

**NORTH DAKOTA STATE  
BOARD OF PHARMACY**

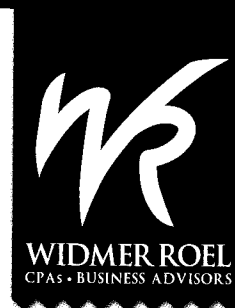
**FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**WITH INDEPENDENT AUDITOR'S REPORT**

**NORTH DAKOTA STATE BOARD OF PHARMACY**

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1400 W. Century Avenue  
Bismarck, ND 58503-0915

Phone: 701.221.2655  
Toll Free: 866.494.3637  
Fax: 701.221.2657

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
**North Dakota State Board of Pharmacy**  
Bismarck, North Dakota

We have audited the accompanying financial statements of the business-type activities of the **North Dakota State Board of Pharmacy** (the Board), a component unit of the State of North Dakota, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***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 Pharmacy** as of June 30, 2017 and 2016, and the 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, Statement of Revenues and Expenses – Compared to Budget, Notes to Statement of Revenues and Expenses – Compared to Budget, Schedule of Employer's Share of Net Pension Liability, and Schedule of Employer Contributions on pages 4 through 5 and pages 20 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **North Dakota State Board of Pharmacy's** basic financial statements. The Officers and Members of the Board Schedule on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Officers and Members of the Board Schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated May 21, 2018 on our consideration of **North Dakota State Board of Pharmacy's** internal control over financial reporting and 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 Pharmacy's** internal control over financial reporting and compliance.



Bismarck, North Dakota  
May 21, 2018

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2017**

This section of the North Dakota State Board of Pharmacy's financial report represents management's discussion and analysis of the Board's financial performance for the fiscal year ended June 30, 2017. For a more complete perspective of the Board's financial condition, please read this discussion and analysis in conjunction with the Board's audited financial statements included in this report.

**PROFILE OF THE BOARD**

The Board is a regulatory agency of the State of North Dakota. The 1890 Legislative Assembly passed pharmacy practice legislation codified in North Dakota Century Code Chapter 43-15. This Chapter requires the Governor to appoint a State Board of Pharmacy. The Board consists of five pharmacists, one registered pharmacy technician and one public member, who serve for a term of five years. The Board is responsible for examining and licensing applicants for licensure as pharmacists, pharmacy technicians and interns. It is also responsible for issuing permits for operating Pharmacies, Wholesale Drug Manufacturer/Distributor/Reverse Distributor/Warehouse and for regulating and controlling the dispensing of prescription drugs, devices and the practice of pharmacy for the protection for the health, welfare and safety of the citizens of North Dakota. The Board employs an Executive Director to take care of the day-to-day operations of the Board. In addition, there is an administrative assistant, who works for the Board. The Board also operates a Prescription Drug Monitoring Program (PDMP) that employs one full-time employee.

**FINANCIAL HIGHLIGHTS**

The effect of pharmacy on the public has been increasing and along with this, the number of licensees has been steadily increasing. With this increase in licensees, the Board understands that it is important to maintain appropriate financial reserves for any unanticipated legal issues. These financial reserves had decreased in previous fiscal years. The Board continues to expand services to the public and licensees including the Prescription Drug Monitoring Program (PDMP) and a controlled substance disposal program. The Board expects future expenses to grow with the cost of maintaining the PDMP and controlled substance disposal program. The Board continues to expand its computer database to offer online renewals, online verification of license information along with many other services.

The Board owns no real property and maintains their financial assets in cash, cash equivalents and certificates of deposit, along with a few items of office equipment and computer programs. Its revenues consist of licensing, permitting, application fees, late fees and interest income.

The Board received a grant from the United States Department of Health and Human Services to help defray the costs of the electronic health record integration with the PDMP. The grant amount was \$425,000 for two years beginning September 30, 2013, and has since been extended through September 29, 2017. During the years ended June 30, 2017 and 2016, no funds were expended. In aggregate, the Board has received \$42,300 through the year ended June 30, 2017.

