

**NORTH DAKOTA STATE  
BOARD OF PHARMACY**

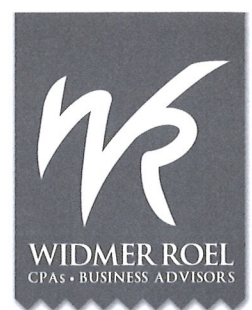
**FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**WITH INDEPENDENT AUDITOR'S REPORT**

**NORTH DAKOTA STATE BOARD OF PHARMACY**

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FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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## 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, 2018 and 2017, 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 audits. We conducted our audits 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.

### ***Opinion***

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, 2018 and 2017, and the changes in financial 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 3 through 4 and pages 21 through 25 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.

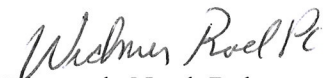
#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion 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 20 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 March 21, 2019 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 the effectiveness of the Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **North Dakota State Board of Pharmacy's** internal control over financial reporting and compliance.



Bismarck, North Dakota  
March 21, 2018



# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

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, 2018. 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 and Wholesale Drug Warehouses, Jobbers or Brokers, Manufacturers, Outsourcing Facilities, Distributors, Packagers, and Veterinary Distributors; for regulating and controlling the dispensing of prescription drugs and devices; and the practice of pharmacy for the protection of 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 and 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 had been extended through September 29, 2017. During the years ended June 30, 2018 and 2017, \$28,120 and \$-0- were expended, respectively. In aggregate, the Board received \$71,870 through the year ended June 30, 2018.

In comparing the budgeted figures with actual, there was approximately \$177,000 more in actual expenses than budgeted expenses and approximately \$91,000 more in actual revenues than budgeted revenues. Expenses incurred by the Board were more than budgeted due to legal expenses associated with an ongoing lawsuit with Pharmaceutical Care Management Association. The increase in actual revenues over budgeted revenues is due to more licenses being issued for 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. In addition, 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**  
**JUNE 30, 2018**

**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 \$6,583. The short-term liabilities mostly consist of accounts payable, short-term payroll obligations, and fees owed to North Dakota State University School of Pharmacy as part of a statutory obligation. These funds are transferred to the University in January each year. Long-term liabilities consist of net pension liability and deferred revenue from pharmacy and wholesale permits. Deferred outflows of resources related to pensions were approximately \$193,000 and deferred inflows of resources related to pensions were approximately \$19,000. 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 2018 were approximately \$982,000, an increase of about \$52,000 from the prior year. Total expenses for fiscal year 2018 were approximately \$1,350,000, an increase from the prior year of approximately \$697,000. This resulted in a decrease in net position of approximately \$369,000.

The Statements of Cash Flows reflects the same information as the changes in Statement of Net Position accounts and how revenues over (under) expenses affect cash and cash equivalents.

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, 2018 AND 2017**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2018</b>	<b>2017</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 834,471	\$ 868,255
Certificates of deposit	620,280	778,415
Accrued interest receivable	<u>1,239</u>	<u>1,239</u>
Total current assets	<u>1,455,990</u>	<u>1,647,909</u>
<b>NONCURRENT ASSETS</b>		
Certificates of deposit	<u>100,000</u>	<u>138,696</u>
<b>CAPITAL ASSETS</b>		
Office equipment	22,161	22,161
Database and software	29,441	29,441
Accumulated depreciation	<u>(45,019)</u>	<u>(38,907)</u>
Total capital assets	<u>6,583</u>	<u>12,695</u>
Total assets	1,562,573	1,799,300
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension plans	<u>192,957</u>	<u>87,858</u>
Total assets and deferred outflows of resources	\$ <u><u>1,755,530</u></u>	\$ <u><u>1,887,158</u></u>

