

**NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to the Financial Statements	11
SUPPLEMENTARY INFORMATION	
Officers and Members of the Board	23
Schedule of Revenue and Expenses – Compared to Budget	24
Schedule of Expenses	25
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	26
Schedule of Findings and Responses	28



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Dakota State Board of Medical Examiners
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the North Dakota State Board of Medical Examiners, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the North Dakota State Board of Medical Examiners' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the North Dakota State Board of Medical Examiners, as of December 31, 2014 and 2013, and the revenues, expenses and changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

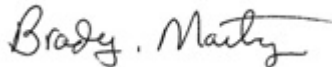
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The listing of Officers and Member of the Board, Schedule of Revenues and Expenses – Compared to Budget, and the Schedule of Expenses on pages 23 through 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The listing of Officers and Member of the Board, Schedule of Revenues and Expenses – Compared to Budget, and the Schedule of Expenses have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2015, on our consideration of the North Dakota State Board of Medical Examiners' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering North Dakota State Board of Medical Examiners' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota
December 17, 2015

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014 AND 2013

As management of the North Dakota State Board of Medical Examiners, we offer readers of the North Dakota State Board of Medical Examiners' financial statements this narrative overview and analysis of the financial activities of the North Dakota State Board of Medical Examiners for the fiscal year ended December 31, 2014 and comparative data for 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the North Dakota State Board of Medical Examiners' financial statements and footnotes, which are presented within this report.

Financial Highlights

The assets of the North Dakota State Board of Medical Examiners totaled \$2,414,014, \$2,289,931, and \$2,007,038, as of the end of the years 2014, 2013 and 2012, respectively. The liabilities totaled \$450,869, \$459,905, and \$393,052 for 2014, 2013 and 2012, respectively. The assets exceeded its liabilities at the close of the fiscal year by \$1,963,145, \$1,830,026, and \$1,613,986 for the years ended December 31, 2014, 2013 and 2012, respectively.

As of December 31, 2014 the majority of the assets are cash and cash equivalents and investments held at the North Dakota State Investment Board (SIB). For the year ended December 31, 2013 the majority of assets are cash and cash equivalents in the form of investments held at Wells Fargo Advisors and Edward Jones.

Assets held at the North Dakota State Investment Board, total \$2,131,264, respectively as of December 31, 2014. Assets held at Wells Fargo Advisors and Edward Jones, total \$781,176 and \$1,075,911, respectively as of December 31, 2013. Assets held at A.G. Edwards and Edward Jones, total \$392,292 and \$1,066,044, respectively as of December 31, 2012.

Total cash in bank as of the end of the year 2014, 2013 and 2012 is \$246,686, \$348,346, and \$457,321, respectively. This is comprised of checking and money market accounts.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2014 AND 2013

The total assets for the Board as of December 31, 2014 and 2013 were approximately \$2.4 million and \$2.3 million, respectively, and were comprised mainly of cash and investments. For the years ended December 31, 2014 and 2013, net position increased approximately \$133,000 and \$216,000, respectively. These increases were primarily due to the increase in licensure renewal fees.

Total liabilities as of December 31, 2014 and 2013 were \$36,701, and 36,551, respectively, which is mainly due to the compensated absences accrual.

Total deferred inflows of resources as of December 31, 2014 and 2013 were \$414,168 and \$423,354, due to the payment of license fees on an annual basis.

The Board designated \$330,000 and \$350,000 during the years ended December 31, 2014 and 2013, respectively, to the Physicians Health Program. No expenses were charged during the year ended December 31, 2014 or 2013.

CONDENSED STATEMENT OF FINANCIAL POSITION:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Current assets	\$ 2,344,489	\$ 2,211,266	\$ 1,895,563
Capital assets	<u>69,525</u>	<u>78,665</u>	<u>111,475</u>
Total Assets	<u>2,414,014</u>	<u>2,289,931</u>	<u>2,007,038</u>
LIABILITIES			
Current liabilities	34,643	32,775	32,521
Long-term liabilities	<u>2,058</u>	<u>3,776</u>	<u>3,436</u>
Total Liabilities	<u>36,701</u>	<u>36,551</u>	<u>35,957</u>
DEFERRED INFLOWS OF RESOURCES	<u>414,168</u>	<u>423,354</u>	<u>357,095</u>
NET POSITION			
Net investment in capital assets	69,525	78,665	111,475
Unrestricted net position			
Board designated	330,000	350,000	75,000
Undesignated	<u>1,563,620</u>	<u>1,401,361</u>	<u>1,427,511</u>
Total net position	<u>\$ 1,963,145</u>	<u>\$ 1,830,026</u>	<u>\$ 1,613,986</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 STATE BOARD OF MEDICAL EXAMINERS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2014 AND 2013

