

**NORTH DAKOTA STATE
BOARD OF PHARMACY**

**FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

WITH INDEPENDENT AUDITOR'S REPORT

NORTH DAKOTA STATE BOARD OF PHARMACY

BOARD ORGANIZATION

OFFICERS OF THE BOARD

President

Bonnie Thom, R.Ph.
Bismarck

Executive Director

Howard C. Anderson, Jr., R. Ph.
Turtle Lake

MEMBERS OF THE BOARD

Rick L. Detwiller, R. Ph.
Bismarck

Term expires May 2012

Gary W. Dewhirst, R. Ph.
Hettinger

Term expires May 2013

Bonnie J. Thom, R. Ph.
Granville

Term expires May 2014

Laurel Haroldson, R. Ph.
Jamestown

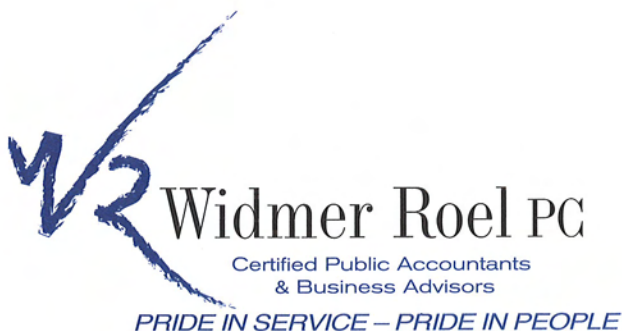
Term expires May 2015

Gayle D. Ziegler, R. Ph.
Fargo

Term expires May 2016

Diane M. Halvorson, R.PhTech.
Fargo

Term expires May 2016



Harris W. Widmer
Charles E. Nord
Stanley N. Sandvik
Terrence P. Delaney
Robert D. Dale
Michael T. Schmitz
Tracee S. Buethner

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the **North Dakota State Board of Pharmacy** (the Board), a component unit of the State of North Dakota, as of and for the year ended June 30, 2011 and 2010, as shown on pages 6 through 9. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the **North Dakota State Board of Pharmacy** are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the **North Dakota State Board of Pharmacy** that is attributable to the transactions of the **North Dakota State Board of Pharmacy**. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the **North Dakota State Board of Pharmacy** as of June 30, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2011 on our consideration of **North Dakota State Board of Pharmacy's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Member of



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 5 and page 15 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.



Bismarck, North Dakota
December 20, 2011

NORTH DAKOTA STATE BOARD OF PHARMACY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
2011 AND 2010

This discussion report is offered as an accompaniment to the audited financial statements of the North Dakota State Board of Pharmacy. It includes a narrative overview of the Board, and its financial activities for the year ended June 30, 2011.

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 is responsible for examining and licensing applicants for licensure as pharmacists, pharmacy technicians and interns. It is also responsible for issuing permits for operating Pharmacies, Wholesale Drug Manufacturer/Distributor/Reverse Distributor/Warehouse and for regulating and controlling the dispensing of prescription drugs, devices and the practice of pharmacy for the protection for the health, welfare and safety of the citizens of North Dakota. There are six members on the Board of Pharmacy, who hire an Executive Director and there is currently one additional administrative assistant, who works for the Board. The Board also operates a Prescription Drug Monitoring Program (PDMP) that employs one full-time employee and a twenty percent time pharmacist for that program. A registered pharmacy technician has been added as a member of the Board during the current year to represent the interests of the registered pharmacy technicians.

The Board owns no real property and maintains their financial assets in cash or cash equivalents, 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 grant funds from the Department of Justice, Office of Justice Programs, to enhance the PDMP program. The grant period, as described in the grant agreement, is from September 1, 2008 through June 30, 2011. Grant funds received will not exceed \$400,000.

During the fiscal year ended June 30, 2011, the Board received a total of \$252,361 in grant funds.

