NORTH DAKOTA STATE
BOARD OF PHARMACY

FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

WITH INDEPENDENT AUDITOR'S REPORT

NORTH DAKOTA STATE BOARD OF PHARMACY

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FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NORTH DAKOTA STATE BOARD OF PHARMACY

OFFICERS AND MEMBERS OF THE BOARD
JUNE 30, 2019

			Term Expires
Gayle D. Ziegler, R.Ph.	Hankinson	President	5/8/2021
Tyler Lannoye, PharmD	Churchs Ferry	Member	5/8/2023
Tanya L. Schmidt, PharmD	Fargo	Member	5/8/2020
Shane R. Wendel, R.Ph.	Carrington	Member	5/8/2022
Steven P. Irsfeld, R.Ph.	Dickinson	Member	5/8/2024
Diane M. Halvorson, R.Ph.Tech.	Fargo	Member	5/8/2021
Fran Gronberg	Bismarck	Public Member	5/8/2021

SCHMITZ-HOLMSTROM
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of North Dakota State Board of Pharmacy, a component unit of the State of North Dakota, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise North Dakota State Board of Pharmacy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

North Dakota State Board of Pharmacy's 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 North Dakota State Board of Pharmacy, as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof 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, schedule of employer contributions, schedule of employer's share of other post-employment benefits liability and schedule of employer contributions on pages 4-5 and pages 33-39 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2020 on our consideration of the North Dakota State Board of Pharmacy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the North Dakota State Board of Pharmacy's internal control over financial reporting and compliance.

Schmitz Holmstrom LLP

Bismarck, North Dakota
July 16, 2020

NORTH DAKOTA STATE BOARD OF PHARMACY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

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, 2019. 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 North Dakota Department of Health and Human Services to help defray the costs of the electronic health record integration with the PDMP. The grant amount was for $155,000. During the years ended June 30, 2019 and 2018, $149,900 and $-0- were expended, respectively. In aggregate, the Board received $149,900 through the year ended June 30, 2019.

In comparing the budgeted figures with actual, there was approximately $74,00 more in actual expenses than budgeted expenses and approximately $255,000 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 and grant income from the North Dakota Department of Health and Human Services grant. 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. 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 $1,833. 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 other post-employment benefits, net pension liability and deferred revenue from pharmacy and wholesale permits. Deferred outflows of resources related to other post-employment benefits and pensions were approximately $201,000 and deferred inflows of resources related to other post-employment benefits and pensions were approximately $685,000. 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 2019 were approximately $1,188,000, an increase of about $206,000 from the prior year. Total expenses for fiscal year 2019 were approximately $1,199,000, a decrease from the prior year of approximately $152,000. This resulted in an decrease in net position of approximately $11,000.

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 or by mail at: 1906 E. Broadway Ave., Bismarck, ND 58501-4700.

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	$ 840,311	$ 834,471
Certificates of deposit	620,280	620,280
Accounts receivable	2,400	-
Accrued interest receivable	1,239	1,239
Total current assets	1,464,230	1,455,990
NONCURRENT ASSETS		
Certificates of deposit	100,000	100,000
CAPITAL ASSETS		
Office equipment	15,793	22,161
Database and software	35,809	29,441
Accumulated depreciation	(49,769)	(45,019)
Total capital assets	1,833	6,583
Total assets	1,566,063	1,562,573
DEFERRED OUTFLOWS OF RESOURCES		
Other post employment benefits plan	5,759	4,351
Pension plan	195,607	192,957
Total deferred outflows of resources	201,366	197,308
Total assets and deferred outflows of resources	$ 1,767,429	$ 1,759,881

