ending December 31,			
2024	\$ 32,051	\$ 9,312	\$ 41,363
2025	31,603	8,669	40,272
2026	32,334	8,015	40,349
2027	33,859	7,337	41,196
2028	34,560	6,636	41,196
2029-2033	185,792	22,113	207,905
2034-2038	<u>119,151</u>	<u>3,699</u>	<u>122,850</u>
Total Future Payments	<u>\$469,350</u>	<u>\$65,781</u>	<u>\$535,131</u>

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE 7 COMPENSATED ABSENCES

The Board's liability for accumulated unpaid leave as of December 31, 2023 was \$48,044. A summary of changes in compensated absences is as follows:

Balance - January 1	\$ 41,651
Additions	28,175
Reductions	<u>(21,782)</u>
Balance - December 31	<u>\$ 48,044</u>
Amount due within one year	<u>\$ 28,175</u>

NOTE 8 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 (NDRIF), 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 NDRIF for its general insurance coverage. The coverage by NDRIF 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 9 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 eleven members. The Governor is responsible for appointing three other members in addition to the Chairman of the Board. Four members are appointed by legislative management, and the remaining three Board members are elected from active employees currently contributing to PERS.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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. The Main Plan will be closed to new employees with the passage of House Bill 1040. The closure of the plan will be effective January 1, 2025.

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.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2023, the Employer reported a liability of \$540,740 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, 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, 2023, the Employer's proportion was 0.028043 percent, which was a decrease of 0.000211 from its proportion measured at June 30, 2022.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

For the year ended December 31, 2023, the Employer recognized pension expense of \$36,729. At December 31, 2023, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,603	\$ (2,982)
Changes of assumptions	298,170	(410,435)
Net difference between projected and actual earnings on pension plan investments	14,188	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	28,287	(39,384)
Employer contributions subsequent to the measurement date	12,753	-
Total	\$ 371,001	\$ (452,801)

\$12,753 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, 2024.

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

Year ended December 31:

2024	\$	(9,225)
2025		(67,493)
2026		13,986
2027		(31,821)

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

Actuarial Assumptions

The total pension liability in the July 1, 2023 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	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 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31%	6.25%
International Equity	20%	6.95%
Private Equity	7%	9.45%
Domestic Fixed Income	23%	2.51%
Global Real Assets	19%	4.33%

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
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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 6.50%; the municipal bond rate is 3.86%; and the resulting Single Discount Rate is 6.50%.

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 6.50 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 (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 pension liability	\$ 745,550	\$ 540,740	\$ 370,834

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

NOTE 10 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.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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, 2023, the Board reported a liability of \$29,908 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2023, 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, 2023 the Board's proportion was 0.029915 percent, an increase of 0.002078 from its proportion measured as of June 30, 2022.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

For the year ended December 31, 2023, the Board recognized OPEB expense of \$6,391. At December 31, 2023, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 563	\$ (342)
Changes of assumptions	6,379	(2,477)
Net difference between projected and actual earnings on OPEB plan investments	2,160	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,926	(1,474)
Employer contributions subsequent to the measurement date	1,756	-
Total	\$ 13,784	\$ (4,293)

\$1,756 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, 2024.

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:

2024	\$ 2,894
2025	2,128
2026	3,379
2027	(666)

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

Actuarial assumptions.

The total OPEB liability in the July 1, 2023 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	5.75%, 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, 2023 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
S&P 500 Index	33%	5.50%
US Small Cap Equity	6%	7.65%
World Equity ex-US	26%	6.82%
US High Yield	3%	5.32%
Emerging Markets Debt	4%	6.25%
Core Fixed Income	28%	4.04%

Discount rate.

The discount rate used to measure the total OPEB liability was 5.75%. 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

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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, 2023, calculated using the discount rate of 5.75%, 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 (4.75 percent) or 1-percentage-point higher (6.75 percent) than the current rate:

	1% Decrease 4.75%	Current Discount Rate 5.75%	1% Increase 6.75%
Employer's proportionate share of the net OPEB liability	\$ 39,306	\$ 29,908	\$ 21,995

OPEB plan fiduciary net position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued NDPERS financial report.