FINANCIAL HIGHLIGHTS

The effect of pharmacy on the general public has been increasing and along with this, the number of licensees has been increasing. The Board continues to expand services to the people of North Dakota and licentiates, but for the last two years has incurred more expenses than revenues generated. The Board continues to look at ways to generate additional revenues and to reduce expenses. Our beginning equity position was approximately \$950,000 and our ending equity position was approximately \$820,000. The Board continues to expand its computer database to offer online renewals and online verification of license information.

OVERVIEW OF FINANCIAL STATEMENTS

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

The Statements of Net Assets presents mostly the cash and cash equivalents held by the Board in addition to office equipment and computer programs with a net book value of \$18,222. The liabilities mostly consist of fees paid in advance and fees due to North Dakota State University College of Pharmacy as part of a statutory obligation. The Board also collects the Pharmacy Technicians' membership fee to the Technicians Association at the time of the Pharmacy Technicians' license renewal. These funds are transferred to the Association at the end of the quarter in which they are collected. 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 Assets comprise the usual activities of income from the licensure and permitting fees, as well as the usual expense in providing those services and for the Board of Pharmacy to fulfill their duties on a state, national and sometimes international basis.

The Statements of Cash Flows reflects the same information as the Statement of Revenues and Expenses with a redemption of a certificate of deposit to help cover operating expenses.

The Board has no short or long-term debt. The Board has no material liabilities other than short-term payroll obligations, deferred license revenue from license fees collected shortly before the license period began, and fees owed to North Dakota State University College of Pharmacy for the internship program. Changes in financial position are the result of general operations and depreciation. These are reflected in the financial statements included herein.

Comparisons of budgeted figures with actual, showed \$205,000 more in actual revenues than budgeted revenues, due to an expectation that more of the grant funds to enhance the Prescription Drug Monitoring Program would be expended in the first year of the grant rather than the second year of the grant, which did not end up happening as the grant funds were expended. Fiscal management and good business environment has positioned the Board with adequate resources and assets to look at some larger projects to benefit the public and profession.

Questions regarding this report may be directed to the Executive Director, Howard C. Anderson, Jr, R.P.H. by telephone (701) 328-9535 – email ndboph@btinet.net or by mail at: PO Box 1354 – Bismarck, ND 58502-1354.

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF NET ASSETS

JUNE 30, 2011 AND 2010

ASSETS	2011	2010
CURRENT ASSETS		
Cash, checking and savings	\$ 315,944	\$ 153,567
Certificates of deposit	371,280	300,000
Grant receivable	75,726	22,101
Accounts receivable	2,876	20,112
Accrued interest receivable	11,095	14,724
Total current assets	776,921	510,504
NONCURRENT ASSETS		
Certificates of deposit	307,946	664,998
CAPITAL ASSETS		
Office equipment, at cost	27,249	27,249
Database and software	74,526	74,526
Accumulated depreciation	(83,553)	(69,244)
Total capital assets	18,222	32,531
Total assets	\$ 1,103,089	\$ 1,208,033
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 12,606	\$ 11,223
Accrued taxes payable	11,539	1,468
Accrued vacation payable	15,756	13,912
Deferred salary	700	700
Fees payable to ND Pharmacy Technician's Association	280	10,868
Deferred revenue	224,800	200,750
Fees payable to internship program	22,950	21,690
Total current liabilities	288,631	260,611
NET ASSETS		
Unrestricted		
Undesignated	73,548	322,150
Designated	722,777	592,830
Net investment in capital assets	18,133	32,442
Total net assets	814,458	947,422
Total liabilities and net assets	\$ 1,103,089	\$ 1,208,033

