

**NORTH DAKOTA STATE  
BOARD OF PHARMACY**

**FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

WITH INDEPENDENT AUDITOR'S REPORT

**NORTH DAKOTA STATE BOARD OF PHARMACY**

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FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

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**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**OFFICERS AND MEMBERS OF THE BOARD**  
**JUNE 30, 2021**

			<u>Term Expires</u>
Tyler Lannoye, PharmD	Leeds	President	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

## *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, as of and for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, 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, 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.

The statement of revenues and expenses – compared to budget and notes to statement of revenues and expenses – compared to budget has not been subjected to the auditing procedures

applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2023 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 solely to describe the scope of our testing of internal control over the effectiveness of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota State Board of Pharmacy's internal control over financial reporting and compliance.



Bismarck, North Dakota  
March 16, 2023

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

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

**JUNE 30, 2021**

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, 2021. 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, 2021 and 2020, \$87,000 was expended, respectively. In aggregate, the Board received \$323,900 through the year ended June 30, 2021.

In comparing the budgeted figures with actual, there was approximately \$72,000 more in actual expenses than budgeted expenses and approximately \$33,000 more in actual revenues than budgeted revenues. Expenses incurred by the Board were more than budgeted due to more legal and retirement expenses. The increase in actual revenues over budgeted revenues is due to more grant revenue than anticipated.

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

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

**JUNE 30, 2021**

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 \$-0-. 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 \$486,000 and deferred inflows of resources related to other post-employment benefits, pensions, and licenses and fees were approximately \$846,000. 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 2021 were approximately \$1,100,000, an increase of about \$13,000 from the prior year. Total expenses for fiscal year 2021 was approximately \$1,209,000, an increase from the prior year of approximately \$177,000. This resulted in a decrease in net position of approximately \$107,000.

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, 2021 AND 2020**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2021</b>	<b>2020</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,607,020	\$ 1,421,280
Certificates of deposit	155,961	195,726
Accrued interest receivable	-	1,239
Total current assets	1,762,981	1,618,245
<b>NONCURRENT ASSETS</b>		
Certificates of deposit	139,766	100,000
<b>CAPITAL ASSETS</b>		
Office equipment	15,793	15,793
Database and software	35,809	35,809
Accumulated depreciation	(51,602)	(50,769)
Total capital assets	-	833
Total assets	1,902,747	1,719,078
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Other post employment benefits plan	7,737	6,586
Pension plan	478,521	166,158
Total deferred outflows of resources	486,258	172,744
Total assets and deferred outflows of resources	\$ 2,389,005	\$ 1,891,822

See Notes to Financial Statements

# NORTH DAKOTA STATE BOARD OF PHARMACY

## STATEMENTS OF NET POSITION - CONTINUED JUNE 30, 2021 AND 2020

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>2021</u>	<u>2020</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 132,781	\$ 15,248
Accrued retirement payable	5,079	4,946
Accrued taxes payable	961	1,183
Accrued vacation payable	63,849	54,535
Internship fees payable	<u>18,630</u>	<u>21,330</u>
Total current liabilities	<u>221,300</u>	<u>97,242</u>
<b>LONG-TERM LIABILITIES</b>		
Net other post employment benefits liability	19,270	18,074
Net pension liability	<u>744,758</u>	<u>282,938</u>
Total long-term liabilities	<u>764,028</u>	<u>301,012</u>
Total liabilities	<u>985,328</u>	<u>398,254</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
License and registration fees	734,674	681,025
Other post employment benefits plan	485	595
Pension plan	<u>110,576</u>	<u>146,634</u>
Total deferred inflows of resources	<u>845,735</u>	<u>828,254</u>
<b>NET POSITION</b>		
Net investment in capital assets	-	833
Unrestricted	<u>557,942</u>	<u>664,481</u>
Total net position	<u>557,942</u>	<u>665,314</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 2,389,005</u></u>	<u><u>\$ 1,891,822</u></u>