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues			
Licensure renewal fees	\$ 716,414	\$ 667,515	\$ 605,063
Licensure application fees	106,150	85,005	108,645
Other	<u>71,916</u>	<u>77,708</u>	<u>91,560</u>
Total operating revenues	<u>894,480</u>	<u>830,228</u>	<u>805,268</u>
Operating expenses			
Salaries and benefits	398,530	378,773	394,293
Office transition	-	-	9,860
Travel and meetings	41,835	45,687	42,995
Occupancy	41,576	37,790	36,880
Disciplinary proceedings	27,153	29,492	49,617
Depreciation	10,155	16,460	13,959
Amortization	16,350	16,350	6,813
General office	<u>74,596</u>	<u>102,391</u>	<u>68,219</u>
Total operating expenses	<u>610,195</u>	<u>626,943</u>	<u>622,636</u>
Net operating income (loss)	<u>284,285</u>	<u>203,285</u>	<u>182,632</u>
Non-operating revenues			
Investment income	39,676	12,914	27,754
Gain on sale of securities	<u>6,255</u>	<u>-</u>	<u>-</u>
Total non-operating revenues	<u>45,931</u>	<u>12,914</u>	<u>27,754</u>
Non-operating expenses			
Payments to physician health program	195,025	159	-
Investment expenses	<u>2,072</u>	<u>-</u>	<u>-</u>
Total non-operating expenses	<u>197,097</u>	<u>159</u>	<u>-</u>
Net non-operating income (loss)	<u>(151,166)</u>	<u>12,755</u>	<u>27,754</u>
Change in net position	133,119	216,040	210,386
Net position - beginning of year	<u>1,830,026</u>	<u>1,613,986</u>	<u>1,403,600</u>
Net position - end of year	<u>\$ 1,963,145</u>	<u>\$ 1,830,026</u>	<u>\$ 1,613,986</u>

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
DECEMBER 31, 2014 AND 2013

Requests for Information

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

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 203,539	\$ 1,472,175
Investments	2,131,264	733,258
Prepaid dues	8,949	5,833
Dividend receivable	737	-
Total current assets	2,344,489	2,211,266
Noncurrent assets		
Capital assets		
Software, net	42,238	58,588
Furniture and equipment, net	27,287	20,077
Total capital assets	69,525	78,665
Total assets	2,414,014	2,289,931
LIABILITIES		
Current liabilities		
Accounts payable	11,026	12,923
Payroll liabilities	938	1,080
Compensated absences, due within one year	21,254	18,772
Investment expense	1,425	-
Total current liabilities	34,643	32,775
Long-term liabilities		
Compensated absences, due in more than one year	2,058	3,776
Total liabilities	36,701	36,551
DEFERRED INFLOW OF RESOURCES		
Pre-payment of licenses	414,168	423,354
NET POSITION		
Net investment in capital assets	69,525	78,665
Board designated	330,000	350,000
Unrestricted	1,563,620	1,401,361
Total net position	\$ 1,963,145	\$ 1,830,026

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECMEBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating revenue		
Licensure renewal fees	\$ 716,414	\$ 667,515
Licensure application fees	106,150	85,005
Resident licensure fees	5,355	5,650
Licensure of physicians assistants	22,865	22,680
Impaired physician program	2,000	3,750
Disciplinary expense reimbursements	18,551	22,632
Reciprocity fees	21,025	21,365
Miscellaneous income	<u>2,120</u>	<u>1,631</u>
Total operating revenue	<u>894,480</u>	<u>830,228</u>
Operating expenses		
Salaries and benefits	398,530	378,773
Travel and meetings	41,835	45,687
Occupancy	41,576	37,790
Disciplinary proceedings	27,153	29,492
Depreciation	10,155	16,460
Amortization	16,350	16,350
General office	<u>74,596</u>	<u>102,391</u>
Total operating expenses	<u>610,195</u>	<u>626,943</u>
Net operating income	<u>284,285</u>	<u>203,285</u>
Non-operating revenue		
Investment income	39,676	12,914
Gain on sale of securities	<u>6,255</u>	<u>-</u>
Total non-operating revenue	<u>45,931</u>	<u>12,914</u>
Non-operating expenses		
Payments to physician health program	195,025	159
Investment expense	<u>2,072</u>	<u>-</u>
Total non-operating expenses	<u>197,097</u>	<u>159</u>
Net non-operating income	<u>(151,166)</u>	<u>12,755</u>
Change in Net Position	133,119	216,040
Net position, beginning of year	<u>1,830,026</u>	<u>1,613,986</u>
Net position, ending of year	<u>\$ 1,963,145</u>	<u>\$ 1,830,026</u>