NOTE 11 BOARD DESIGNATIONS

The Board contributed \$323,000 to the North Dakota Professional Health Program (NDPHP) during the year ended December 31, 2023. 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 December 2024, or a total of \$312,000 through December 31, 2024. These designated funds are included in the unrestricted net position of the Board as of the year ended December 31, 2023.

The Board established a litigation reserve of \$2,500,000 during the year ended December 31, 2023, which is included in unrestricted net position as of December 31, 2023.

NOTE 12 NEW GASB PRONOUNCEMENTS

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, enhances the accounting and financial reporting requirements for accounting changes and error corrections. The statement is effective for fiscal years beginning after June 15, 2023.

GASB Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences through aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The statement is effective for fiscal years beginning after December 15, 2023.

NORTH DAKOTA BOARD OF MEDICINE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

GASB Statement No. 102, *Certain Risk Disclosures*, requires entities to disclose critical information about their exposure to risks due to certain concentrations or limitations that could lead to financial distress or operational challenges. This statement is effective for fiscal years beginning after June 15, 2024.

GASB Statement No. 103, *Financial Reporting Model Improvements*, revises the requirements for management's discussion and analysis with the goal of making it more readable and understandable, requires unusual or infrequent items to be presented separately, defines operating and nonoperating revenues, includes a new section for noncapital subsidies for proprietary funds' statement of revenues, expenses and changes in net position, removes the option to disclose major component information in the notes and requires them to be shown individually or in combine financial statements following the fund financial statements and requires budgetary comparisons to be presented as RSI with new columns for variances between original-to-final budget and final budget-to-actual results. This statement is effective for fiscal years beginning after June 15, 2025.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note. These items include disclosing separately lease assets, intangible right-to-use assets, subscription assets and intangible assets. In addition, additional disclosures will be required for capital assets held for sale. This statement is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

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

NOTE 13 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Board's year end. Subsequent events have been evaluated through November 13, 2024, 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
2023	\$ 25,012	\$ (25,012)	\$ -	\$ 351,297	7.12%
2022	24,652	(24,652)	-	346,235	7.12%
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
2023	0.02804%	\$ 540,740	\$ 342,930	157.68%	65.31%
2022	0.02825%	813,734	327,984	248.10%	54.47%
2021	0.02552%	266,006	289,002	92.04%	78.26%
2020	0.03109%	978,098	342,964	285.19%	48.91%
2019	0.03127%	366,484	325,242	112.68%	71.66%
2018	0.03103%	523,699	318,798	164.27%	63.53%
2017	0.02723%	437,740	278,015	157.45%	61.98%
2016	0.03319%	323,469	344,479	93.90%	70.46%
2015	0.01872%	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
2023	\$ 4,005	\$ (4,005)	\$ -	\$ 351,297	1.14%
2022	3,947	(3,947)	-	346,235	1.14%
2021	4,003	(4,003)	-	351,128	1.14%
2020	4,274	(4,274)	-	377,483	1.13%
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
2023	0.029915%	\$ 29,908	\$ 300,701	9.95%	62.74%
2022	0.027837%	33,413	287,388	11.63%	56.28%
2021	0.024027%	13,363	261,957	5.10%	76.63%
2020	0.030085%	25,307	242,964	10.42%	63.38%
2019	0.029147%	23,411	325,242	7.20%	63.13%
2018	0.029135%	22,946	318,798	7.20%	61.89%

*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, 2023

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

The Board adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States for the operating fund.

NOTE 2 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB

Changes of pension benefit terms.

In 2023, House Bill 1040 was passed, which closes the Main System to employees newly enrolled into the system on January 1, 2025 and later. The state employer contribution for 2026 and later was changed to be the amount sufficient to fund the Main System on actuarial basis, with the amortization of the unfunded liability determined on a level percent of payroll basis over a closed period beginning on January 1, 2026 and ending June 30, 2056.

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, 2022.

NOTE 3 NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM PENSION AND OPEB

Changes of pension assumptions.

All actuarial assumptions used in the actuarial valuation as of July 1, 2022 were based on an experience review for the period from July 1, 2014 to July 1, 2019, and were adopted for first use commencing with the actuarial valuation as of July 1, 2020. There have been no changes in actuarial assumptions since the previous actuarial valuation as of July 1, 2022.

Changes of OPEB assumptions.