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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<b>OPERATING REVENUES</b>		
Grant revenue	\$ 87,000	\$ 87,000
Internship fees	3,570	3,930
Miscellaneous fees and reimbursements	41,832	50,459
Pharmacist's licenses	162,855	163,610
Pharmacy permits	184,275	171,075
Technician registrations	23,645	21,755
Third party logistics permits	59,600	56,000
Veterinary licenses	5,040	4,305
Wholesale drug licenses	<u>532,500</u>	<u>529,200</u>
 Total operating revenues	 <u>1,100,317</u>	 <u>1,087,334</u>
<b>OPERATING EXPENSES</b>		
Salaries	280,904	269,274
Employee benefits	208,875	127,562
Payroll taxes	20,207	20,644
 Compliance and investigation	 18,218	 44,220
Consulting	4,260	8,236
Contractual	152,000	155,650
Credit card fees	29,135	28,352
Database hosting fee	28,243	38,766
Depreciation	833	1,000
Dues and subscriptions	4,307	4,084
Education funding	29,500	13,285
Examinations	2,033	1,800
Legal and accounting	289,010	141,133
Miscellaneous	7,080	6,767
Newsletter	710	465
Office supplies and postage	8,481	11,795
Prescription Drug Monitoring Program	89,230	86,594
Printing	1,334	1,000
Rent	15,600	15,600
Repairs and maintenance	3,316	10,801
Rule hearings and publications	-	6,667
Telephone	2,688	3,168
Travel and meetings	<u>13,475</u>	<u>35,191</u>
 Total operating expenses	 <u>1,209,439</u>	 <u>1,032,054</u>
 Net operating income (loss)	 (109,122)	 55,280

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, 2021 AND 2020**

**NON-OPERATING REVENUE**

Interest income	<u>1,750</u>	<u>25,861</u>
CHANGE IN NET POSITION	(107,372)	81,141
<b>NET POSITION</b> , beginning of year	<u>665,314</u>	<u>584,173</u>
<b>NET POSITION</b> , end of year	<u><u>\$ 557,942</u></u>	<u><u>\$ 665,314</u></u>

See Notes to Financial Statements

# NORTH DAKOTA STATE BOARD OF PHARMACY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from license, permits, and fees	\$ 1,021,565	\$ 970,295
Cash received for internships	870	2,580
Cash received for miscellaneous income	128,835	139,856
Cash payments to suppliers	(579,852)	(607,176)
Cash payments to employees	(387,427)	(375,001)
	<u>183,991</u>	<u>130,554</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	1,749	25,861
Proceeds from redemption of certificates of deposit	-	578,494
Purchases of certificates of deposit	-	(153,940)
	<u>1,749</u>	<u>450,415</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	185,740	580,969
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,421,280</u>	<u>840,311</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 1,607,020</u></u>	<u><u>\$ 1,421,280</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net operating income (loss)	\$ (109,122)	\$ 55,280
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	833	1,000
Change in assets and liabilities:		
Accounts receivable	-	2,400
Accrued interest receivable	1,239	-
Accounts payable	117,533	5,851
Accrued retirement payable	133	820
Accrued taxes payable	(222)	22
Accrued vacation payable	9,314	8,131
Deferred revenue	53,649	24,350
Fees payable to internship program	(2,700)	(1,350)
Net other post employees benefits liability	1,196	696
Net pension liability	461,820	(113,701)

See Notes to Financial Statements

**NORTH DAKOTA STATE BOARD OF PHARMACY**

**STATEMENTS OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

Changes in deferred outflows and inflows		
Increase in deferred outflows of resources		
related to pension and OPEB	(313,514)	28,622
Increase in deferred inflows of resources		
related to pension and OPEB	<u>(36,168)</u>	<u>118,433</u>
Net cash provided by operating activities	<u>\$ 183,991</u>	<u>\$ 130,554</u>

See Notes to Financial Statements

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

### **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 criterion 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, 2021 AND 2020**

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, 2021 and 2020.

***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, 2021 AND 2020**

***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 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 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, 2021 AND 2020**

**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, 2021 that amount is \$1,209,881.

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, 2021.

***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, 2021 AND 2020**

**NOTE 2 — 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 .45% 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, 2021, the Board had deposits and certificates of deposit with a carrying amount of \$1,810,149 at BNC National Bank. At June 30, 2021, 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, 2021, 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, 2021 AND 2020**

**NOTE 3 — PHARMACY TECHNICIAN ASSOCIATION DUES**

The Board is required to collect the annual dues for the Northland Association of Pharmacy Technicians and remit these dues to the organization during the year. The fee is \$35, half of which is retained by the Board and half of which is remitted to the organization. The total remitted to this organization during the years ended June 30, 2021 and 2020 was \$14,700 and \$14,350, respectively. As of June 30, 2021 and 2020, the Board owes the Northland Association of Pharmacy Technicians' \$-0- for annual dues collected by the Board that has yet to remit to the organization.

**NOTE 4 – NORTH DAKOTA STATE UNIVERSITY INTERNSHIP FEES**

Starting in fiscal year 2018, the Board collects internship fees for North Dakota State University School of Pharmacy internship program. The fee is \$100, of which \$10 is retained by the Board and \$90 is remitted to the University. The fees are remitted to the University each January. As of June 30, 2020 and 2019, the Board owed the North Dakota State University School of Pharmacy \$18,630 and \$21,330, respectively, for annual dues collected by the Board that have yet to be remitted to the School.