In the comparing the budgeted figures with actual, there was approximately \$125,000 less in actual expenses than budgeted expenses and approximately \$92,000 more in actual revenues than budgeted revenues. Expenses incurred by the Board were less than budgeted due to not hiring a position that was budgeted as well as good financial decisions. The increase in actual revenues over budgeted revenues is due to more licenses being issued for pharmacists, technicians, wholesalers, and pharmacies. Fiscal management and good business environment has positioned the Board with adequate resources and assets to implement larger projects to benefit the public and profession. Also the Board has been able to build adequate reserves in case of any future expenses or projects.

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2017**

The Board has no short or long-term debt. The Board has no material liabilities other than short-term payroll obligations, deferred license revenue from license fees collected shortly before the license period began, and fees owed to Northland Association of Pharmacy Technicians that the Board collects and remits to the association. Changes in financial position are the result of general operations and depreciation. These are reflected in the financial statements included herein.

**OVERVIEW OF FINANCIAL STATEMENTS**

The financial statements are presented in the form of 1) Statements of Net Position, 2) Statements of Revenues and Expenses, 3) Statements of Changes in Net Position and 4) Statements of Cash Flows.

The Statements of Net Position presents mostly the cash, cash equivalents and certificates of deposit held by the Board in addition to office equipment and computer programs with a net book value of \$12,695. The liabilities mostly consist of fees paid in advance and fees due to North Dakota State University College of Pharmacy as part of a statutory obligation. The Board also collects the Pharmacy Technicians' membership fee to the Technicians Association at the time of the Pharmacy Technicians' registration renewal. These funds are transferred to the Association at the end of the quarter in which they are collected. Deferred outflows of resources related to pensions were approximately \$87,900 and deferred inflows of resources related to pensions were approximately \$24,300. In 2000, the Board designated their contingency fund to be equal to one year's net operating budget, so this balance continues to increase slightly each year.

The Statements of Revenues and Expenses and Changes in Net Position comprise the usual activities of income from the licensure and permitting fees, as well as the usual expenses in providing those services and for the Board of Pharmacy to fulfill their duties on a state, national, and sometimes international basis. Total revenues for fiscal year 2017 were approximately \$930,000, an increase of about \$58,000. Total expenses for fiscal year 2017 were approximately \$654,000, an increase from the prior year of approximately \$11,000. This resulted in an increase in net position of approximately \$276,000.

The Statements of Cash Flows reflects the same information as the Statement of Revenues and Expenses.

Questions regarding this report may be directed to the Executive Director, Mark J. Hardy, Pharm D. by telephone (701) 328-9535 – email [MHardy@ndboard.pharmacy](mailto:MHardy@ndboard.pharmacy) or by mail at: 1906 E. Broadway Ave – Bismarck, ND 58501-4700.

**NORTH DAKOTA STATE BOARD OF PHARMACY****STATEMENTS OF NET POSITION****JUNE 30, 2017 AND 2016**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2017</b>	<b>2016</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 868,255	\$ 969,028
Certificates of deposit	778,415	388,985
Accrued interest receivable	<u>1,239</u>	<u>1,239</u>
Total current assets	<u>1,647,909</u>	<u>1,359,252</u>
<b>NONCURRENT ASSETS</b>		
Certificates of deposit	<u>138,696</u>	<u>100,000</u>
<b>CAPITAL ASSETS</b>		
Office equipment	22,161	22,161
Database and software	29,441	29,441
Accumulated depreciation	<u>(38,907)</u>	<u>(32,236)</u>
Total capital assets	<u>12,695</u>	<u>19,366</u>
Total assets	1,799,300	1,478,618
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to pensions	<u>87,858</u>	<u>42,291</u>
Total assets and deferred outflows of resources	\$ <u><u>1,887,158</u></u>	\$ <u><u>1,520,909</u></u>