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from fees	\$ 861,507	\$ 872,224
Receipts for disciplinary expense reimbursement	18,551	22,632
Other cash receipts	2,120	1,631
Payments to suppliers for goods and services	(187,057)	(214,135)
Payments to employees for services	<u>(397,908)</u>	<u>(379,404)</u>
Net cash provided (used) by operating activities	<u>297,213</u>	<u>302,948</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(17,365)</u>	<u>-</u>
Cash flows from investing activities:		
Investment income	11,155	26,758
Realized loss on investments	6,255	-
Proceeds from sale of investments	-	599,000
Purchase of investments	(1,370,222)	-
Investment expenses	(647)	-
Payments to physician health program	<u>(195,025)</u>	<u>(159)</u>
Net cash provided (used) by investing activities	<u>(1,548,484)</u>	<u>625,599</u>
Net change in cash and cash equivalents	(1,268,636)	928,547
Cash and cash equivalents - beginning of year	<u>1,472,175</u>	<u>543,628</u>
Cash and cash equivalents - end of year	<u><u>\$ 203,539</u></u>	<u><u>\$ 1,472,175</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Net operating income (loss)	\$ 284,285	\$ 203,285
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	10,155	16,460
Amortization	16,350	16,350
Deferred inflow - pre-payment of licenses	(9,186)	66,259
Effects on operating cash flows due to changes in:		
Prepaid expenses	(3,116)	-
Accounts payable	(1,897)	1,225
Payroll liabilities	(142)	(1,261)
Compensated absences	<u>764</u>	<u>630</u>
Total adjustments	<u>12,928</u>	<u>99,663</u>
Net cash provided by operating activities	<u><u>\$ 297,213</u></u>	<u><u>\$ 302,948</u></u>
Supplemental disclosure of non-cash investing activities:		
Unrealized gain/(loss) on investments	\$ 16,008	\$ (13,303)

See Notes to the Financial Statements

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Activity

The functions of the North Dakota State Board of Medical Examiners (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 State Board of Medical Examiners are contained in Chapter 43-17 of the North Dakota Century Code.

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

The financial statements of the North Dakota State Board of Medical Examiners 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 fiscal years ended December 31, 2014 and 2013. 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 (GASB) Statement No. 14, *'The Financial Reporting Entity'*. 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, 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 STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

The following fund type is used by the Board:

Proprietary Fund Type

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

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

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

Basis of Accounting

The Board follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities. In accordance with Governmental Accounting Standards Board Statement No. 20, the Board follows all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements.

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 and liabilities (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.

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

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

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, 2014. 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 STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

Capital Assets

A capital asset, which includes furniture and equipment, is recorded at historical cost. Equipment with a cost of \$2,000 or more is capitalized for the years ended December 31, 2014 and 2013. Costs incurred for repairs and maintenance are expensed as incurred. Depreciation is recorded based on the straight line method over the estimated useful life of 5 years.

Software with a cost of \$2,000 or more is capitalized for the years ended December 31, 2014 and 2013. 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.

Compensated Absences

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

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

Pre-payment of Licenses

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

Equity Classifications

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

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

Board designated - Consists of a board designated amount committed to the Physician Health Program.

Unrestricted net position – All other net position that does not meet the definitions of “invested in capital assets” or “board designated.”

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.

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

Reclassifications

Certain reclassifications have made to the prior year financial statements in order for them to conform to the current year presentation.

NOTE 2 DEPOSITS

Custodial Credit Risk

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

The Board maintains cash on deposit at various financial institutions. At December 31, 2014 and 2013, the amounts on deposit were insured by the FDIC up to \$250,000 (per financial institution). The Board's cash deposits were fully insured on December 31, 2014. The Board had an uninsured balance of \$735,465 on December 31, 2013.