NORTH DAKOTA STATE BOARD OF PHARMACY

**STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011			2010
	Operating Fund	Grant Fund	Total	
REVENUES				
Pharmacist's license	\$ 135,735	\$ -	\$ 135,735	\$ 129,405
Pharmacy permits	106,925	-	106,925	107,625
Wholesale drug license	131,575	-	131,575	120,310
Internship	4,360	-	4,360	4,440
Technician registration	15,703	-	15,703	16,193
Grant revenue	-	252,361	252,361	83,616
Miscellaneous fees and reimbursements	42,548	-	42,548	64,509
Interest	23,513	-	23,513	32,602
Total revenues	460,359	252,361	712,720	558,700
EXPENSES				
Bad debt expense	12,819	-	12,819	-
Compliance and investigation	17,782	-	17,782	22,198
Consulting	-	236,539	236,539	75,582
Contractual	-	75,512	75,512	12,554
Data base hosting fee	15,759	-	15,759	8,143
Depreciation	14,309	-	14,309	11,521
Dues and subscriptions	3,861	-	3,861	3,831
Education funding	28,348	2,270	30,618	44,605
Examinations	3,700	-	3,700	4,690
Executive director salary	88,710	-	88,710	91,820
Insurance				
Health and life	20,708	10,393	31,101	25,797
Liability	1,719	-	1,719	579
Legal and audit	21,669	-	21,669	24,459
Miscellaneous	40,605	-	40,605	54,958
Office supplies and postage	13,250	8,218	21,468	18,852
Payroll taxes	9,879	3,955	13,834	14,057
PDMP salaries	52,573	-	52,573	53,194
Printing	2,104	-	2,104	5,786
Rent	10,300	1,100	11,400	9,450
Retirement plan	16,256	-	16,256	13,453
Rule hearings/publication	3,488	-	3,488	5,093
Secretarial salaries	54,557	-	54,557	55,416
Telephone	3,045	-	3,045	1,244
Travel and meetings	51,041	13,011	64,052	71,763
Vacation pay	8,204	-	8,204	-
Total expenses	494,686	350,998	845,684	629,045
EXPENSES OVER REVENUES	\$ (34,327)	\$ (98,637)	\$ (132,964)	\$ (70,345)

NORTH DAKOTA STATE BOARD OF PHARMACY

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>Unrestricted</u>		<u>Capital</u>	
	<u>Undesignated</u>	<u>Designated</u>	<u>Assets</u>	<u>Total</u>
June 30, 2009	\$ 616,568	\$ 380,312	\$ 20,887	\$ 1,017,767
Excess of revenues over expenses	(70,345)	-	-	(70,345)
Equipment acquisitions	(23,076)	-	23,076	-
Depreciation	11,521	-	(11,521)	-
Increase designated net assets	<u>(212,518)</u>	<u>212,518</u>	<u>-</u>	<u>-</u>
June 30, 2010	322,150	592,830	32,442	947,422
Excess of expenses over revenues	(132,964)	-	-	(132,964)
Equipment acquisitions	-	-	-	-
Depreciation	14,309	-	(14,309)	-
Increase designated net assets	<u>(129,947)</u>	<u>129,947</u>	<u>-</u>	<u>-</u>
June 30, 2011	<u>\$ 73,548</u>	<u>\$ 722,777</u>	<u>\$ 18,133</u>	<u>\$ 814,458</u>

NORTH DAKOTA STATE BOARD OF PHARMACY

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from license, permits, & fees	\$ 403,400	\$ 383,576
Cash received for internships	5,620	3,740
Cash received from grant income	198,736	88,426
Cash received for interest income	27,142	34,272
Cash received for miscellaneous income	59,784	44,397
Cash payments to suppliers for goods and services	(622,237)	(431,761)
Cash paid to employees for services	(195,840)	(200,430)
Net cash used by operating activities	(123,395)	(77,780)
CASH FLOWS FROM CAPITAL ACTIVITY		
Purchase capital assets	-	(23,165)
CASH FLOWS FROM INVESTING ACTIVITY		
Net sale (purchase) of certificates of deposit	285,772	(13,694)
NET CHANGE IN CASH AND CASH EQUIVALENTS	162,377	(114,639)
CASH AND CASH EQUIVALENTS, beginning of year	153,567	268,206
CASH AND CASH EQUIVALENTS, end of year	\$ 315,944	\$ 153,567
RECONCILIATION OF EXPENSES OVER REVENUES TO NET CASH USED BY OPERATING ACTIVITIES		
	2011	2010
Net cash used by operating activities		
Expenses over revenues	\$ (132,964)	\$ (70,345)
Adjustments to reconcile expenses over revenues to net cash used by operating activities		
Depreciation	14,309	11,521
Change in assets and liabilities		
Grant receivable	(53,625)	4,810
Accounts receivable	17,236	(20,112)
Accrued interest receivable	3,629	1,670
Accounts payable	1,383	(17,181)
Accrued taxes payable	10,071	202
Accrued vacation payable	1,844	2,312
Fees payable	14,722	9,343
Net cash used by operating activities	\$ (123,395)	\$ (77,780)