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>			<b>2018</b>	<b>2017</b>
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$	29,744	\$	5,655
Accrued retirement payable		4,025		4,388
Accrued taxes payable		1,086		1,019
Accrued vacation payable		43,476		33,047
Internship fees payable		20,700		-
Total current liabilities		<u>99,031</u>		<u>44,109</u>
<b>LONG-TERM LIABILITIES</b>				
Net pension liability		<u>355,380</u>		<u>211,273</u>
Total liabilities		<u>454,411</u>		<u>255,382</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
License and registration fees		665,735		622,750
Pension plans		<u>19,117</u>		<u>24,254</u>
Total deferred inflows of resources		<u>684,852</u>		<u>647,004</u>
<b>NET POSITION</b>				
Net investment in capital assets		6,583		12,695
Unrestricted				
Undesignated		(514,631)		141,694
Designated		<u>1,124,315</u>		<u>830,383</u>
Total net position		<u>616,267</u>		<u>984,772</u>
Total liabilities, deferred inflows of resources, and net position	\$	<u><u>1,755,530</u></u>	\$	<u><u>1,887,158</u></u>



# NORTH DAKOTA STATE BOARD OF PHARMACY

## STATEMENTS OF REVENUES AND EXPENSES FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Internship fees	\$ 6,980	\$ 4,190
Miscellaneous fees and reimbursements	81,181	82,605
Pharmacist's licenses	155,390	153,895
Pharmacy permits	172,665	162,475
Technician registrations	20,563	20,793
Third party logistics permits	49,050	36,850
Veterinary licenses	4,415	5,215
Wholesale drug licenses	<u>485,300</u>	<u>459,000</u>
 Total operating revenues	 <u>975,544</u>	 <u>925,023</u>
<b>OPERATING EXPENSES</b>		
Salaries	251,871	225,673
Employee benefits	115,298	69,808
Payroll taxes	19,453	18,018
 Compliance and investigation	 35,940	 37,482
Consulting	14,192	3,456
Contractual	113,020	30,775
Credit card fees	25,065	22,648
Database hosting fee	29,890	48,534
Depreciation	6,112	6,671
Dues and subscriptions	2,752	3,240
Education funding	19,675	17,867
Examinations	3,524	4,015
Legal and accounting	555,163	20,526
Miscellaneous	67,246	43,837
Newsletter	865	3,500
Office supplies and postage	9,199	9,812
Printing	4,365	1,861
Rent	15,600	12,450
Repairs and maintenance	3,265	8,102
Rule hearings and publications	-	978
Telephone	3,396	3,978
Travel and meetings	53,698	59,968
Training	<u>746</u>	<u>363</u>
 Total operating expenses	 <u>1,350,335</u>	 <u>653,562</u>
 Net operating income (expense)	 (374,791)	 271,461
<b>NON-OPERATING REVENUE (EXPENSE)</b>		
Interest income	<u>6,286</u>	<u>4,572</u>
 <b>TOTAL REVENUES OVER (UNDER) EXPENSES</b>	 <u><u>\$ (368,505)</u></u>	 <u><u>\$ 276,033</u></u>

**NORTH DAKOTA STATE BOARD OF PHARMACY**

**STATEMENTS OF CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>Unrestricted</u>		<u>Capital</u>	
	<u>Undesignated</u>	<u>Designated</u>	<u>Assets</u>	<u>Total</u>
<b>June 30, 2016</b>	\$ (89,638)	\$ 779,011	\$ 19,366	\$ 708,739
Revenues over expenses	276,033	-	-	276,033
Depreciation	6,671	-	(6,671)	-
Increase in designated net assets	<u>(51,372)</u>	<u>51,372</u>	<u>-</u>	<u>-</u>
<b>June 30, 2017</b>	141,694	830,383	12,695	984,772
Revenues over expenses	(368,505)	-	-	(368,505)
Depreciation	6,112	-	(6,112)	-
Increase in designated net assets	<u>(293,932)</u>	<u>293,932</u>	<u>-</u>	<u>-</u>
<b>June 30, 2018</b>	\$ <u><u>(514,631)</u></u>	\$ <u><u>1,124,315</u></u>	\$ <u><u>6,583</u></u>	\$ <u><u>616,267</u></u>