At December 31, 2014, and 2013, the carrying amounts of the Board's cash deposits were \$203,539 and \$2,001,121, respectively, and the bank balances were \$246,686 and \$2,015,375, respectively. The difference results from checks outstanding or deposits not yet processed.

NOTE 3 INVESTMENTS

Total investments of the Board at fair value as of December 31, 2014 and 2013 consisted of the following:

	2014	2013
Domestic equities	\$ 300,596	\$ 172,215
International equities	145,881	-
Domestic fixed income	1,638,244	-
Real assets	42,351	-
Invested cash	4,192	-
Corporate bonds	-	31,133
Certificates of deposit	-	529,910
	\$2,131,264	\$ 733,258

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

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

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

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, 2015 and June 30, 2014. December 31, 2014 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)	2015				
	Market Value	Less than 1 Year	1-6 Years	6-10 Years	10+ Years
Asset Backed Securities	\$ 224	\$ -	\$ 104	\$ 31	\$ 89
Bank Loans	1	-	1	-	-
Commercial Mortgage-Backed	72	-	-	1	71
Commercial Paper	29	29	-	-	-
Corporate Bonds	560	107	378	36	39
Government Agencies	42	20	21	-	1
Government Bonds	531	36	478	11	6
Gov't Mortgage Backed and CMB	141	-	7	8	126
Index Linked Government Bonds	3	1	-	1	-
Municipal/Provincial Bonds	5	-	-	3	2
Non-Government Backed CMOs	13	-	1	3	9
Other Fixed Income	2	-	1	-	-
Short Term Bills and Notes	-	-	-	-	-
Funds/Pooled Investments	101	-	22	79	-
Total Debt Securities	\$ 1,723	\$ 194	\$ 1,012	\$ 173	\$ 344

Type (In Thousands)	2014				
	Market Value	Less than 1 Year	1-6 Years	6-10 Years	10+ Years
Asset Backed Securities	\$ 175	\$ -	\$ 104	\$ 15	\$ 56
Bank Loans	1	-	-	-	-
Commercial Mortgage-Backed	59	-	-	1	58
Commercial Paper	155	155	-	-	-
Corporate Bonds	468	62	330	41	35
Government Agencies	41	2	37	-	2
Government Bonds	352	74	257	14	6
Gov't Mortgage Backed and CMB	111	-	5	8	97
Index Linked Government Bonds	1	-	-	1	-
Municipal/Provincial Bonds	3	1	-	-	2
Non-Government Backed CMOs	9	-	3	1	6
Other Fixed Income	2	-	2	-	-
Short Term Bills and Notes	-	-	-	-	-
Funds/Pooled Investments	95	-	19	73	2
Total Debt Securities	\$ 1,471	\$ 295	\$ 757	\$ 155	\$ 264

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

Credit Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Board does not have a formal investment policy governing foreign currency risk. The board is invested in an external investment pool managed by SIB. The tables detailing the exposure to foreign currency through the System's portion of the investment pool reported below is as of June 30, 2015 and June 30, 2014. December 31, 2014 information for foreign currency risk is not available from SIB.

Currency (in thousands)	2015			
	Short Term	Debt	Equity	Total
Australian dollar	\$ -	\$ -	\$ 4	\$ 4
Brazilian real	-	-	-	-
British pound sterling	-	-	21	21
Canadian dollar	-	-	2	2
Chilean peso	-	-	-	-
Chinese yuan renminbi	-	-	-	-
Israeli shekel	-	-	1	1
Danish krone	-	-	3	3
Euro	-	-	33	33
Hong Kong dollar	-	-	6	6
Hungarian forint	-	-	-	-
Japanese yen	-	-	25	25
Mexican peso	-	-	-	-
New Zealand dollar	-	-	-	-
Norwegian krone	-	-	2	2
Peruvian nuevo sol	-	-	-	-
Singapore dollar	-	-	1	1
South African rand	-	-	-	-
South Korean won	-	-	-	-
Swedish krona	-	-	4	4
Swiss franc	-	-	10	10
International commingled funds (various currencies)	-	-	31	31
Total securities subject to foreign currency risk	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142</u>	<u>\$ 142</u>