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The North Dakota State Board of Pharmacy (the Board) is composed of six members, five of whom are registered pharmacists and members of the North Dakota Pharmaceutical Association, and one new board member who is a registered pharmacy technician and a member of the Northland Association of Pharmacy Technicians, appointed by the governor for a term of five years. Pursuant to 45-15-06 of the North Dakota Century Code, additional members can be appointed beyond the required number of five. The Board is responsible for examining and licensing applicants for registration as pharmacists and pharmacy technicians, for issuing permits to operate pharmacies and wholesale drug manufacturers/distributors, and for regulating and controlling the dispensing of prescription drugs and the practice of pharmacy for the protection of the health, welfare and safety for the citizens of the state. Governing laws for the North Dakota State Board of Pharmacy are found in chapter 43-15 of the North Dakota Century Code.

Description of Funds

The Board follows the practice of reporting on the use of resources by specific funds. The operating fund is used to account for resources available for and used in the Board's regular activities. As of June 30, 2011, \$722,777 has been designated by the Board for next year's anticipated operating costs. The designated amount was set by the Board at its meeting in January 2000 to be 100% of its next year's annual budget for operating expenses.

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

Basis of Accounting

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

Reporting Entity

The accompanying financial statements present the activities of the Board. The Board has considered all potential component units for which the Board is financially accountable and other organizations for which the nature and significance of their relationships with the Board are such that exclusion would cause the Board's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board.

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

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Basis of Presentation

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The Board does not apply FASB Statements after November 30, 1989.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board are licensure renewal fees and application fees. Operating expenses include administration expenses.

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

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 maturities of 12 months to 4 years, carried at cost, which approximates fair value.

Grant Receivable

Grant receivable is for reimbursement requests sent to the Department of Justice's Bureau of Justice Assistance for reimbursement of expenses paid. The grant requires that the Board expend funds before a reimbursement request made. The Board believes the amount is fully collectible, therefore, no allowance for doubtful accounts is estimated.

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Accounts Receivable

Accounts receivable consists of funds owed from pharmacists per a legal review held by the Board that found the pharmacist committed some act of wrongdoing and thus must reimburse the Board and any other affected organization, if any, for the time and/or lost revenue from the wrongdoing. The Board uses the direct write-off method to write-off accounts receivable balances that are determined to be uncollectible. During the year ended June 30, 2011, the Board determined that three accounts receivable balances totaling \$12,819 were uncollectible and thus the balances were written-off to bad debt expense.

Capital Assets

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

Compensated Absences

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

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

Deferred Revenues

Deferred revenues represent license and registration fees received in the current year for the next fiscal years activities.

Grant Revenue

The Board received grant funds from the Department of Justice, Office of Justice Programs, to enhance the administration of the Prescription Drug Monitoring Program (PDMP). The grant period, as described in the grant agreement, is from September 1, 2008 through June 30, 2011. Grant funds received will not exceed \$400,000.

During the years ended June 30, 2011 and 2010, the Board received a total of \$252,361 and \$83,891, respectively, in grant funds.

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.

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – CASH AND CERTIFICATES OF DEPOSITS

The Boards' checking account and certificates of deposit are deposited in three banks. Funds on deposit were not in excess of the federal insured limit at June 30, 2011. Certificates of deposit have varying maturities of up to 4 years and range from 2.44% to 4.00%. The certificates of deposit are held to maturity 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.

NOTE 3 – PHARMACY TECHNICIAN ASSOCIATION DUES

In accordance with state law, the board also collects the annual dues for the Northland Association of Pharmacy Technicians and remits these dues to the organization during the year. Total remitted to this organization during the years ended June 30, 2011 and 2010 was \$22,330 and \$0. As of June 30, 2011 and 2010, the Board owes the Northland Association of Pharmacy Technicians' \$280 and \$10,868, respectively for annual dues collected by the Board that has yet to be remitted to the organization.