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2019 AND 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2019	2018
CURRENT LIABILITIES		
Accounts payable	$ 9,398	$ 29,744
Accrued retirement payable	4,126	4,025
Accrued taxes payable	1,160	1,086
Accrued vacation payable	46,404	43,476
Internship fees payable	22,680	20,700
Total current liabilities	83,768	99,031
LONG-TERM LIABILITIES		
Net other post employment benefits liability	17,378	16,503
Net pension liability	396,639	355,380
Total long-term liabilities	414,017	371,883
Total liabilities	497,785	470,914
DEFERRED INFLOWS OF RESOURCES		
License and registration fees	656,675	665,735
Other post employment benefits plan	770	1,070
Pension plan	28,026	19,117
Total deferred inflows of resources	685,471	685,922
NET POSITION		
Net investment in capital assets	1,833	6,583
Unassigned	(621,208)	(527,853)
Assigned	1,203,548	1,124,315
Total net position	584,173	603,045
Total liabilities, deferred inflows of resources, and net pension	$ 1,767,429	$ 1,759,881

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Grant revenue	$ 149,000	$ -
Internship fees	4,515	6,980
Miscellaneous fees and reimbursements	86,943	81,181
Pharmacist's licenses	151,735	155,390
Pharmacy permits	172,210	172,665
Technician registrations	23,470	20,563
Third party logistics permits	52,900	49,050
Veterinary licenses	4,585	4,415
Wholesale drug licenses	532,075	485,300
Total operating revenues	1,177,433	975,544
OPERATING EXPENSES		
Salaries	254,029	251,871
Employee benefits	131,880	115,298
Payroll taxes	20,181	19,453
Compliance and investigation	44,797	35,940
Consulting	16,814	14,192
Contractual	205,650	113,020
Credit card fees	27,867	25,065
Database hosting fee	28,625	29,890
Depreciation	4,750	6,112
Dues and subscriptions	3,112	2,752
Education funding	11,998	19,675
Examinations	3,961	3,524
Legal and accounting	271,934	555,163
Miscellaneous	6,590	7,951
Newsletter	465	865
Office supplies and postage	10,487	9,199
Prescription Drug Monitoring Program	77,085	59,295
Printing	2,031	4,365
Rent	15,600	15,600
Repairs and maintenance	4,529	3,265
Rule hearings and publications	2,085	-
Telephone	2,928	3,396
Travel and meetings	49,480	53,698
Training	1,636	746
Total operating expenses	1,198,514	1,350,335
Net operating loss	(21,081)	(374,791)

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NON-OPERATING REVENUE		
Interest income	2,209	6,286
TOTAL REVENUES UNDER EXPENSES	$ (18,872)	$ (368,505)

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	Unassigned	Assigned	Invested in Capital Assets	Total
June 30, 2017	$ 141,694	$ 830,383	$ 12,695	$ 984,772
Revenues over expenses	(368,505)	-	-	(368,505)
Depreciation	6,112	-	(6,112)	-
Increase in assigned funds	(293,932)	293,932	-	-
June 30, 2018, as originally stated	(514,631)	1,124,315	6,583	616,267
Prior period adjustment	(13,222)	-	-	(13,222)
June 30, 2018, restated	(527,853)	1,124,315	6,583	603,045
Revenues over expenses	(18,872)	-	-	(18,872)
Depreciation	4,750	-	(4,750)	-
Increase in assigned funds	(79,233)	79,233	-	-
June 30, 2019	$ (621,208)	$ 1,203,548	$ 1,833	$ 584,173

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from license, permits, and fees	$ 927,915	$ 930,368
Cash received for internships	6,495	27,680
Cash received for miscellaneous income	84,543	81,181
Cash payments to suppliers	(659,043)	(934,056)
Cash payments to employees	(356,279)	(342,074)
Net cash provided by (used in) operating activities	3,631	(236,901)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,209	(6,286)
Proceeds from redemption of certificates of deposit	-	789,128
Purchases of certificates of deposit	-	(579,725)
Net cash provided by investing activities	2,209	203,117
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,840	(33,784)
CASH AND CASH EQUIVALENTS, beginning of year	834,471	868,255
CASH AND CASH EQUIVALENTS, end of year	$ 840,311	$ 834,471
RECONCILIATION OF OPERATING INCOME (EXPENSE) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net operating loss	$ (21,081)	$ (374,791)
Adjustments to reconcile operating income (expense) to net cash provided by (used in) operating activities:		
Depreciation	4,750	6,112
Change in assets and liabilities:		
Accounts receivable	(2,400)	-
Accounts payable	(20,346)	24,089
Accrued retirement payable	101	(363)
Accrued taxes payable	74	67
Accrued vacation payable	2,928	10,429
Deferred revenue	(9,060)	42,985
Fees payable to internship program	1,980	20,700
Net other post employees benefits liability	875	
Net pension liability	41,259	144,107