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

Currency (in thousands)	2014			
	Short Term	Debt	Equity	Total
Australian dollar	\$ -	\$ -	\$ 5	\$ 5
Brazilian real	-	-	-	-
British pound sterling	-	-	20	20
Canadian dollar	-	-	2	2
Chilean peso	-	-	-	-
Chinese yuan renminbi	-	-	-	-
Columbian peso	-	-	-	-
Czech koruna	-	-	-	-
Israeli shekel	-	-	-	-
Danish krone	-	-	1	1
Euro	-	-	29	29
Hong Kong dollar	-	-	6	6
Hungarian forint	-	-	-	-
Indonesian Rupiah	-	-	-	-
Japanese yen	(1)	-	20	20
Malaysian Ringgit	-	-	-	-
Mexican peso	-	-	-	-
New Zealand dollar	-	-	-	-
Norwegian krone	-	-	2	2
Peruvian nuevo sol	-	-	-	-
Polish zloty	-	-	-	-
Russian ruble	-	-	-	-
Singapore dollar	-	-	1	1
South African rand	-	-	-	-
South Korean won	-	-	1	1
Swedish krona	-	-	3	3
Swiss franc	-	-	9	9
Turkish lira	-	-	-	-
International commingled funds (various currencies)	-	-	26	26
Total securities subject to foreign currency risk	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 127</u>	<u>\$ 127</u>

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2014 and 2013:

	Beginning Balance 1/1/14	Additions	Deletions	Ending Balance 12/31/14
Capital assets, being depreciated/amortized:				
Furniture and equipment	\$ 146,379	\$ 17,365	\$ -	\$ 163,744
Software	81,751	-	-	81,751
Less accumulated depreciation/amortization for:				
Furniture and equipment	126,302	10,155	-	136,457
Software	23,163	16,350	-	39,513
Total capital assets, being depreciated/amortized, net	<u>78,665</u>	<u>(9,140)</u>	<u>-</u>	<u>69,525</u>
Governmental activity capital assets, net	<u>\$ 78,665</u>	<u>\$ (9,140)</u>	<u>\$ -</u>	<u>\$ 69,525</u>
	Beginning Balance 1/1/13	Additions	Deletions	Ending Balance 12/31/13
Capital assets, being depreciated:				
Furniture and equipment	\$ 146,379	\$ -	\$ -	\$ 146,379
Software	81,751	-	-	81,751
Less accumulated depreciation for:				
Furniture and equipment	109,842	16,460	-	126,302
Software	6,813	16,350	-	23,163
Total capital assets, being depreciated, net	<u>111,475</u>	<u>(32,810)</u>	<u>-</u>	<u>78,665</u>
Governmental activity capital assets, net	<u>\$ 111,475</u>	<u>\$ (32,810)</u>	<u>\$ -</u>	<u>\$ 78,665</u>

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

NOTE 5 LEASES

The Board leases its office space with variable rates from \$3,235 to \$3,435 per month from December 1, 2013 to November 30, 2018.

Additionally, the Board also leases a postage machine under an operating lease at \$74 per month for the period from October 1, 2011 to June 30, 2016. The Board also rents parking spaces on a monthly basis.

Total lease expense, including parking rent, was \$42,464 and \$38,678 for the years ended December 31, 2014 and 2013, respectively.

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

2015	\$ 39,808
2016	40,464
2017	40,120
2018	37,785

NOTE 6 COMPENSATED ABSENCES

The Board's liability for accumulated unpaid leave as of December 31, 2014 and 2013 was \$23,312 and \$22,548, respectively. A summary of changes in compensated absences is as follows:

	2014	2013
Balance - January 1	\$ 22,548	\$ 21,918
Additions	21,254	18,773
Reductions	(20,489)	(18,143)
Balance - December 31	\$ 23,312	\$ 22,548
 Amount due within one year	 \$ 21,254	 \$ 18,772

NOTE 7 RISK MANAGEMENT

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

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

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

NOTE 8 DEFINED BENEFIT PLAN

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

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering all classified employees of the North Dakota State Board of Medical Examiners. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' 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 employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 7% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. North Dakota State Board of Medical Examiners has implemented a salary reduction agreement and is currently contributing the employee's share. North Dakota State Board of Medical Examiners is required to contribute 7.12% of each participant's salary as the employer's share. In addition to the 7.12% employer contribution, the employer is required to contribute 1% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. North Dakota State Board of Medical Examiners' required and actual contributions to NDPERS for the fiscal years ending December 31, 2014, 2013 and 2012 was \$45,675, \$38,728, and \$33,425, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657, Bismarck, ND 58502-1657.