**NOTE 5 – 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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental vision or long-term care plan premium expense. 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-

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

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. 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 were no other benefit changes during the year.

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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, 2021, the Employer reported a liability of \$19,270 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, 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, 2020, the Employer's proportion was 0.022908%, which was an increase of .000405% from its proportion measured as of June 30, 2019.

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

For the year ended June 30, 2021, the Employer recognized OPEB expense of \$3,000. At June 30, 2021 the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 426	\$ 462
Changes of assumptions	2,584	-
Net difference between projected and actual earnings on pension plan investments	663	-
Changes in proportion and differences between employer employer contributions and proportionate share of contributions	846	23
Employer contributions subsequent to the measurement date	3,251	-
	<u>\$ 7,770</u>	<u>\$ 485</u>

\$3,251 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, 2022.

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:	
2022	\$ 845
2023	1,016
2024	985
2025	797
2026	356
Thereafter	35

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

***Actuarial Assumptions***

The total OPEB liability in the July 01, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	6.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the PM-2019scale.

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. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2020 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Large cap domestic equities	33%	6.10%
Small cap domestic equities	6%	7.00%
Domestic fixed income	40%	1.15%
International equities	21%	6.45%

***Discount Rate***

The discount rate used to measure the total OPEB liability was 6.50%. 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

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

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, 2020, calculated using the discount rate of 6.50%, 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 (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current rate:

	<b>1% Decrease (5.50%)</b>	<b>Current Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
Employer's proportionate share of net pension liability	\$ 25,273	\$ 19,270	\$ 14,194

**NOTE 6 — 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 was 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. For members hired on or after January 1, 2020 the 2% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

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. 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:

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

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, 2021, the Employer reported a liability of \$744,758 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the Employer's proportion was 0.023673%, which was an decrease of 0.000467% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Employer recognized pension expense of \$133,590. At June 30, 2021, 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	\$ 2,899	\$ 37,738
Changes of assumptions	399,237	66,004
Net difference between projected and actual earnings on pension plan investments	24,037	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,903	6,837
Employer contributions subsequent to the measurement date	<u>41,445</u>	<u>-</u>
	<u>\$ 478,521</u>	<u>\$ 110,579</u>

\$41,445 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, 2022.

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

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:		
2022	\$	96,993
2023		85,739
2024		68,529
2025		75,236
2026		-

***Actuarial assumptions***

The total pension liability in the July 01, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members, and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Domestic equity	30%	6.30%
International equity	21%	6.85%
Private equity	7%	9.75%
Domestic fixed income	23%	1.25%
International fixed income	0%	0.00%
Global real assets	19%	5.01%
Cash equivalents	0%	0.00%

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

***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 7.00%; the municipal bond rate is 2.45%; and the resulting Single Discount Rate is 4.64%.

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 4.64 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 (3.64 percent) or 1-percentage-point higher (5.64 percent) than the current rate:

	<b>1% Decrease (3.64%)</b>	<b>Current Discount Rate (4.64%)</b>	<b>1% Increase (5.64%)</b>
Employer's proportionate share of net pension liability	<u>\$ 966,267</u>	<u>\$ 744,758</u>	<u>\$ 563,509</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 7 — 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 2021 and 2020 were \$9,583 and

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

\$21,746, respectively. In 2021 and 2020 there were \$-0- and \$600, respectively, in accounts payable due to board members.

**NOTE 8 – CONTINGENCIES**

The Board entered into an agreement with Apriss, 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 June 30, 2021, 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 2021 and 2020 was \$89,230 and \$50,772, respectively.

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

	<b>PMP Software</b>	<b>Apriss MedSafe</b>	<b>Total</b>
2022	\$ 168,150	\$ 70,092	\$ 238,242
2023	168,150	-	168,150
2024	168,150	-	168,150
	<u>\$ 504,450</u>	<u>\$ 70,092</u>	<u>\$ 574,542</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 9 — 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 (NDRF), 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 NDRF for its general insurance coverage. The coverage by NDRF is limited to losses of \$1,000,000 per occurrence. No claims from these risks have exceeded insurance coverage in any of the past three years.

**NORTH DAKOTA STATE BOARD OF PHARMACY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**NOTE 10 – SUBSEQUENT EVENTS**

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

The Board has evaluated subsequent events through March 16, 2023, the date, which the financial statements were available to be issued.