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>2017</b>	<b>2016</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,655	\$ 11,150
Accrued retirement payable	4,388	3,278
Accrued taxes payable	1,019	1,167
Accrued vacation payable	33,047	33,047
Deferred revenue	<u>622,750</u>	<u>566,175</u>
Total current liabilities	666,859	614,817
<b>LONG-TERM LIABILITIES</b>		
Net pension liability	<u>211,273</u>	<u>160,326</u>
Total liabilities	<u>878,132</u>	<u>775,143</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to pensions	<u>24,254</u>	<u>37,027</u>
<b>NET POSITION</b>		
Unrestricted		
Undesignated	141,694	(89,638)
Designated	830,383	779,011
Net investment in capital assets	<u>12,695</u>	<u>19,366</u>
Total net position	<u>984,772</u>	<u>708,739</u>
Total liabilities, deferred inflows of resources, and net position	\$ <u><u>1,887,158</u></u>	\$ <u><u>1,520,909</u></u>



# NORTH DAKOTA STATE BOARD OF PHARMACY

## STATEMENTS OF REVENUES AND EXPENSES FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Interest	\$ 4,572	\$ 7,779
Internship fees	4,190	4,440
Miscellaneous fees and reimbursements	82,605	55,323
Pharmacist's licenses	153,895	150,347
Pharmacy permits	162,475	166,850
Technician registrations	20,793	19,538
Third party logistics permits	36,850	2,800
Veterinary licenses	5,215	3,010
Wholesale drug licenses	<u>459,000</u>	<u>462,612</u>
Total revenues	<u>929,595</u>	<u>872,699</u>
<b>EXPENSES</b>		
Salaries	225,673	218,451
Employee benefits	69,808	75,640
Payroll taxes	18,018	17,640
Compliance and investigation	37,482	37,908
Consulting	3,456	5,603
Contractual	30,775	28,600
Credit card fees	22,648	20,063
Database hosting fee	48,534	43,015
Depreciation	6,671	2,088
Dues and subscriptions	3,240	3,030
Education funding	17,867	39,674
Examinations	4,015	4,985
Legal and accounting	20,526	12,947
Miscellaneous	43,837	21,295
Newsletter	3,500	8,879
Office supplies and postage	9,812	12,184
Printing	1,861	2,783
Rent	12,450	11,400
Repairs and maintenance	8,102	2,112
Rule hearings and publications	978	4,814
Telephone	3,978	3,108
Travel and meetings	59,968	65,155
Training	<u>363</u>	<u>1,323</u>
Total expenses	<u>653,562</u>	<u>642,697</u>
<b>REVENUES OVER EXPENDITURES</b>	<u>\$ 276,033</u>	<u>\$ 230,002</u>

**NORTH DAKOTA STATE BOARD OF PHARMACY**

**STATEMENTS OF CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>Unrestricted</u>		<u>Capital</u>	
	<u>Undesignated</u>	<u>Designated</u>	<u>Assets</u>	<u>Total</u>
<b>June 30, 2015</b>	\$ (237,663)	\$ 714,945	\$ 1,455	\$ 478,737
Revenues over expenditures	230,002	-	-	230,002
Depreciation	2,088	-	(2,088)	-
Fixed asset purchase	(19,999)	-	19,999	-
Increase designated net assets	<u>(64,066)</u>	<u>64,066</u>	<u>-</u>	<u>-</u>
<b>June 30, 2016</b>	(89,638)	779,011	19,366	708,739
Revenues over expenditures	276,033	-	-	276,033
Depreciation	6,671	-	(6,671)	-
Increase designated net assets	<u>(51,372)</u>	<u>51,372</u>	<u>-</u>	<u>-</u>
<b>June 30, 2017</b>	\$ <u>141,694</u>	\$ <u>830,383</u>	\$ <u>12,695</u>	\$ <u>984,772</u>