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Changes in deferred outflows and inflows		
Increase in deferred outflows of resources related to pension	(4,058)	(105,099)
Increase in deferred inflows of resources related to pensions	8,609	(5,137)
Net cash provided by (used in) operating activities	$ 3,631	$ (236,901)

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.

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 a North Dakota Department of Health grant. The grant is to help pay for the Prescription Drug Monitoring Program. 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, 2019 and 2018.

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.

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 accumulated. 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, 2019, $1,203,548 had been designated by the Board to equal 100% of the next year's anticipated operating costs. This amount is classified as assigned on the Statement of Net Position.

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

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 $155,000 grant from the Department of Health and Human Services to help defray the costs of the electronic health record integration with the Prescription Drug Monitoring Program on December 3, 2018. The Board has received $149,900 in aggregate through the year ended June 30, 2019.

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 – PRIOR PERIOD ADJUSTMENT

The Board adopted GASB No. 75, which required a prior period adjustment to record net OPEB liability and deferred outflows as of July 1, 2018; the cumulative effect on implementing these GASB statements was in increase in net OPEB liability of $16,503 an increase in deferred outflows of $4,351, and increase in deferred inflows of $1,070, and a decrease in unrestricted net assets of $13,222 on the statement of net position for the fiscal year ended June 30, 2018.

NOTE 3 — CASH AND CERTIFICATES OF DEPOSITS

The Boards' checking account and certificates of deposit are deposited in two banks. Certificates of deposit have varying maturities of up to 5 years and earned interest rates range from .55% 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 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.

As of June 30, 2019, the Board had deposits and certificates of deposit with a carrying amount of $1,489,271 at BNC National Bank. At June 30, 2019, $46,262 was not insured. The Board had a certificate of deposit with a carrying amount of $100,000 at Bank of Turtle Lake. As June 30, 2019, the certificate of deposit was fully insured.

NOTE 4 — 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, 2019 and 2018 was $16,313 and $13,876, respectively. As of June 30, 2019 and 2018, 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 5 – 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, 2019 and 2018, the Board owed the North Dakota State University School of Pharmacy $22,680 and $20,700, respectively, for annual dues collected by the Board that have yet to be remitted to the School.

NOTE 6 – OTHER POST-EMPLOYMENT BENEFIT PLAN (OPEB)

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 NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as *"prefunded credit applied"* on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to $5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At fiscal years ending June 30, 2019 and 2018, the Employer reported a liability of $17,378 and $16,503, respectively for its proportionate share of the net OPEB liability that was measured as of June 30, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Employer's proportion was 0.022066%, which was an increase of .001203% from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019 and 2018, the Employer recognized OPEB expense of $2,254 and $1,982, respectively. At June 30, 2019 the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 521	$ 359
Changes of assumptions	1,426	-
Net difference between projected and actual earnings on pension plan investments	-	374
Changes in proportion and differences between employer employer contributions and proportionate share of contributions	724	37
Employer contributions subsequent to the measurement date	3,088	-
	$ 5,759	$ 770

$3,088 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

At June 30, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 402
Changes of assumptions	1,596	-
Net difference between projected and actual earnings or on pension plan investments	-	624
Changes in proportion and differences between employer employer contributions and proportionate share of contributions and proportionate share of contributi	-	44
Employer contributions subsequent to the measurement date	2,752	-
	$ 4,348	$ 1,070

$2,752 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net OPEB liability in the year ended June 30, 2019.