# NORTH DAKOTA STATE BOARD OF PHARMACY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from license, permits, and fees	\$ 930,368	\$ 894,803
Cash received for internships	27,680	4,190
Cash received for miscellaneous income	81,181	82,605
Cash payments to suppliers	(934,056)	(338,887)
Cash payments to employees	<u>(342,074)</u>	<u>(319,930)</u>
Net cash provided by (used in) operating activities	<u>(236,901)</u>	<u>322,781</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	(6,286)	4,572
Proceeds from redemption of certificates of deposit	789,128	480,375
Purchases of certificates of deposit	<u>(579,725)</u>	<u>(908,501)</u>
Net cash provided by (used in) investing activities	<u>203,117</u>	<u>(423,554)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(33,784)	(100,773)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>868,255</u>	<u>969,028</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ <u><u>834,471</u></u>	\$ <u><u>868,255</u></u>
<b>RECONCILIATION OF OPERATING INCOME (EXPENSE) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating income (expense)	\$ (374,791)	\$ 271,461
Adjustments to reconcile operating income (expense) to net cash provided by (used in) operating activities:		
Depreciation	6,112	6,671
Change in assets and liabilities:		
Accounts payable	24,089	(5,495)
Accrued retirement payable	(363)	1,110
Accrued taxes payable	67	(148)
Accrued vacation payable	10,429	-
Deferred revenue	42,985	56,575
Fees payable to internship program	20,700	-
Net pension liability	144,107	50,947
Changes in deferred outflows and inflows		
Increase in deferred outflows of resources related to pensions	(105,099)	(45,567)
Increase in deferred inflows of resources related to pensions	<u>(5,137)</u>	<u>(12,773)</u>
Net cash provided by (used in) operating activities	\$ <u><u>(236,901)</u></u>	\$ <u><u>322,781</u></u>

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

### **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, for regulating and controlling the dispensing of prescription drugs, and the practice of pharmacy for the protection of the health, welfare, and safety of 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.

#### ***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.

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

The Board's financial statements are presented as a proprietary fund type, an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Board recovers its costs through licensing fees and permits.

Proprietary fund financial statements are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues and Expenses presents increases (revenues) and decreases (expenses) reported during the year that flow through to total net position, as reported on the Statement of Changes in Net Position.

Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

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.

*(Continued)*



# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. Operating expenses are those expenses that are essential to the primary operations of the fund. All other revenues and expenses are reported as non-operating revenues and expenses.

### ***Proprietary Fund***

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

### ***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, reported at cost.

### ***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, 2018 and 2017.

### ***Capital Assets***

Capital assets are defined by the Board as assets with an initial, individual cost at or greater than \$3,000. These assets are recorded at historical cost. 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. The Board has two items that qualify for reporting in this category as *Pension Plans*. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end and changes in the net pension liability not included in pension expense reported in the Statement of Net Position.

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

### ***Compensated Absences***

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. There is no limit on accrued annual leave, 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 accumulate. Employees who have ten continuous years of service are paid one-tenth of their accumulated sick leave upon leaving service.

### ***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. The Board has two types of items that qualify for reporting in this category. The first item, *License and Registration Fees*, represents license and registration fees received in advance of the period the license or registration is effective for. The second item, *Pension Plans*, represents changes in the net pension liability not included in the Statement of Net Position.

### ***Net Position Classifications***

Net position represents the difference between assets and liabilities. Net position in the financial statements is classified as the following three components:

***Net Investment in Capital Assets*** – This amount consists of capital assets net of accumulated depreciation that is attributed to the acquisition, construction, or improvement of the assets.

***Restricted Net Position*** – This amount consists of resources with constraints placed on the use of those resources by a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation. The Board has no restricted net position.

***Unrestricted Net Position*** – This amount consists of all other net position that does not meet the definitions above.

As of June 30, 2018, \$1,124,315 had been designated by the Board to equal 100% of the next year's anticipated operating costs. This amount is classified as Unrestricted-Designated on the Statement of Net Position.

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

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

### ***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.

### ***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 \$71,870 in aggregate through the year ended June 30, 2018. No funds had been received for the years ending June 30, 2018 and 2017. This grant expired in September 2017.

### ***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 prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

## **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 5 years and earned interest rates range from .35% 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.



# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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 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. Deposits and certificates of deposits held at the Bank of North Dakota are uncollateralized but are guaranteed by the State of North Dakota.

As of June 30, 2018, the Board had deposits and certificates of deposit with a carrying amount of \$1,253,933 at the Bank of North Dakota. As such, at June 30, 2018, all funds exceeding the FDIC limit of \$250,000 were guaranteed by the State of North Dakota.