# NORTH DAKOTA STATE BOARD OF PHARMACY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from license, permits, and fees	\$ 894,803	\$ 831,520
Cash received for internships	4,190	4,350
Cash received for interest income	4,572	7,108
Cash received for miscellaneous income	82,605	55,323
Cash payments to suppliers	(338,887)	(319,484)
Cash payments to or for employees	<u>(319,930)</u>	<u>(305,140)</u>
Net cash provided by operating activities	<u>327,353</u>	<u>273,677</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net redemptions (purchases) of certificates of deposit	(428,126)	83,363
Purchases of property and equipment	<u>-</u>	<u>(19,999)</u>
Net cash provided by (used in) investing activities	<u>(428,126)</u>	<u>63,364</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(100,773)	337,041
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>969,028</u>	<u>631,987</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ <u><u>868,255</u></u>	\$ <u><u>969,028</u></u>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income	\$ 276,033	\$ 230,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,671	2,088
Change in assets and liabilities:		
Accrued interest receivable	-	(671)
Accounts payable	(5,495)	9,394
Accrued retirement payable	1,110	607
Accrued taxes payable	(148)	(168)
Accrued vacation payable	-	6,152
Deferred revenue	56,575	26,363
Fees payable to internship program	-	(90)
Net pension liability	50,947	13,198
Changes in deferred outflows and inflows		
Increase in deferred outflows of resources related to pensions	(45,567)	(21,505)
Increase in deferred inflows of resources related to pensions	<u>(12,773)</u>	<u>8,307</u>
Net cash provided by operating activities	\$ <u><u>327,353</u></u>	\$ <u><u>273,677</u></u>

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

### **NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Organization and Nature of Operations***

The North Dakota State Board of Pharmacy (the Board) is composed of seven members, five of whom are registered pharmacists, one board member who is a registered pharmacy technician, and one public member, appointed by the governor for a term of five years. The Board is responsible for examining and licensing applicants for registration as pharmacists and pharmacy technicians, for issuing permits to operate pharmacies and wholesale drug manufacturers/distributors, and for regulating and controlling the dispensing of prescription drugs and the practice of pharmacy for the protection of the health, welfare and safety for the citizens of the state. Governing laws for the North Dakota State Board of Pharmacy are found in chapter 43-15 of the North Dakota Century Code.

#### ***Basis of Accounting***

The financial statements of North Dakota State Board of Pharmacy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

#### ***Reporting Entity***

The accompanying financial statements present the activities of the Board. The Board has considered all potential component units for which the Board is financially accountable and other organizations for which the nature and significance of their relationships 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. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board.

Based on these criteria, there are no component units to be included within the Board as a reporting entity and the Board is a component of the State of North Dakota as an administrative agency.

#### ***Basis of Presentation***

Governments engaged only in a single business-type activity should present only the financial statements required for enterprise funds. Government-wide financial statements are the same as those presented herein.

#### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

Proprietary fund financial statements are reported using the *economic resources* measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

As permitted by generally accepted accounting principles, the Board has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

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 licensures renewal fees and application fees. Operating expenses include administration expenses.

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

### ***Description of Funds***

The Board follows the practice of reporting on the use of resources by specific funds. The operating fund is used to account for resources available for and used in the Board's regular activities. As of June 30, 2017, \$830,383 had been designated by the Board for next year's anticipated operating costs. The designated amount was set by the Board at its meeting in February 2000 to be 100% of its next year's annual budget for operating expenses.

Capital assets consist of office equipment and accounting software stated at cost. These assets are owned and used in the Board's regular activities and are presented in the financial statements net of related depreciation.

### ***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***

Cash and cash equivalents consist of the cash, checking and savings accounts for purposes of the cash flow statements. The Board considers all highly liquid investments with an original maturity of three months or less to be a cash equivalent.

### ***Certificates of Deposit***

The Board holds certificates of deposits with various local banks with original maturities of 12 months to 5 years, carried at cost, which approximates fair value.

### ***Accounts Receivable***

Accounts receivable consists of funds owed from pharmacists per a legal review held by the Board that found the pharmacist committed some act of wrongdoing and thus must reimburse the Board and any other affected organization, if any, for the time and/or lost revenue from the wrongdoing. The Board uses the direct write-off method to write-off accounts receivable balances that are determined to be uncollectible. There was no bad debt expense during the years ended June 30, 2017 and 2016.

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

### ***Capital Assets***

Equipment is recorded at cost. Equipment with a cost of \$3,000 or more is capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized. Depreciation is recorded based on accelerated and straight-line methods over the estimated useful life of 3 - 5 years.

### ***Deferred Outflows 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 resources (expense/expenditure) until then.

