

**NORTH DAKOTA STATE
BOARD OF PHARMACY**

**FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

WITH INDEPENDENT AUDITOR'S REPORT

NORTH DAKOTA STATE BOARD OF PHARMACY

**TABLE OF CONTENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>Page(s)</u>
OFFICERS AND MEMBERS OF THE BOARD	1
INDEPENDENT AUDITOR'S REPORT	2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-6
FINANCIAL STATEMENTS	
Statements of Net Position	7-8
Statements of Revenues and Expenses and Changes in Net Position	9-10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-28
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Employer's Share of Net Pension Liability	29
Schedule of Employer Contributions	30
Schedule of Employer's Share of Other Post-Employment Benefits Liability	31
Schedule of Employer Contributions	32
Notes to the Required Supplementary Information	33
SUPPLEMENTARY INFORMATION	
Statement of Revenues and Expenses - Compared to Budget	34-35
Notes to Statement of Revenues and Expenses - Compared to Budget	36
OTHER REPORTS	
Independent Auditor's Report on Internal Control Over Financial Reporting And Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37-38
Schedule of Findings and Responses	39-40

**NORTH DAKOTA STATE BOARD OF PHARMACY
OFFICERS AND MEMBERS OF THE BOARD
JUNE 30, 2020**

			<u>Term Expires</u>
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	5/8/2025
Shane R. Wendel, R.Ph.	Carrington	Member	5/8/2024
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

1406 West Century Ave.
Bismarck, ND 58503
701.221.2659

102 Main St. West
P.O. Box 385
Hazen, ND 58545
701.748.6213

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 North Dakota State Board of Pharmacy, an enterprise fund of the State of North Dakota, as of and for the years ended June 30, 2020 and 2019, 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 North Dakota State Board of Pharmacy, as of June 30, 2020 and 2019, and the results of its operations 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, 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 5-6 and pages 29-33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise North Dakota State Board of Pharmacy's basic financial statements. The statement of revenues and expenses – compared to budget and notes to the statement of revenues and expenses – compared to budget are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statement of revenues and expenses – compared to budget and notes to statement of revenues and expenses – compared to budget is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statement of revenues and expenses – compared to budget and notes to the statement of revenues and expenses – compared to budget is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2021 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-Holbertson LLP

Bismarck, North Dakota
December 6, 2021

NORTH DAKOTA STATE BOARD OF PHARMACY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020

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, 2020. 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 have 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 \$87,000. During the years ended June 30, 2020 and 2019, \$87,000 and \$149,900 were expended, respectively. In aggregate, the Board received \$236,900 through the year ended June 30, 2020.

In comparing the budgeted figures with actual, there was approximately \$151,000 less in actual expenses than budgeted expenses and approximately \$99,000 more in actual revenues than budgeted revenues. Expenses incurred by the Board were less than budgeted due to less travel and legal expenses. 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 STATE BOARD OF PHARMACY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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, and 3) 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 \$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 \$172,000 and deferred inflows of resources related to other post-employment benefits and pensions were approximately \$828,000. 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 2020 were approximately \$1,087,000, a decrease of about \$90,000 from the prior year. Total expenses for fiscal year 2020 was approximately \$1,032,000, a decrease from the prior year of approximately \$166,000. This resulted in an increase in net position of approximately \$81,000.

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, 2020 AND 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,421,280	\$ 840,311
Certificates of deposit	195,726	620,280
Accounts receivable	-	2,400
Accrued interest receivable	<u>1,239</u>	<u>1,239</u>
Total current assets	<u>1,618,245</u>	<u>1,464,230</u>
NONCURRENT ASSETS		
Certificates of deposit	<u>100,000</u>	<u>100,000</u>
CAPITAL ASSETS		
Office equipment	15,793	15,793
Database and software	35,809	35,809
Accumulated depreciation	<u>(50,769)</u>	<u>(49,769)</u>
Total capital assets	<u>833</u>	<u>1,833</u>
Total assets	<u>1,719,078</u>	<u>1,566,063</u>
DEFERRED OUTFLOWS OF RESOURCES		
Other post employment benefits plan	6,586	5,759
Pension plan	<u>166,158</u>	<u>195,607</u>
Total deferred outflows of resources	<u>172,744</u>	<u>201,366</u>
Total assets and deferred outflows of resources	<u>\$ 1,891,822</u>	<u>\$ 1,767,429</u>