NOTE 4 – OPERATING LEASES

Beginning on May 1, 2010, the Board entered into an operating lease agreement for office space that requires monthly payments of \$950 and expires April 31, 2013. Previously, the Board leased office space from month to month at a payment of \$675 per month. Total lease expense for the years ended June 30, 2011 and 2010 was \$11,400 and \$9,450, respectively. The future minimum lease payments for the year ended June 30, 2011 are as follows: 2012 - \$11,400; 2013 - \$9,500.

NOTE 5 – RETIREMENT PLAN

The North Dakota State Board of Pharmacy participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering all employees of the North Dakota State Board of Pharmacy. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to the date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse' designated beneficiary.

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan either by the employee or by the employer under a "salary reduction" agreement. The North Dakota State Board of Pharmacy has implemented a salary reduction agreement and is currently contributing the employees' share. The North Dakota State Board of Pharmacy is required to contribute 4.12% of each participant's salary as the employer's share. In addition to the 4.12% employer contribution, the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The North Dakota State Board of Pharmacy required and actual contributions to NDPERS for the years ended June 30, 2011 and 2010, were \$16,256 and \$13,454, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 E. Broadway, Suite 505; P.O. Box 1657; Bismarck, ND 58502-1657.

NOTE 6 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (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 7 – SUBSEQUENT EVENTS

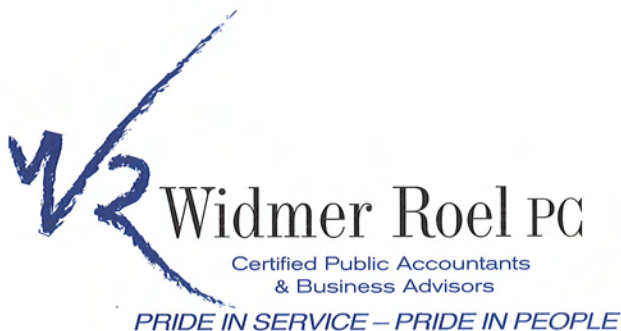
The Organization has evaluated subsequent events through December 20, 2011, the date, which the financial statements were available to be issued.

NORTH DAKOTA STATE BOARD OF PHARMACY

**SUPPLEMENTARY FINANCIAL INFORMATION
JUNE 30, 2011**

NORTH DAKOTA STATE BOARD OF PHARMACY
STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Pharmacist's license	\$ 127,800	\$ 135,735	\$ 7,935
Pharmacy permits	106,000	106,925	925
Wholesale drug license	115,000	131,575	16,575
Internship	4,350	4,360	10
Technician registration	14,550	15,703	1,153
Grant revenue	84,000	252,361	168,361
Miscellaneous fees and reimbursements	29,550	42,548	12,998
Interest	<u>26,000</u>	<u>23,513</u>	<u>(2,487)</u>
 Total revenues	 <u>507,250</u>	 <u>712,720</u>	 <u>205,470</u>
EXPENSES			
Bad debt expense	-	12,819	(12,819)
Compliance and investigation	35,000	17,782	17,218
Consulting	98,405	236,539	(138,134)
Contractual	-	75,512	(75,512)
Data base hosting fee	30,000	15,759	14,241
Depreciation	3,000	14,309	(11,309)
Dues and Subscriptions	5,000	3,861	1,139
Education funding	23,500	30,618	(7,118)
Examinations	7,000	3,700	3,300
Executive director salary	94,334	88,710	5,624
Insurance			
Health and Life	13,267	31,101	(17,834)
Liability	1,300	1,719	(419)
Legal and audit	20,000	21,669	(1,669)
Miscellaneous	24,936	40,605	(15,669)
Office supplies and postage	16,600	21,468	(4,868)
Payroll taxes	14,500	13,834	666
PDMP salaries	56,972	52,573	4,399
Printing	6,200	2,104	4,096
Rent	10,200	11,400	(1,200)
Retirement plan	13,022	16,256	(3,234)
Rule hearings/publication	6,000	3,488	2,512
Secretarial salaries	51,279	54,557	(3,278)
Telephone	1,050	3,045	(1,995)
Travel and meetings	43,000	64,052	(21,052)
Vacation pay	<u>9,465</u>	<u>8,204</u>	<u>1,261</u>
 Total expenses	 <u>584,030</u>	 <u>845,684</u>	 <u>(261,654)</u>
 EXPENSES OVER REVENUES	 <u>\$ (76,780)</u>	 <u>\$ (132,964)</u>	 <u>\$ (56,184)</u>