### ***Compensated Absences***

Annual leave and sick leave are a part of permanent employees' compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Annual leave is earned based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. In general, accrued annual leave cannot exceed 30 days at each year-end, as set by the Board. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is earned based on tenure at a rate of one to a maximum of one and one-half working days per month of employment. There are no limitations on the amount of sick leave that an employee can accumulated. Employees who have ten continuous years of service are paid one-tenth of their accumulated sick leave upon leaving service under chapter 54-52 of the North Dakota Century Code.

### ***Deferred Revenues***

Deferred revenues represent license and registration fees and grant revenue received in the current year for the next fiscal year's activities.

### ***Deferred Inflows of Resources***

In addition to liabilities, the statement of financial 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 (revenues) until that time.

### ***Pensions***

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

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

### ***Grant Revenue***

The Board received a \$425,000 grant from the Department of Health and Human Services to help defray the costs of the electronic health record integration with the PDMP. The Board has received \$42,300 in aggregate through the year ended June 30, 2017. No funds had been received for the years ending June 30, 2017 and 2016.

### ***New GASB Pronouncements***

The Governmental Accounting Standards Board has issued GASB No. 68 *Accounting and Financial Reporting for Pensions* is effective for periods beginning after June 15, 2014. This standard allows the Board to report its proportionate share of collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

The Board has implemented this reporting for the year ended June 30, 2016.

### ***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.

### ***Reclassifications***

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Such reclassifications had no effect on reported net income.

## **NOTE 2 – CASH AND CERTIFICATES OF DEPOSITS**

The Boards' checking account and certificates of deposit are deposited in three banks. Certificates of deposit have varying maturities of up to 3 years and earned interest rates range from .25% to 1.75% per annum. The certificates of deposit are held to maturity and are therefore recorded at cost.

The Board's funds are required to be deposited and invested with the designated depositories in accordance with the laws of North Dakota. North Dakota laws require all public deposits be protected by insurance, surety bond or collateral pledged by the financial institution. Pledged collateral must equal 110% of the deposits not covered by insurance or bonds.

In accordance with North Dakota Statutes, the Board maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System. Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues

*(Continued)*

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

or supported by the full faith and credit of the issuing body and bonds issued by any other state of the United States or such other securities approved by the banking board.

### ***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Beyond what is stated in the North Dakota Century Code, the Board does not have a formal policy to further limit exposure to custodial credit risk.

The Board maintains both interest and non-interest bearing cash on deposit at financial institutions. Deposits held in noninterest-bearing transaction accounts are aggregated with interest-bearing deposits that are held in the same ownership category are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At year ended June 30, 2017, the Board's deposits were fully insured.

### **NOTE 3 – PHARMACY TECHNICIAN ASSOCIATION DUES**

The Board is required to collect the annual dues for the Northland Association of Pharmacy Technicians and remit these dues to the organization during the year. Total remitted to this organization during the years ended June 30, 2017 and 2016 was \$13,958 and \$13,283, respectively. As of June 30, 2017 and 2016, the Board owes the Northland Association of Pharmacy Technicians' \$-0- for annual dues collected by the Board that has yet to remit to the organization.

### **NOTE 4 – PENSION PLAN**

#### ***North Dakota Public Employees Retirement System (Main System)***

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

#### ***Pension Benefits***

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited services equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

*(Continued)*



# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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 of disabled is set by the NDPERS in the North Dakota Administrative Code.

### ***Refunds of Member Account Balance***

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

### ***Member and Employer Contributions***

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

- 1 to 12 months of service - Greater of one percent of monthly salary or \$25
- 13 to 25 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

# NORTH DAKOTA STATE BOARD OF PHARMACY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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

At June 30, 2017, the Employer reported a liability of \$211,273 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2016, the Employer's proportion was 0.021678 percent, which was a decrease of 0.0019 from its proportion measured as of July 1, 2015.