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF NET POSITION - CONTINUED

JUNE 30, 2020 AND 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2020	2019
CURRENT LIABILITIES		
Accounts payable	\$ 15,248	\$ 9,397
Accrued retirement payable	4,946	4,126
Accrued taxes payable	1,183	1,161
Accrued vacation payable	54,535	46,404
Internship fees payable	21,330	22,680
Total current liabilities	97,242	83,768
LONG-TERM LIABILITIES		
Net other post employment benefits liability	18,074	17,378
Net pension liability	282,938	396,639
Total long-term liabilities	301,012	414,017
Total liabilities	398,254	497,785
DEFERRED INFLOWS OF RESOURCES		
License and registration fees	681,025	656,675
Other post employment benefits plan	595	770
Pension plan	146,634	28,026
Total deferred inflows of resources	828,254	685,471
NET POSITION		
Net investment in capital assets	833	1,833
Unrestricted	664,481	582,340
Total net position	665,314	584,173
Total liabilities, deferred inflows of resources, and net position	\$ 1,891,822	\$ 1,767,429

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Grant revenue	\$ 87,000	\$ 149,000
Internship fees	3,930	4,515
Miscellaneous fees and reimbursements	50,459	86,943
Pharmacist's licenses	163,610	151,735
Pharmacy permits	171,075	172,210
Technician registrations	21,755	23,470
Third party logistics permits	56,000	52,900
Veterinary licenses	4,305	4,585
Wholesale drug licenses	<u>529,200</u>	<u>532,075</u>
Total operating revenues	<u>1,087,334</u>	<u>1,177,433</u>
OPERATING EXPENSES		
Salaries	269,274	254,029
Employee benefits	127,562	131,880
Payroll taxes	20,644	20,181
Compliance and investigation	44,220	44,797
Consulting	8,236	16,814
Contractual	155,650	205,650
Credit card fees	28,352	27,867
Database hosting fee	38,766	28,625
Depreciation	1,000	4,750
Dues and subscriptions	4,084	3,112
Education funding	13,285	11,998
Examinations	1,800	3,961
Legal and accounting	141,133	271,934
Miscellaneous	6,767	6,590
Newsletter	465	465
Office supplies and postage	11,795	10,487
Prescription Drug Monitoring Program	86,594	77,085
Printing	1,000	2,031
Rent	15,600	15,600
Repairs and maintenance	10,801	4,529
Rule hearings and publications	6,667	2,085
Telephone	3,168	2,928
Travel and meetings	35,191	49,480
Training	<u>-</u>	<u>1,636</u>
Total operating expenses	<u>1,032,054</u>	<u>1,198,514</u>
Net operating income (loss)	55,280	(21,081)

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION -
CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NON-OPERATING REVENUE		
Interest income	25,861	2,209
	<hr/>	<hr/>
CHANGE IN NET POSITION	81,141	(18,872)
	<hr/>	<hr/>
NET POSITION, beginning of year	584,173	603,045
	<hr/>	<hr/>
NET POSITION, end of year	<u>\$ 665,314</u>	<u>\$ 584,173</u>

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from license, permits, and fees	\$ 970,295	\$ 927,915
Cash received for internships	2,580	6,495
Cash received for miscellaneous income	139,856	84,543
Cash payments to suppliers	(607,176)	(659,043)
Cash payments to employees	(375,001)	(356,279)
Net cash provided by (used in) operating activities	130,554	3,631
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	25,861	2,209
Proceeds from redemption of certificates of deposit	578,494	-
Purchases of certificates of deposit	(153,940)	-
Net cash provided by investing activities	450,415	2,209
NET CHANGE IN CASH AND CASH EQUIVALENTS	580,969	5,840
CASH AND CASH EQUIVALENTS, beginning of year	840,311	834,471
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,421,280</u>	<u>\$ 840,311</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income (loss)	\$ 55,280	\$ (21,081)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,000	4,750
Change in assets and liabilities:		
Accounts receivable	2,400	(2,400)
Accounts payable	5,851	(20,346)
Accrued retirement payable	820	101
Accrued taxes payable	22	74
Accrued vacation payable	8,131	2,928
Deferred revenue	24,350	(9,060)
Fees payable to internship program	(1,350)	1,980
Net other post employees benefits liability	696	875
Net pension liability	(113,701)	41,259