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

Year ended June 30:	
2019	$ 254
2020	254
2021	254
2022	419
2023	389
2024	272
Thereafter	59

Actuarial Assumptions

The total OPEB liability in the July 01, 2018 and July 01, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, 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%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. At June 30, 2019, estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large cap domestic equities	37%	5.80%
Small cap domestic equities	9%	7.05%
International equities	14%	6.20%
Core-Plus fixed income	40%	1.46%

At June 30, 2018, estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large cap domestic equities	37%	5.80%
Small cap domestic equities	9%	7.05%
International equities	14%	6.20%
Core-Plus fixed income	40%	1.56%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate.

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employer's proportionate share of net pension liability	$ 21,988	$ 17,378	$ 13,427

The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employer's proportionate share of net pension liability	$ 20,660	$ 16,503	$ 12,940

NOTE 7 — 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 nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees, and two members of the legislative assembly appointed by the chairman of the legislative management.

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.

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, 2019 and 2018, the Employer reported a liability of $396,639 and $355,380, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of July 01, 2018 and July 01, 2017, respectively, 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, 2018, the Employer's proportion was 0.023503%, which was an increase of 0.001393% from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019 and 2018, the Employer recognized pension expense of $66,213 and $52,313, respectively. At June 30, 2019, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,050	$ 13,494
Changes of assumptions	143,178	5,661
Net difference between projected and actual earnings on pension plan investments	-	1,930
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,061	6,941
Employer contributions subsequent to the measurement date	38,318	-
	$ 195,607	$ 28,026

$38,318 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, 2020.

At June 30, 2018 the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 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	36,814	-
	$ 192,957	$ 19,117

$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	$ 41,602
2020	36,312
2021	30,255
2022	19,096
2023	1,998

Actuarial assumptions

The total pension liability in the July 01, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.50%

Salary increases

Service at Beginning of Year	State Employee	Non-State Employee
0	12.00%	15.00%
1	9.50%	10.00%
2	7.25%	8.00%
Age*		
Under 30	7.25%	10.00%
30-39	6.50%	7.50%
40-49	6.25%	6.75%
50-59	5.75%	6.50%
60+	5.00%	5.25%

*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

The total pension liability in the July 01, 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	State Employee
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 mor

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%.

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 as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	30%	6.05%
International equity	21%	6.71%
Private equity	7%	10.20%
Domestic fixed income	23%	1.45%
International fixed income	0%	0.00%
Global real assets	19%	5.11%
Cash equivalents	0%	0.00%

Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
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).

For the purpose of this valuation for measurement dates July 01, 2018 and 2017, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62% and 3.56%, respectively; and the resulting Single Discount Rate is 6.32% and 6.44%, respectively.

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 as of June 30, 2019 calculated using the discount rate of 6.32 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 (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Employer's proportionate share of net pension liability	$ 538,958	$ 396,639	$ 277,878

The following presents the employer's proportionate share of the net pension liability as of June 30, 2018 calculated using the discount rate of 6.44%, 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%) or 1-percentage-point higher (7.44%) than the current rate:

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Employer's proportionate share of net pension liability	$ 482,440	$ 355,380	$ 249,672

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 8 — 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 2019 and 2018 were $23,170 and $28,365, respectively. In 2019 and 2018 there were $-0- in accounts payable due to board members.

NOTE 9 – CONTINGENCIES

The Board entered into an agreement with Appriss, Inc. on April 1, 2017 for the PMP AWARxE 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, 2019, 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:

	PMP Software	Apriss MedSafe	Total
2020	$ 39,750	$ 83,502	$ 123,252

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 10 — 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 11 – 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 8th Circuit Court of Appeals.

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) a pandemic and on March 13, 2020 the Governor of North Dakota declared a state of emergency in response to the COVID-19 public health crisis. As a result, economic uncertainties have arisen which are likely to negatively impact revenues. At the current time we are unable to quantify the potential effects of this pandemic on our future financial statements.

The Board has evaluated subsequent events through July 16, 2020, the date, which the financial statements were available to be issued.