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

**REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2021**

**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:	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered- employee payroll	Employer's proportionate share of the net pension liability (asset) liability as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
June 30, 2020	0.023673%	\$ 744,758	\$ 261,144	285.19%	65.83%
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%	77.00%

\*Complete data for this schedule is not available prior to 2014.

**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, 2020	\$ 18,491	\$ (18,594)	\$ (103)	\$ 261,144	7.12%
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 2014.

**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, 2020	0.022908%	\$ 19,270	\$ 261,144	7.38%	7.38%
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, 2020	\$ 3,068	\$ (2,977)	\$ 91	\$ 261,144	1.14%
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, 2021**

### **Pension**

#### ***Changes of benefit terms***

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (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, 2019.

#### ***Changes of assumptions***

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2020 valuation:

- The investment return assumption was lowered from 7.50% to 7.00%
- The assumed rate of price inflation was lowered from 2.50% to 2.25% for the July 1, 2020 valuation
- The assumed rate of total payroll growth was updated for the July 1, 2020 valuation
- Mortality table updates were made for the July 1, 2020 valuation

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

### **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, 2019.

#### ***Changes of assumptions***

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2020 valuation:

- The investment return assumption was lowered from 7.25% to 6.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

# **North Dakota State Board of Pharmacy**

**SUPPLEMENTARY INFORMATION**

**June 30, 2021**

**NORTH DAKOTA STATE BOARD OF PHARMACY**

**STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET  
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>OPERATING REVENUES</b>			
Grant revenue	\$ -	\$ 87,000	\$ 87,000
Internship fees	3,750	3,570	(180)
Miscellaneous fees and reimbursements	115,350	41,832	(73,518)
Pharmacist's licenses	161,000	162,855	1,855
Pharmacy permits	173,000	184,275	11,275
Technician registrations	21,300	23,645	2,345
Third party logistic permits	58,000	59,600	1,600
Veterinary licenses	4,325	5,040	715
Wholesale drug licenses	531,000	532,500	1,500
Total operating revenues	<u>1,067,725</u>	<u>1,100,317</u>	<u>32,592</u>
<b>OPERATING EXPENSES</b>			
Compliance and investigation	50,000	18,218	31,782
Consulting	15,000	4,260	10,740
Contractual	162,000	152,000	10,000
Credit card fees and bank fees	24,200	29,135	(4,935)
Data base hosting fee	50,000	28,243	21,757
Depreciation	-	833	(833)
Dues and subscriptions	4,250	4,307	(57)
Education funding	39,500	29,500	10,000
Examinations	2,000	2,033	(33)
Executive assistant	20,000	-	20,000
Executive director salary	169,832	161,013	8,819
Health and life insurance	53,652	54,096	(444)
Legal and accounting	158,000	289,010	(131,010)
Miscellaneous	8,218	7,080	1,138
Newsletter	1,000	710	290
Office supplies and postage	11,000	8,481	2,519
Payroll taxes	19,915	20,207	(292)
PDMP salaries	48,243	45,357	2,886
Prescription Drug Monitoring Program	90,000	89,230	770
Printing	4,500	1,334	3,166
Rent	15,600	15,600	-
Repairs and maintenance	7,400	3,316	4,084
Retirement	41,442	154,779	(113,337)
Rule hearings and publications	2,500	-	2,500
Secretarial salaries	53,513	53,411	102
Telephone	4,000	2,688	1,312
Travel and meetings	63,000	13,475	49,525
Training	2,000	-	2,000
Vacation pay	17,000	21,123	(4,123)
Total operating expenses	<u>1,137,765</u>	<u>1,209,439</u>	<u>(71,674)</u>
Net operating revenues under expenses	(70,040)	(109,122)	(39,082)

**NORTH DAKOTA STATE BOARD OF PHARMACY**

**STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	<u>3,500</u>	<u>1,750</u>	<u>(1,750)</u>
<b>REVENUE UNDER EXPENSES</b>	<u><u>\$ (66,540)</u></u>	<u><u>\$(107,372)</u></u>	<u><u>\$ (40,832)</u></u>

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

### **NOTES TO STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET FOR THE YEAR ENDED JUNE 30, 2021**

#### **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.



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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**

*Independent Auditor's Report*

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 business-type activities of North Dakota State Board of Pharmacy as of and for the year ended June 30, 2021, 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 March 16, 2023.

***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) 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 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the

accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: 2021-001, 2021-002.

### ***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. 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.



Bismarck, North Dakota  
March 16, 2023

# **NORTH DAKOTA STATE BOARD OF PHARMACY**

## **SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021**

### **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 2021-001 (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, 2021**

**FINDING 2021-002 (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.