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY

**STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

Changes in deferred outflows and inflows		
Increase in deferred outflows of resources		
related to pension and OPEB	28,622	(4,058)
Increase in deferred inflows of resources		
related to pension and OPEB	<u>118,433</u>	<u>8,609</u>
Net cash provided by operating activities	<u>\$ 130,554</u>	<u>\$ 3,631</u>

See Notes to Financial Statements

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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.

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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, 2020 and 2019.

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.

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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 related to the pension plan and other post-employment benefits plan.

Compensated Absences

Annual leave is earned based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment. There is no limit on accrued annual leave, as set by the Board. Employees are paid for unused annual leave upon termination or retirement.

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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The Board has three 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 other two items are related to the pension plan and other post-employment benefits plan.

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.

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

The Board has a goal is to set aside unrestricted net position in the amount equal 100% of the next year's anticipated operating costs. As of June 30, 2020 that amount is \$1,137,765.

When both unrestricted and restricted resources are available for use, it is the Board's policy to use restricted resources first, and then unrestricted 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 \$87,000 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 for the year ended June 30, 2020.

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.

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2 – PRIOR PERIOD ADJUSTMENT

In fiscal year 2019, the Board adopted GASB No. 75, which required a prior period adjustment to record net OPEB liability and deferred outflows as of July 1, 2019; the cumulative effect on implementing these GASB statements was an increase in net OPEB liability of \$17,378, a decrease in deferred outflows of \$5,759, and an increase in deferred inflows of \$770, and a decrease in unrestricted net assets of \$79,233 on the statement of net position for the fiscal year ended June 30, 2019.

NOTE 3 — CASH AND CERTIFICATES OF DEPOSITS

The Board's 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, 2020, the Board had deposits and certificates of deposit with a carrying amount of \$1,611,031 at BNC National Bank. At June 30, 2020, all deposits were fully insured. The Board had a certificate of deposit with a carrying amount of \$100,000 at Bank of Turtle Lake. As June 30, 2020, the certificate of deposit was fully insured.

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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, 2020 and 2019 was \$14,350 and \$16,313, respectively. As of June 30, 2020 and 2019, 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, 2020 and 2019, the Board owed the North Dakota State University School of Pharmacy \$21,330 and \$22,680, 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

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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 June 30, 2020, the Employer reported a liability of \$18,074 for its proportionate share of the net OPEB liability that was measured as of June 30, 2019, 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. June 30, 2019, the Employer's proportion was 0.022503%, which was an increase of .001640% from its proportion measured as of June 30, 2018.

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

For the year ended June 30, 2020, the Employer recognized OPEB expense of \$2,598. At June 30, 2020 the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 447	\$ 565
Changes of assumptions	2,154	-
Net difference between projected and actual earnings on pension plan investments	20	-
Changes in proportion and differences between employer employer contributions and proportionate share of contributions	835	30
Employer contributions subsequent to the measurement date	<u>3,130</u>	<u>-</u>
	<u>\$ 6,586</u>	<u>\$ 595</u>

\$3,130 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, 2021.

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:	
2020	\$ 472
2021	472
2022	640
2023	609
2024	425
2025	208
Thereafter	35

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Actuarial Assumptions

The total OPEB liability in the July 01, 2019, 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	7.25%, 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, 2020, estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large cap domestic equities	33%	6.00%
Small cap domestic equities	6%	7.30%
International equities	40%	2.07%
Core-Plus fixed income	21%	6.95%

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, 2019, 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.

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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, 2019, 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	<u>\$ 23,069</u>	<u>\$ 18,074</u>	<u>\$ 13,798</u>

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

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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. For members hired on or after January 1, 2020, member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

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

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

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

At June 30, 2020, the Employer reported a liability of \$282,938 for its proportionate share of the net pension liability. The net pension liability was measured as of July 01, 2019, 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, 2019, the Employer's proportion was 0.024140%, which was an increase of 0.000637% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Employer recognized pension expense of \$53,767. At June 30, 2020, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 167	\$ 51,348
Changes of assumptions	105,727	90,775
Net difference between projected and actual earnings on pension plan investments	4,929	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	15,484	4,511
Employer contributions subsequent to the measurement date	<u>39,851</u>	<u>-</u>
	<u>\$ 166,158</u>	<u>\$ 146,634</u>

\$39,851 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, 2021.