### **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. The fee is \$35, half of which is retained by the Board and half of which is remitted to the organization. The total remitted to this organization during the years ended June 30, 2018 and 2017 was \$13,876 and \$13,958, respectively. As of June 30, 2018 and 2017, 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 – NORTH DAKOTA STATE UNIVERSITY INTERNSHIP FEES**

Starting in fiscal year 2018, the Board collects internship fees for North Dakota State University School of Pharmacy internship program. The fee is \$100, of which \$10 is retained by the Board and \$90 is remitted to the University. The fees are remitted to the University each January. As of June 30, 2018 and 2017, the Board owed the North Dakota State University School of Pharmacy \$20,700 and \$-0-, respectively, for annual dues collected by the Board that have yet to be remitted to the School.

### **NOTE 5 – 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.



# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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, one member elected by the retired public employees, and two members of the legislative assembly appointed by the chairman of the legislative management.

### ***Pension Benefits***

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

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

### ***Death and Disability Benefits***

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

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

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

# NORTH DAKOTA STATE BOARD OF PHARMACY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

### *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 24 months of service - Greater of two percent of monthly salary or \$25
- 25 to 36 months of service - Greater of three percent of monthly salary or \$25
- Longer than 36 months of service - Greater of four percent of monthly salary or \$25

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

At June 30, 2018, the Employer reported a liability of \$355,380 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017, the Employer's proportion was 0.022110 percent, which was an increase of 0.000432 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Employer recognized pension expense of \$52,313. At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 2,112	\$ (1,731)
Changes of assumptions	145,730	(8,015)
Net difference between projected and actual earnings on pension plan investments	4,780	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,521	(9,371)
Employer contributions subsequent to the measurement date	<u>36,814</u>	<u>-</u>
	\$ <u>192,957</u>	\$ <u>(19,117)</u>

(Continued)

# NORTH DAKOTA STATE BOARD OF PHARMACY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

\$36,814 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, 2019.

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:	
2019	\$ 29,501
2020	36,059
2021	31,083
2022	25,387
2022	14,996

### *Actuarial assumptions*

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	Service at Beginning of Year	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%
	*Age-based salary increase rates apply for employees with three or more years of service	
Investment rate of return	7.75%, 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 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 Mortality Table set back one year for males (no setback for females) multiplied by 125%.



# NORTH DAKOTA STATE BOARD OF PHARMACY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Domestic equity	31%	6.05%
International equity	21%	6.70%
Private equity	5%	10.20%
Domestic fixed income	17%	1.43%
International fixed income	5%	-0.45%
Global real assets	20%	5.16%
Cash equivalents	1%	0.00%

### ***Discount Rate***

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

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

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.



# NORTH DAKOTA STATE BOARD OF PHARMACY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	<b>1% Decrease (5.44%)</b>	<b>Current Discount Rate (6.44%)</b>	<b>1% Increase (7.44%)</b>
Employer's proportionate share of net pension liability	\$ <u>482,440</u>	\$ <u>355,380</u>	\$ <u>249,672</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 6 – RELATED PARTY TRANSACTIONS**

The Board of Directors are paid \$200 for board meetings plus mileage and expenses. The Board members are reimbursed for expenses related to national meetings the members attend. Total transactions between the board members and the Pharmacy for 2018 and 2017 were \$36,756 and \$28,931, respectively. In 2018 and 2017 there were \$-0- and \$1,947, respectively, in accounts payable due to board members.

### **NOTE 7 – CONTINGENCIES**

The Board entered into an agreement with Appriss, Inc. on April 1, 2017 for the PMP AWARe License. The license is for software used for the Prescription Monitoring Program. The agreement is for 3 years and expires on March 30, 2020. Annual payments total \$69,900. There is also an additional \$150 per hour fee for all professional service work.

The Board entered into an agreement with Sharps Compliance, Inc. on June 30, 2017 for the MedSafe Program. The MedSafe program is designed to meet or exceed all requirements of the Drug Enforcement Administration regulations on disposal of controlled substances. This program includes a collection receptacle, inner liner, return transportation and proper disposal. The agreement is for 3 years and expires on June 30, 2020. As of December 31, 2018, the Board had 109 receptacles across North Dakota ranging in price of \$46 to \$112 per receptacle. Approximate annual payments for MedSafe in 2019 and 2020 will be \$61,961.