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014 AND 2013

NOTE 9 NEW GASB PRONOUNCEMENTS

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statements establishes a definition of a pension plan that Reflects the primary activities associated with the pension arrangement—Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

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

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

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
OFFICERS AND MEMBERS OF THE BOARD
DECEMBER 31, 2014 AND 2013

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

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
SCHEDULE OF REVENUES AND EXPENSES – COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budget</u>	<u>2014</u>	Variance Favorable (Unfavorable)
REVENUES			
Licensure renewal fees	\$ 660,000	\$ 716,414	\$ 56,414
Licensure application fees	-	106,150	106,150
Resident licensure fees	-	5,355	5,355
Licensure of physicians assistants	17,000	22,865	5,865
Impaired physician program	4,000	2,000	(2,000)
Reciprocity fees	-	21,025	21,025
	<u>681,000</u>	<u>873,809</u>	<u>192,809</u>
Total fees			
Disciplinary expense reimbursements	5,000	18,551	13,551
Investment income	-	(151,166)	(151,166)
Miscellaneous	1,150	2,120	970
	<u>687,150</u>	<u>743,314</u>	<u>56,164</u>
Total revenues			
EXPENSES			
Salaries and benefits	396,116	398,530	(2,414)
Travel and meetings	60,096	41,835	18,261
Occupancy	41,460	41,576	(116)
Disciplinary proceedings	50,000	27,153	22,847
Depreciation	-	10,155	(10,155)
Amortization	-	16,350	(16,350)
General office	101,230	74,596	26,634
	<u>648,902</u>	<u>610,195</u>	<u>38,707</u>
Total expenses			
REVENUES OVER (UNDER) EXPENSES	<u><u>\$ 38,248</u></u>	<u><u>\$ 133,119</u></u>	<u><u>\$ 94,871</u></u>

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budget</u>	<u>Actual</u>
SALARIES AND BENEFITS		
Executive Secretary-treasurer	\$ 132,000	\$ 132,000
Other salaries and wages	167,309	168,073
Retirement benefits	45,674	45,675
Social security taxes	21,353	21,491
Health insurance	29,780	31,291
	<u>396,116</u>	<u>398,530</u>
TRAVEL AND MEETINGS		
Staff and board members	60,096	39,330
Federation meeting	-	2,505
	<u>60,096</u>	<u>41,835</u>
OCCUPANCY EXPENSE		
Rent	38,820	38,820
Parking	2,640	2,756
	<u>41,460</u>	<u>41,576</u>
DISCIPLINARY PROCEEDINGS		
	<u>50,000</u>	<u>27,153</u>
GENERAL OFFICE EXPENSE		
Furniture and equipment	4,000	2,132
Computer consultant	28,520	31,944
Office supplies and printing	11,500	4,958
Postage	6,300	4,588
Legal counsel	22,000	13,020
Telephone	2,850	2,452
Dues	3,400	3,400
Newsletter	7,500	165
Maintenance of office equipment	450	550
Audit	5,800	5,000
Publication of rules, meetings	2,210	73
Miscellaneous	6,700	6,314
	<u>101,230</u>	<u>74,596</u>
Total general office expense	<u>101,230</u>	<u>74,596</u>
Total budgeted expense	648,902	583,690
Depreciation and amortization	-	26,505
	<u>-</u>	<u>26,505</u>
Total expenses	<u>\$ 648,902</u>	<u>\$ 610,195</u>



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the Board of Directors
North Dakota State Board of Medical Examiners
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 business-type activities of the North Dakota State Board of Medical Examiners, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the North Dakota State Board of Medical Examiners' basic financial statements and have issued our report thereon dated December 17, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2014-003 described in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies 2014-001 and 2014-002 described in the accompanying schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

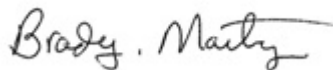
As part of obtaining reasonable assurance about whether North Dakota State Board of Medical Examiners' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 State Board of Medical Examiners' Responses to Findings

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

Purpose of this Report

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



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota
December 17, 2015

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

2014-001

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions:

North Dakota State Board of Medical Examiners' 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 STATE BOARD OF MEDICAL EXAMINERS
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

2014-002

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions:

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

NORTH DAKOTA STATE BOARD OF MEDICAL EXAMINERS
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

2014-003 – Material Weakness

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions:

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