For the year ended June 30, 2017, the Employer recognized pension expense of \$25,935. At June 30, 2017, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,174	\$ (1,956)
Changes of assumptions	19,477	(10,496)
Net difference between projected and actual earnings on pension plan investments	29,475	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,290	(11,802)
Employer contributions subsequent to the measurement date	<u>34,442</u>	<u>-</u>
	\$ <u><u>87,858</u></u>	\$ <u><u>(24,254)</u></u>

\$34,442 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year ended June 30:

2018	\$ 5,043
2019	5,043
2020	11,473
2021	6,594
2022	1,009

(Continued)

# NORTH DAKOTA STATE BOARD OF PHARMACY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

### *Actuarial assumptions*

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	31%	6.90%
International equity	21%	7.55%
Private equity	5%	11.30%
Domestic fixed income	17%	1.52%
International fixed income	5%	0.45%
Global real assets	20%	5.38%
Cash equivalents	1%	0.00%

### *Discount Rate*

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included.

(Continued)

# NORTH DAKOTA STATE BOARD OF PHARMACY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Projected employer contributions that are intended to fund the services costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

### *Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate*

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<b>1% Decrease (7%)</b>	<b>Current Discount Rate (8%)</b>	<b>1% Increase (9%)</b>
Employer's proportionate share of net pension liability	\$ <u>299,687</u>	\$ <u>211,273</u>	\$ <u>136,780</u>

### *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 5 – RELATED PARTY TRANSACTIONS**

The Board of Directors are paid \$200 for board meetings plus mileage and expenses. The Board members are reimbursed for expenses for national meetings the members attend.

Total transactions between the board members and the Pharmacy for 2017 and 2016 were \$28,931 and \$32,552, respectively. In 2017 and 2016 there were \$1,947 and \$0-, respectively, in accounts payable due to board members.

### **NOTE 6 – 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. No claims from these risks have exceeded insurance coverage in any of the past three years.

**NORTH DAKOTA STATE BOARD OF PHARMACY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**NOTE 7 – SUBSEQUENT EVENTS**

On July 11, 2017 a lawsuit was filed naming the Board as a defendant. The suit challenges new laws, alleging that they would increase prescription drug costs. As of the date of issuance of these financial statements, the Board had incurred approximately \$441,800 in legal expenses. The matter was still pending as of this date, but the possible outcome of this suit was still unknown.

The Board has evaluated subsequent events through May 21, 2018, the date, which the financial statements were available to be issued.

**NORTH DAKOTA STATE  
BOARD OF PHARMACY**

**SUPPLEMENTARY INFORMATION  
JUNE 30, 2017**

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**OFFICERS AND MEMBERS OF THE BOARD**  
**JUNE 30, 2017**

			<u>Term Expires</u>
Shane R. Wendel, R.Ph.	Carrington	President	5/8/2022
Gary W. Dewhirst, R.Ph.	Hettinger	Senior Member	5/8/2018
Steven P. Irsfeld, R.Ph.	Dickinson	Senior Member	4/30/2019
Tanya L. Schmidt, PharmD	Fargo	Senior Member	5/8/2020
Gayle D. Ziegler, R.Ph.	West Fargo	Senior Member	5/8/2021
Diane M. Halvorson, R.Ph.Tech.	Fargo	Senior Member	5/8/2021
Fran Gronberg	Bismarck	Public Member	5/8/2021