Future minimum lease payments are as follows as of June 30:

	<b>PMP Software</b>	<b>Facilities</b>	<b>Total</b>
2019	\$ 69,900	\$ 61,961	\$ 212,616
2020	<u>17,475</u>	<u>61,961</u>	<u>212,616</u>
	<u>\$ 7,848</u>	<u>\$ 758,710</u>	<u>\$ 766,558</u>

(Continued)

## **NORTH DAKOTA STATE BOARD OF PHARMACY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

The Board is a defendant in a lawsuit from Pharmaceutical Care Management Association (PCMA). The lawsuit seeks to enjoin the enforcement of two State laws which regulate PBM-pharmacy contracts. The litigation was brought upon as a means to invalidate certain provisions of the State's laws. It does not seek damages or any other form of monetary relief. This lawsuit is currently in the appeals process.

#### **NOTE 8 – RISK MANAGEMENT**

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (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. No claims from these risks have exceeded insurance coverage in any of the past three years.

#### **NOTE 9 – SUBSEQUENT EVENTS**

On July 11, 2017, a lawsuit named the Board as a defendant. The suit challenges two newly enacted laws, alleging that they conflict with federal standards on ERISA insurance plans and Medicare Part D standards. As of the date of issuance of these financial statements, the case is in the appeal process by the 8<sup>th</sup> Circuit Court of Appeals.

The Board has evaluated subsequent events through March 21, 2019, the date, which the financial statements were available to be issued.

**NORTH DAKOTA STATE  
BOARD OF PHARMACY**

**SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**



**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**OFFICERS AND MEMBERS OF THE BOARD**  
**JUNE 30, 2018**

			<u>Term Expires</u>
Tanya L. Schmidt, PharmD	Fargo	President	5/8/2020
Tyler Lannoye, PharmD	Churchs Ferry	Member	5/8/2023
Gayle D. Ziegler, R.Ph.	West Fargo	Senior Member	5/8/2021
Shane R. Wendel, R.Ph.	Carrington	Member	5/8/2022
Steven P. Irsfeld, R.Ph.	Dickinson	Member	5/8/2019
Diane M. Halvorson, R.Ph.Tech.	Fargo	Member	5/8/2021
Fran Gronberg	Bismarck	Public Member	5/8/2021

**NORTH DAKOTA STATE  
BOARD OF PHARMACY**

**REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>OPERATING REVENUES</b>			
Internship fees	\$ 3,750	\$ 6,980	\$ 3,230
Miscellaneous fees and reimbursements	24,800	81,181	56,381
Pharmacist's licenses	160,700	155,390	(5,310)
Pharmacy permits	168,750	172,665	3,915
Technician registrations	20,500	20,563	63
Third party logistic permits	45,000	49,050	4,050
Veterinary licenses	4,925	4,415	(510)
Wholesale drug licenses	460,000	485,300	25,300
Total operating revenues	<u>888,425</u>	<u>975,544</u>	<u>87,119</u>
<b>OPERATING EXPENSES</b>			
Compliance and investigation	45,000	35,940	9,060
Consulting	10,000	14,192	(4,192)
Contractual	60,000	113,020	(53,020)
Credit card fees and bank fees	16,100	25,065	(8,965)
Data base hosting fee	45,000	29,890	15,110
Depreciation	-	6,112	(6,112)
Dues and subscriptions	3,950	2,752	1,198
Education funding	17,100	19,675	(2,575)
Examinations	2,000	3,524	(1,524)
Executive director salary	150,979	140,236	10,743
Health and life insurance	45,000	46,818	(1,818)
Legal and accounting	360,000	555,163	(195,163)
Miscellaneous	77,298	67,246	10,052
Newsletter	7,000	865	6,135
Office supplies and postage	16,500	9,199	7,301
Payroll taxes	18,800	19,453	(653)
PDMP salaries	42,890	40,095	2,795
Pension expense	35,708	68,480	(32,772)
Printing	10,500	4,365	6,135
Rent	15,600	15,600	-
Repairs and maintenance	7,340	3,265	4,075
Rule hearings and publications	5,000	-	5,000
Secretarial salaries	87,582	47,117	40,465
Telephone	4,000	3,396	604
Travel and meetings	71,500	53,698	17,802
Training	2,500	746	1,754
Vacation pay	16,036	24,423	(8,387)
Total operating expenses	<u>1,173,383</u>	<u>1,350,335</u>	<u>(176,952)</u>
Net operating revenues over (under) expenses	(284,958)	(374,791)	264,071