NORTH DAKOTA STATE BOARD OF PHARMACY

REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2019

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Grant revenue	$ -	$ 149,000	$ 149,000
Internship fees	3,750	4,515	765
Miscellaneous fees and reimbursements	23,300	86,943	63,643
Pharmacist's licenses	159,900	151,735	(8,165)
Pharmacy permits	170,000	172,210	2,210
Technician registrations	20,400	23,470	3,070
Third party logistic permits	55,000	52,900	(2,100)
Veterinary licenses	4,325	4,585	260
Wholesale drug licenses	490,000	532,075	42,075
Total operating revenues	926,675	1,177,433	250,758
OPERATING EXPENSES			
Compliance and investigation	45,000	44,797	203
Consulting	10,000	16,814	(6,814)
Contractual	90,000	205,650	(115,650)
Credit card fees and bank fees	18,200	27,867	(9,667)
Data base hosting fee	40,000	28,625	11,375
Depreciation	-	4,750	(4,750)
Dues and subscriptions	3,950	3,112	838
Education funding	17,100	11,998	5,102
Examinations	2,000	3,961	(1,961)
Executive director salary	157,018	145,242	11,776
Health and life insurance	45,000	46,877	(1,877)
Legal and accounting	330,000	271,934	58,066
Miscellaneous	8,018	6,590	1,428
Newsletter	2,000	465	1,535
Office supplies and postage	11,000	10,487	513
Payroll taxes	20,435	20,181	254
PDMP salaries	44,605	40,530	4,075
Prescription Drug Monitoring Program	70,000	77,085	(7,085)
Printing	7,500	2,031	5,469
Rent	15,600	15,600	-
Repairs and maintenance	7,340	4,529	2,811
Retirement	35,528	85,003	(49,475)
Rule hearings and publications	5,000	2,085	2,915

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Secretarial salaries	49,485	49,001	484
Telephone	4,000	2,928	1,072
Travel and meetings	67,500	49,480	18,020
Training	2,000	1,636	364
Vacation pay	16,036	19,256	(3,220)
Total operating expenses	1,124,315	1,198,514	(74,199)
Net operating revenues under expenses	(197,640)	(21,081)	324,957

	Budget	**Actual**	**Variance Favorable (Unfavorable)**
NON-OPERATING REVENUES (EXPENSES)			
Interest income	5,000.00	2,209	(2,791)
REVENUE UNDER EXPENSES	$(192,640)	$ (18,872)	$ 322,166

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*

	As of measurement date of:			
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Employer's proportion of the net pension liability (asset)	0.023503%	0.022110%	0.0216780%	0.023578%
Employer's proportionate share of the net pension liability (asset)	$ 396,639	$ 355,380	$ 211,273	$ 160,326
Employer's covered-employee payroll	$ 241,452	$ 225,704	$ 218,460	$ 210,048
Employer's proportionate share of the net pension liability (asset) liability as a percentage of its covered-employee payroll	164.27%	157.45%	96.71%	76.33%
Plan fiduciary net position as a percentage of the total pension liability	89.76%	87.23%	70.46%	77.15%

*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*

	As of measurement date of:			
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Statutorily required contribution	$ 17,784	$ 16,367	$ 15,816	$ 15,955
Contributions in relation to the statutorily required contribution	$ (17,191)	$ (16,070)	$ (15,554)	$ (14,955)
Contribution deficiency (excess)	$ 593	$ 297	$ 262	$ 1,000
Employer's covered-employee payroll	$ 241,452	$ 225,704	$ 218,460	$ 210,048
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%	7.60%

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

Changes of Assumptions

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 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.

NORTH DAKOTA STATE BOARD OF PHARMACY

SCHEDULE OF EMPLOYER'S SHARE OF NET OTHER POST-EMPLOYMENT BENEFITS LIABILITY
ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 10 FISCAL YEARS*

	As of measurement date of:	
	June 30, 2018	June 30, 2017
Employer's proportion of the net OPEB liability (asset)	0.022066%	0.020863%
Employer's proportionate share of the net OPEB liability (asset)	$ 17,378	$ 16,503
Employer's covered-employee payroll	$ 241,452	$ 225,704
Employer's proportionate share of the net OPEB liability (asset) liability as a percentage of its covered-employee payroll	7.20%	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	7.20%	7.31%

*Complete data for this schedule is not available prior to fiscal year 2017.