All actuarial assumptions used in the actuarial valuation as of July 1, 2022 were based on an experience review for the period from July 1, 2014 to July 1, 2019, and were adopted for first use commencing with the actuarial valuation as of July 1, 2020. There have been no changes in actuarial assumptions since the previous actuarial valuation as of July 1, 2022.

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF REVENUE AND EXPENSES – COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2023

	Original and Final Budget	Actual	Variance
REVENUES			
Licensure renewal fees	\$ 885,000	\$ 1,044,213	\$ 159,213
Licensure application fees	350,000	142,697	(207,303)
Resident licensure fees	6,600	7,035	435
Licensure of physicians assistants	27,000	2,771	(24,229)
Reciprocity fees	40,000	46,031	6,031
Total fees	1,308,600	1,242,747	(65,853)
Disciplinary expense reimbursements	5,000	7,230	2,230
Investment income	100,000	306,805	206,805
Miscellaneous	16,200	10,564	(5,636)
Total revenues	1,429,800	1,567,346	137,546
EXPENSES			
Salaries and benefits	491,819	513,050	(21,231)
Travel and meetings	75,150	56,111	19,039
Occupancy	39,854	-	39,854
Disciplinary proceedings	50,000	9,754	40,246
Investment expenses	-	7,083	(7,083)
Depreciation and amortization	-	49,283	(49,283)
Payments to physician health program	323,000	323,000	-
General office	239,727	243,379	(3,652)
Total expenses	1,219,550	1,201,660	17,890
REVENUES OVER (UNDER) EXPENSES	\$ 210,250	\$ 365,686	\$ 155,436

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

	Budget	Actual
SALARIES AND BENEFITS		
Executive Director	\$ 140,000	\$ 147,000
Other salaries and wages	211,297	210,775
Retirement benefits	53,608	67,826
Social security taxes	26,247	26,806
Health insurance	60,667	60,643
	<u>491,819</u>	<u>513,050</u>
TRAVEL AND MEETINGS		
Staff and board members	75,150	56,111
	<u>75,150</u>	<u>56,111</u>
OCCUPANCY EXPENSE		
Rent	39,854	-
	<u>39,854</u>	<u>-</u>
DISCIPLINARY PROCEEDINGS		
	50,000	9,754
	<u>50,000</u>	<u>9,754</u>
GENERAL OFFICE EXPENSE		
Furniture and equipment	7,000	2,096
Computer consultant	113,608	75,208
Office supplies and printing	1,740	1,655
Postage	3,300	2,053
Legal counsel	80,000	66,210
Telephone	3,384	3,375
Dues	3,975	3,990
Maintenance of office equipment	900	801
Audit	11,900	10,500
Insurance, worker compensation	1,100	993
Publication of rules, meetings	3,220	2,250
Miscellaneous	9,600	64,337
Interest	-	9,911
	<u>239,727</u>	<u>243,379</u>
TOTAL GENERAL OFFICE EXPENSE		
	239,727	243,379
	<u>239,727</u>	<u>243,379</u>
PAYMENTS TO PHYSICIANS HEALTH PROGRAM		
	323,000	323,000
	<u>323,000</u>	<u>323,000</u>
NON-OPERATING EXPENSES		
Investment expenses	-	7,083
Depreciation and amortization	-	49,283
Total non-operating expenses	-	56,366
	<u>-</u>	<u>56,366</u>
TOTAL EXPENSES		
	\$ 1,219,550	\$ 1,201,660
	<u>\$ 1,219,550</u>	<u>\$ 1,201,660</u>

**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, 2023, 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 13, 2024.

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 another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002 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 described in the accompanying schedule of findings and responses as item 2023-003 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

Government Auditing Standards requires the auditor to perform limited procedures on North Dakota Board of Medicine's responses to the findings identified in our audit and 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 the responses.

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 13, 2024

NORTH DAKOTA BOARD OF MEDICINE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2023

2023-001: 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 of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with GAAP.

Effect

The Board's financial statements were materially misstated prior to adjustments detected as a result of audit procedures.

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, 2023

2023-002: 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.

Condition

The Board's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the Board currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The Board has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The Board elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the Board's financial statements.

Recommendation

We recommend the Board consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. 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, 2023

2023-003: 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

The Board is subject to size and budget constraints limiting the number of personnel within the accounting department.

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

We recommend the Board review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

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.