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 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:

2020	\$ 11,655
2021	5,433
2022	(6,078)
2023	(23,594)
2024	(7,743)

Actuarial assumptions

The total pension liability in the July 01, 2019 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 7.50%, 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 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

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

class included in the Fund's target asset allocation as of June 30, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	30%	6.25%
International equity	21%	6.95%
Private equity	7%	10.15%
Domestic fixed income	23%	2.11%
International fixed income	0%	0.00%
Global real assets	19%	5.41%
Cash equivalents	0%	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, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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, 2020 calculated using the discount rate of 7.50 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 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	<u>\$ 405,673</u>	<u>\$ 282,938</u>	<u>\$ 179,820</u>

Pension plan fiduciary net position

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

NOTE 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 2020 and 2019 were \$21,746 and \$23,170, respectively. In 2020 and 2019 there were \$600 and \$-0-, respectively, in accounts payable due to board members.

NOTE 9 – CONTINGENCIES

The Board entered into an agreement with Appriss, Inc. on April 1, 2020 for the PMP AWARe License. The license is for software used for the Prescription Monitoring Program. The agreement is for 4 years and expires on March 30, 2025. Annual payments total \$168,420. 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, expires on June 30, 2020 and renews for one year on yearly basis. As of December 31, 2020, the Board had 109 receptacles across North Dakota ranging in price of \$46 to \$112 per receptacle. Approximate annual payments for MedSafe in fiscal year 2020 and 2019 was \$50,772.

NORTH DAKOTA STATE BOARD OF PHARMACY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

	<u>PMP Software</u>	<u>Apriss MedSafe</u>	<u>Total</u>
2021	\$ 168,420	\$ 50,772	\$ 219,192
2022	168,420	-	168,420
2023	168,420	-	168,420
2024	168,420	-	168,420
	<u>\$ 673,680</u>	<u>\$ 50,772</u>	<u>\$ 724,452</u>

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.

The Board has evaluated subsequent events through December 6, 2021, the date, which the financial statements were available to be issued.

NORTH DAKOTA STATE BOARD OF PHARMACY

**REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

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

<u>As of measurement date:</u>	<u>Employer's proportion of the net pension liability (asset)</u>	<u>Employer's proportionate share of the net pension liability (asset)</u>	<u>Employer's covered- employee payroll</u>	<u>Employer's proportionate share of the net pension liability (asset) liability as a percentage of its covered- employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
June 30, 2019	0.024140%	\$ 282,938	\$ 251,100	126.68%	104.84%
June 30, 2018	0.023503%	396,639	241,452	164.27%	89.76%
June 30, 2017	0.022110%	355,380	255,704	157.45%	87.23%
June 30, 2016	0.021678%	211,273	218,460	96.71%	70.46%
June 30, 2015	0.023578%	160,326	210,048	76.33%	77.15%
June 30, 2014	0.023180%	147,128	195,261	75.35%	77.70%

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

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

As of measurement date:	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employee's covered- employee payroll	Contributions as a percentage of covered- employee payroll
June 30, 2019	\$ 18,281	\$ (17,878)	\$ 403	\$ 251,100	7.12%
June 30, 2018	17,784	(17,191)	593	241,452	7.12%
June 30, 2017	16,367	(16,070)	297	225,704	7.12%
June 30, 2016	15,816	(15,554)	262	218,460	7.12%
June 30, 2015	15,955	(14,955)	1,000	210,048	7.60%
June 30, 2014	13,903	(13,903)	-	195,261	7.12%

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

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:	Employer's proportion of the net OPEB liability (asset)	Employer's proportionate share of the net OPEB liability (asset)	Employer's covered- employee payroll	Employer's proportionate share of the net OPEB liability (asset) liability as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
June 30, 2019	0.022503%	\$ 18,074	\$ 251,100	7.20%	7.20%
June 30, 2018	0.022066%	17,378	241,452	7.20%	7.31%
June 30, 2017	0.020863%	16,503	255,704	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:	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employee's covered- employee payroll	Contributions as a percentage of covered- employee payroll
June 30, 2019	\$ 2,920	\$ (2,862)	\$ 58	\$ 251,100	1.14%
June 30, 2018	2,832	(2,752)	80	241,452	1.14%
June 30, 2017	2,624	(2,753)	51	225,704	1.14%

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

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED June 30, 2020

Pension

Changes of benefit terms.