NORTH DAKOTA STATE BOARD OF PHARMACY

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

	As of measurement date of: June 30, 2018	June 30, 2017
Statutorily required contribution	$ 2,832	$ 2,624
Contributions in relation to the statutorily required contribution	$ (2,752)	$ (2,573)
Contribution deficiency (excess)	$ 80	$ 51
Employer's covered-employee payroll	$ 241,452	$ 255,704
Contributions as a percentage of covered-employee payroll	1.14%	1.14%

*Complete data for this schedule is not available prior to fiscal year 2017.

Changes in assumptions

Amounts reported in the 2019 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes in the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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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 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **North Dakota State Board of Pharmacy** as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise **North Dakota State Board of Pharmacy**'s basic financial statements, and have issued our report thereon dated July 16, 2020.

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 **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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. 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:2019-001, 2019-002, 2019-003, 2019-004, 2019-005 and 2019-006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **North Dakota State Board of Pharmacy**'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

North Dakota State Board of Pharmacy's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. **North Dakota State Board of Pharmacy**'s response was not subjected 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 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.

Schmitz-Hormsthon LLP

Bismarck, North Dakota
July 16, 2020

NORTH DAKOTA STATE BOARD OF PHARMACY

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

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 2019-001 (SIGNIFICANT DEFICIENCY) – PREPARATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) FINANCIAL STATEMENTS

Condition

Schmitz-Holmstrom LLP 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.

FINDING 2018-2019 (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 2019-003 (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

Schmitz-Holmstrom LLP assisted the Board with the entries in the current and prior years out of convenience.

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 2019-004 (CONTROL DEFICIENCY) – PASSWORDS FOR LOGINS

Condition

During audit procedures performed, Schmitz-Holmstrom identified that there were no logins for the Executive Director's laptop and for some users in QuickBooks.

Criteria

Proper internal controls indicate that all computers and programs have a username and password to login.

Cause of Condition

No passwords were needed to login to the Executive Director's laptop or into some users in QuickBooks.

Effect

The data on the laptop and in QuickBooks is not secure

Recommendation

We recommend that a password is added to the Executive Director's laptop and to all users in QuickBooks.

Response

The Board agrees that the password changes that are suggested will be implemented.

FINDING 2019-005 (CONTROL DEFICIENCY) – REVIEWING JOURNAL ENTRIES

Condition

During audit procedures performed, Schmitz-Holmstrom LLP identified that the board does not review journal entries made by the Executive Director.

Criteria

Proper internal controls indicate that all financial transactions be reviewed.

Effect

Not all financial transactions are being reviewed

Recommendation

We recommend that the board review all journal entries made by the Executive Director at each board meeting.

Response

The Board agrees and will implement a review of journal entries by a board member at each board meeting.

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July 16, 2020

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, as of and for the years ended June 30, 2019 and 2018, and have issued our report thereon dated July 16, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated September 25, 2019, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Board solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated July 16, 2020.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Board is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, during the year, the entity changed its method of accounting for other post employment benefits (OPEB) by adopting Governmental Accounting Standards Board (GASB) Statement No. 74 – Financial reporting for postemployment benefit plans other than pension plans, and Statement No. 75 – Accounting sand financial reporting for postemployment benefits other than pensions. Accordingly, the cumulative effect of the accounting change as of the beginning of the year has been reported in the Statement of Activities. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are pension and other post-employment benefits (OPEB) liability, vacation accruals, and depreciation expense.

Management's estimate of the pension and OPEB liability is based on the Board's percentage of the total net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense of the North Dakota Public Employees Retirement System (NDPERS). We evaluated key factors and assumptions used to calculate the total net pension and OPEB liability of the NDPERS and the Board's percentage, and determined that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of vacation accruals is based on actual vacation hours available to each employee multiplied by an average hourly rate. We evaluated key factors and assumptions used to develop the estimate of vacation accruals and determined that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation expense is based on the estimated useful lives of property and equipment. We evaluated key factors and assumptions used to develop the estimate of depreciation expense and determined that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Board's financial statements relate to *revenue recognition and fair value estimates.*

Identified or Suspected Fraud

We have not identified or obtained information indicating that fraud may have occurred.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The attached schedule summarizes uncorrected misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements take as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Board's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated July 16, 2020.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Board, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Board's auditors.