**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**STATEMENT OF REVENUE AND EXPENSES – COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<b>Variance Favorable (Unfavorable)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	<u>2,000</u>	<u>6,286</u>	<u>4,286</u>
<b>REVENUE OVER (UNDER) EXPENSES</b>	<b>\$ <u>(282,958)</u></b>	<b>\$ <u>(368,505)</u></b>	<b>\$ <u>268,357</u></b>

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**BUDGETARY REPORTING**

The Board adopts an annual appropriated budget. All annual appropriations lapse at fiscal year-end. The Board follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Executive Director submits to the Board of Directors a proposed operating budget for the fiscal year. The operating budget includes proposed operating expenditures.
2. The Board of Directors in a board meeting formally adopts the final budget.
3. 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\***

	<b>June 30, 2017</b>	<b>As of measurement date of: June 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Employer's proportion of the net pension liability (asset)	0.022110%	0.0216780%	0.023578%	0.023180%
Employer's proportionate share of the net pension liability (asset)	\$ 355,380	\$ 211,273	\$ 160,326	\$ 147,128
Employer's covered-employee payroll	\$ 225,704	\$ 218,460	\$ 210,048	\$ 195,261
Employer's proportionate share of the net pension liability (asset) liability as a percentage of its covered-employee payroll	157.45%	97.00%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	87.23%	70.46%	77.15%	77.70%

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



# NORTH DAKOTA STATE BOARD OF PHARMACY

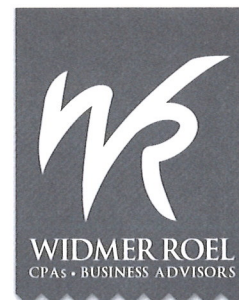
## SCHEDULE OF EMPLOYER CONTRIBUTIONS ND PUBLIC EMPLOYEES RETIREMENT SYSTEM LAST 10 FISCAL YEARS\*

	<u>June 30, 2017</u>	<u>As of measurement date of: June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Statutorily required contribution	\$ 16,367	\$ 15,816	\$ 15,955	\$ 13,903
Contributions in relation to the statutorily required contribution	\$ (16,070)	\$ (15,554)	\$ (14,955)	\$ (13,903)
Contribution deficiency (excess)	\$ 297	\$ 262	\$ 1,000	\$ -
Employer's covered-employee payroll	\$ 225,704	\$ 218,460	\$ 210,048	\$ 195,261
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.60%	7.12%

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

### *Changes of Assumptions*

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.



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**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), , as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated March 21, 2019.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the **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 opinion 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 have not been 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: 2018-001, 2018-002, 2018-003, and 2018-004.

***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  
March 21, 2019



# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2018**

### **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 2018-001 (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, 2018**

### **FINDING 2018-002 (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 continue to 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 2018-003 (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, 2018**

### **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.

## **FINDING 2018-004 (SIGNIFICANT DEFICIENCY) – MATERIAL ADJUSTING ENTRIES**

### **Condition**

During the audit procedures performed, Widmer Roel proposed material adjustments that would not have been identified by the company's existing internal control structure. As a result, it is possible that a material error in the company's financial statements may occur. An effective internal control structure should ensure that all material adjustments are recorded in accordance with general accepted accounting principles. It is the responsibility of management and those in charge of governance to determine an appropriate and acceptable degree of risk. Cost and other considerations may affect this decision.

### **Criteria**

Staff should be able to value and make adjustments where needed so all account balances are materially correct.

### **Cause of Condition**

Widmer Roel needed to make material adjusting journal entries to deferred revenue.

### **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 Executive Director review the balances of deferred revenue at June 30 and make sure that all of the deferred revenue balance is recognized as revenue on July 1.

### **Response**

The Board agrees going forward to be more diligent about recording adjusting journal entries.