**NORTH DAKOTA STATE  
BOARD OF PHARMACY**

**REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2017**



# NORTH DAKOTA STATE BOARD OF PHARMACY

## STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>			
Interest	\$ 2,000	\$ 4,572	\$ 2,572
Internship fees	4,000	4,190	190
Miscellaneous fees and reimbursements	26,950	82,605	55,655
Pharmacist's licenses	152,600	153,895	1,295
Pharmacy permits	170,000	162,475	(7,525)
Technician registrations	19,100	20,793	1,693
Third party logistic permits	8,000	36,850	28,850
Veterinary licenses	4,925	5,215	290
Wholesale drug licenses	450,000	459,000	9,000
	<u>837,575</u>	<u>929,595</u>	<u>92,020</u>
Total revenues			
<b>EXPENSES</b>			
Compliance and investigation	43,000	37,482	5,518
Consulting	10,000	3,456	6,544
Contractual	72,000	30,775	41,225
Credit card fees and bank fees	16,100	22,648	(6,548)
Data base hosting fee	45,000	48,534	(3,534)
Depreciation	-	6,671	(6,671)
Dues and subscriptions	3,950	3,240	710
Education funding	17,100	17,867	(767)
Examinations	2,000	4,015	(2,015)
Executive director salary	139,300	128,544	10,756
Health and life insurance	43,000	42,749	251
Legal and accounting	13,000	20,526	(7,526)
Miscellaneous	41,998	43,837	(1,839)
Newsletter	8,500	3,500	5,000
Office supplies and postage	19,000	9,812	9,188
Payroll taxes	18,500	18,018	482
PDMP salaries	39,560	38,942	618
Pension expense	33,500	27,059	6,441
Printing	10,000	1,861	8,139
Rent	11,400	12,450	(1,050)
Repairs and maintenance	6,620	8,102	(1,482)
Rule hearings and publications	6,000	978	5,022
Secretarial salaries	86,190	46,188	40,002
Telephone	3,500	3,978	(478)
Travel and meetings	68,700	59,968	8,732
Training	2,500	363	2,137
Vacation pay	18,593	11,999	6,594
	<u>779,011</u>	<u>653,562</u>	<u>125,449</u>
Total expenses			
<b>REVENUE OVER EXPENDITURES</b>	<u>\$ 58,564</u>	<u>\$ 276,033</u>	<u>\$ 217,469</u>

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**BUDGETARY REPORTING**

The Board adopts an annual appropriated budget. All annual appropriations lapse at fiscal year-end.

1. The Board follows these procedures in establishing the budgetary data reflected in the financial statements:
2. The Executive Director submits to the Board of Directors a proposed operating budget for the fiscal year. The operating budget includes proposed operating expenditures.
3. The Board of Directors in a board meeting formally adopts the final budget.
4. The Board's budgetary process is based upon accounting for license, permits, and fees revenue on a generally accepted accounting principles (GAAP) basis of accounting.

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY**  
**ND PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**LAST 10 FISCAL YEARS\***

Employer's proportion of the net pension liability	0.021678%
Employer's proportionate share of the net pension liability	\$ 211,273
Employer's covered-employee payroll	\$ 218,460
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	96.71%
Plan fiduciary net position as a percentage of the total pension liability	70.46%

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

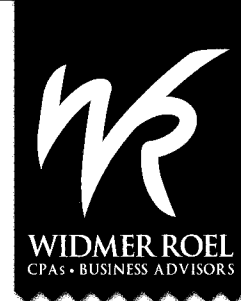
**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**ND PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**LAST 10 FISCAL YEARS\***

Statutorily required contribution	\$	15,816
Contributions in relation to the statutorily required contribution	\$	(15,554)
Contribution deficiency (excess)	\$	262
Employer's covered-employee payroll	\$	218,460
Contributions as a percentage of covered-employee payroll		7.12%

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

***Changes of Assumptions***

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



1400 W. Century Avenue  
Bismarck, ND 58503-0915

Phone: 701.221.2655  
Toll Free: 866.494.3637  
Fax: 701.221.2657

**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 Pharmacy**  
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 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 Pharmacy** (the Board), a component unit of the State of North Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated May 21, 2018.

***Internal Control over Financial Reporting***

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: 2017-001, 2017-002, and 2017-003.

***Compliance and Other Matters***

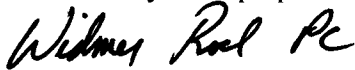
As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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 State Board of Pharmacy's Response to Findings***

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Board's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***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 the 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.



Bismarck, North Dakota

May 21, 2018

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017**

### **SECTION I – SUMMARY OF AUDITOR'S RESULTS**

#### Financial Statements

Type of Auditor's Report Issued:	Unmodified
Internal control over financial reporting	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

#### **FINDING 2017-001 (SIGNIFICANT DEFICIENCY) – PREPARATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) FINANCIAL STATEMENTS**

##### **Condition**

Widmer Roel PC assists management in preparing financial statements that are presented, including footnote disclosures, in conformity with generally accepted accounting principles of the United States. This is not unusual in organizations of your size, but we believe management should constantly be aware of this condition.

##### **Criteria**

Auditing standards state, as a matter of proper internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted accounting principles.