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes of assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

OPEB

Changes of benefit terms.

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

North Dakota State Board of Pharmacy

SUPPLEMENTARY INFORMATION

June 30, 2020

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET FOR THE YEAR ENDED JUNE 30, 2020

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Grant revenue	\$ -	\$ 87,000	\$ 87,000
Internship fees	3,750	3,930	180
Miscellaneous fees and reimbursements	28,350	50,459	22,109
Pharmacist's licenses	157,900	163,610	5,710
Pharmacy permits	174,000	171,075	(2,925)
Technician registrations	23,150	21,755	(1,395)
Third party logistic permits	55,000	56,000	1,000
Veterinary licenses	4,325	4,305	(20)
Wholesale drug licenses	542,000	529,200	(12,800)
Total operating revenues	<u>988,475</u>	<u>1,087,334</u>	<u>98,859</u>
OPERATING EXPENSES			
Compliance and investigation	55,000	44,220	10,780
Consulting	15,000	8,236	6,764
Contractual	130,000	155,650	(25,650)
Credit card fees and bank fees	20,200	28,352	(8,152)
Data base hosting fee	45,000	38,766	6,234
Depreciation	-	1,000	(1,000)
Dues and subscriptions	3,950	4,084	(134)
Education funding	19,500	13,285	6,215
Examinations	2,000	1,800	200
Executive director salary	163,300	154,506	8,794
Health and life insurance	51,076	53,661	(2,585)
Legal and accounting	283,000	141,133	141,867
Miscellaneous	8,018	6,766	1,252
Newsletter	1,500	465	1,035
Office supplies and postage	11,000	11,795	(795)
Payroll taxes	20,313	20,644	(331)
PDMP salaries	46,388	43,490	2,898
Prescription Drug Monitoring Program	90,000	86,594	3,406
Printing	6,500	1,000	5,500
Rent	15,600	15,600	-
Repairs and maintenance	7,400	10,801	(3,401)
Retirement	39,848	73,901	(34,053)
Rule hearings and publications	5,000	6,667	(1,667)
Secretarial salaries	51,455	51,209	246
Telephone	4,000	3,168	832
Travel and meetings	69,500	35,191	34,309
Training	2,000	-	2,000
Vacation pay	17,000	20,070	(3,070)
Total operating expenses	<u>1,183,548</u>	<u>1,032,054</u>	<u>151,494</u>
Net operating revenues under expenses	(195,073)	55,280	(52,635)

NORTH DAKOTA STATE BOARD OF PHARMACY

**STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	<u>5,000</u>	<u>25,861</u>	<u>20,861</u>
REVENUE UNDER EXPENSES	<u>\$ (190,073)</u>	<u>\$ 81,141</u>	<u>\$ (31,774)</u>

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET FOR THE YEAR ENDED JUNE 30, 2020

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.



**SCHMITZ-
HOLMSTROM**
CERTIFIED PUBLIC ACCOUNTANTS

1400 West Century Ave.
Bismarck, ND 58503
701.221.2655

102 Main St. West
P.O. Box 385
Hazen, ND 58545
701.748.6213

**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, 2020, 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 December 6, 2021.

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: 2020-001, 2020-002.

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 responses 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** responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Schmitz - Holubren, LLP

Bismarck, North Dakota
December 6, 2021

NORTH DAKOTA STATE BOARD OF PHARMACY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

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 2020-001 (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.

NORTH DAKOTA STATE BOARD OF PHARMACY
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2020

FINDING 2020-002 (SIGNIFICANT DEFICIENCY) – SEGREGATION OF DUTIES

Condition

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

Criteria

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

Effect

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

Recommendation

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

Response

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