Schmitz-Holmstrom, LLP

Schmitz-Holmstrom, LLP
July 16, 2020

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July 16, 2020

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

In planning and performing our audit of the business-type activities of the North Dakota State Board of Pharmacy (the Board) as of and for the years ended June 30, 2019 and 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- **Reasonably possible** - The chance of the future event or events occurring is more than remote but less than likely.

- **Probable** - The future event or events are likely to occur.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the entity's internal control to be significant deficiencies:

Preparation of GAAP Financial Statements

Schmitz-Holmstrom, LLP provided assistance to management with preparing financial statements, including assistance with preparing footnote disclosures, in conformity with generally accepted accounting principles (GAAP) in the United States of America. This is not unusual in organizations of this size, but we believe management should be aware of this condition. Proper internal controls provide for management to be responsible and capable of preparing financial statements in conformity with GAAP. Without the assistance of the independent accountant, the financial statements could be materially misstated and could omit significant disclosures.

We recommend management review all journal entries, financial statement groupings, and schedules documenting the calculation of amounts included in the notes to the financial statements. In addition, we recommend management review and answer a current disclosure checklist from the American Institute of Certified Public Accountants to ensure propriety and completeness of the footnotes.

Segregation of Duties

The limited number of accounting personnel prevents proper segregation of duties necessary to ensure adequate internal control. This is not unusual in organizations of this size, but we believe management should constantly be aware of these condition and realized that concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Proper internal controls provide that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

To reduce the risks created by the limited staff size, we recommend that the Board of Directors 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.

Pension and Other Post-Employment Benefits (OPEB) Liability Entries

Schmitz-Holmstrom, LLP provided assistance to management with preparing adjusting accounting entries to record the Board's share of net pension and other post-employment benefits (OPEB) liabilities in conformity with GAAP, including entries to record net pension and OPEB expenses, and deferred outflows and inflows of resources. Proper internal controls provide for the Board's staff to make entries necessary to adjust net pension and OPEB liabilities, including net pension and OPEB expenses, and deferred outflows and inflows of resources.

We recommend management ensure accounting entries are made, prior to audit field work, to record the Board's share of net pension and OPEB liabilities in conformity with GAAP, including entries to record net pension and OPEB expenses, and deferred outflows and inflows of resources. We recommend management contact the North Dakota Public Employees Retirement System to obtain proper reports to determine amounts to record.

Material Adjusting Journal Entries

During audit procedures performed, Schmitz Holmstrom, LLP proposed material adjusting journal entries that would not have been identified by the Board's existing internal control structure. As a result, it is possible that a material error in the Board's financial statements may occur. An effective internal control structure should ensure that all material adjustments are recorded in accordance with GAAP. It is the responsibility of management and those charged with governance to determine an appropriate and acceptable degree of risk.

We recommend the Board implement a proper internal control structure to ensure all material adjustments are recorded in accordance with GAAP.

A control deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a significant deficiency, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the entity's internal control to be control deficiencies:

Computer Login and Password Safeguards

During audit testing, it was identified that login and password safeguards were not being implemented properly. As a result, employees were able to access computer data without being required to login with a username or password. Proper computer login and password safeguards are necessary to ensure financial data is secure.

We recommend the Board implement and enforce proper computer login and password safeguards to ensure financial data is secure.

Oversight of Posting Journal Entries

During audit testing, it was identified that the Board does not review accounting entries that are keyed into the accounting system by the executive director. As a result, not all financial transactions are being reviewed by the Board of Directors. Proper internal controls include ensuring that all financial transactions are being reviewed.

We recommend the Board develop procedures to ensure all financial transactions are being reviewed properly.

None of the identified significant deficiencies are considered to be material weaknesses.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Schmitz-Holmstrom, LLP

Schmitz-Holmstrom, LLP
July 16, 2020