##### **Effect**

Proper internal controls are not in place to ensure that management is responsible and capable of preparing financial statements in conformity with generally accepted accounting principles. Lack of segregation of duties could provide an opportunity for misappropriation of funds and concealment of such activity.

##### **Recommendation**

The Executive Director should review all financial statement groupings and schedules documenting the calculation of amounts included in the notes to the financial statements.

##### **Response**

The Board agrees with the finding and will allow the Executive Director to review all financial statement groupings and schedules documenting the calculation of amounts included in the notes to the financial statements.

**NORTH DAKOTA STATE BOARD OF PHARMACY**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017**

**FINDING 2017-002 (SIGNIFICANT DEFICIENCY) – SEGREGATION OF DUTIES**

**Condition**

The limited number of accounting personnel prevents a proper segregation of duties necessary to ensure adequate internal control. This is not unusual in organizations of your size, but we believe management should constantly be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

**Criteria**

Proper internal controls are that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

**Effect**

Because of the lack of segregation of duties, adequate internal controls are not in place.

**Recommendation**

To reduce the risk created by the limited staff size, we recommend that the Board Members remain involved in the financial affairs of the Board to provide oversight and independent review functions, which could include a review of activity in general ledger accounts and a summary of changes in net asset accounts.

**Response**

The Board agrees with the finding and agrees to reduce the risk created by the limited staff size, by involving the Board Members in the financial affairs of the Board to provide oversight and independent review functions, which could include a review of activity in general ledger accounts and a summary of changes in net asset accounts.

**FINDING 2017-003 (SIGNIFICANT DEFICIENCY) – COMPLIANCE WITH GASB 68 – PENSION LIABILITY ENTRIES**

**Condition**

The Board is not in compliance with required GASB 68 and entries to adjust net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense were not made at year-end.

**Criteria**

Staff should make the entries to adjust net pension liability, pension expense, and deferred outflows and inflows of resources as of year-end.

**Cause of Condition**

Widmer Roel assisted the Board with the entries in the current and prior years out of convenience.



**NORTH DAKOTA STATE BOARD OF PHARMACY**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017**

**Effect**

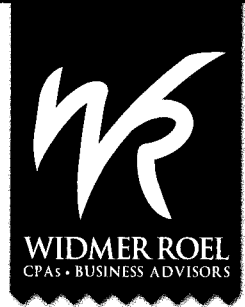
Without the assistance of the auditors, the financial statements could be materially misstated or omit material financial statement disclosures.

**Recommendation**

We recommend that the entries for these balances be made prior to audit fieldwork. The reports to be used to determine balances are provided on ND PERS website.

**Response**

The Board agrees going forward to make the year-end entries related to net pension liability, deferred outflows and inflows of resources, and pension expense.



1400 W. Century Avenue  
Bismarck, ND 58503-0915

Phone: 701.221.2655

Toll Free: 866.494.3637

Fax: 701.221.2657

May 21, 2018

To the Board of Directors  
**North Dakota State Board of Pharmacy**  
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of the **North Dakota State Board of Pharmacy** (the Board), a component unit of the State of North Dakota, for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 24, 2017. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by **North Dakota State Board of Pharmacy** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Board's financial statements were:

Management's estimate of annual depreciation is based on the estimated useful lives of an individual asset using the straight-line depreciation method and a range from three to five years. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of vacation accruals is based on accrued vacation hours available to employees that management estimates the employees to use after year-end. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Member of



Management's estimate of the pension benefits payable is based on an actuarial report. We evaluated the key factors and assumptions used to develop the pension benefits payable in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Attached is a schedule of misstatements detected as a result of the audit procedures and corrected by management.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 21, 2018.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the **North Dakota State Board of Pharmacy's** financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the **North Dakota State Board of Pharmacy's** auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

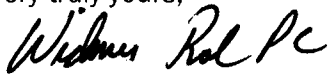
We applied certain limited procedures to the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Schedule of Revenues and Expenses - Budget to Actual, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on officers and members of the board, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the board members and management of **North Dakota State Board of Pharmacy** and is not intended to be, and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Widmer Roel PC". The signature is written in a cursive, flowing style.

Widmer Roel PC