Harris W. Widmer
Charles E. Nord
Stanley N. Sandvik
Terrence P. Delaney
Robert D. Dale
Michael T. Schmitz
Tracee S. Buethner

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
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 the financial statements of the business-type activities of the **North Dakota State Board of Pharmacy** (the Board), a component unit of the State of North Dakota, as of and for the year ended June 30, 2011, which collectively comprise the Board's basic financial statements and have issued our report thereon dated December 20, 2011. 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 Audit Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, reference numbers 11-01, 11-02, 11-03, and 11-04.

Member of



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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies, reference number 11-05, 11-06, 11-07.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of 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*.

The Board's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, others within the Board and federal awarding agencies and pass-through entities, is not intended to be, and should not be used by anyone other than these specified parties.



Bismarck, North Dakota
December 20, 2011

NORTH DAKOTA STATE BOARD OF PHARMACY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2011

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

SECTION II – FINANCIAL STATEMENT FINDINGS

Material Weaknesses

11-01 Preparation of Generally Accepted Accounting Principles (GAAP) Basis Financial Statements

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

Criteria: In light of recent auditing standards issued, 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.

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. In addition, a current disclosure checklist from the AICPA should be reviewed and answered to ensure propriety and completeness of the footnotes.

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. In addition, a current disclosure checklist from the AICPA will be reviewed and answered to ensure propriety and completeness of the footnotes.

11-02 Accrual Accounting

Condition: Accurate accrual accounting is not being maintained. In order to conform to accounting principles generally accepted in the United States of America (GAAP) accrual accounting must be maintained.

Criteria: Procedures should be in place to ensure that accrual accounting entries are made.

Effect: Because of the failure to make all the accrual accounting entries, adjusting journal entries were proposed during the audit process in order for the financial statements to conform to GAAP accounting.

NORTH DAKOTA STATE BOARD OF PHARMACY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2011

Recommendation: To ensure the financial statements conform to GAAP accounting, it is recommend that accrual accounting entries be made prior to the audit.

Response: The Board agrees with the finding and is in the process of updating the accounting system to ensure accrual accounting will be completed.

11-03 Reconciling Support Documentation and Financial Close Process

Condition: Reconciliations of subsidiary ledgers are not being prepared or reviewed in a timely manner and a process is not in place to ensure cash receipts and cash disbursements are recorded in the correct period.

Criteria: Procedures should be in place to ensure those reconciliations of subsidiary ledgers are being prepared and reviewed timely and that cash receipts and cash disbursements are recorded in the correct period.

Effect: Because of the failure to prepare and timely review reconciliations of subsidiary ledgers and ensure that cash receipts and cash disbursements were recorded in the correct period, material adjusting journal entries were required to reconcile subsidiary ledgers and record cash receipts and disbursements in the correct period.

Recommendation: To improve the financial statement close process, we recommend that the Board (a) timely review and prepare all account reconciliations to subsidiary ledgers and review all significant financial statement accounts to ensure they are properly stated, and (b) review cash receipts and disbursements near and subsequent to year-end to ensure all amounts are recorded in the proper period.

Response: The Board agrees with the finding and is in the process of updating the financial close process to ensure reconciliations are preformed and reviewed timely and to ensure that cash receipts and disbursements are recorded in the correct period.

11-04 Bank Reconciliation Review

Condition: Bank reconciliations are being prepared before all transactions are posted to the accounting software. Also reconciling items are not being reviewed to ensure reconciling items are correct.

Criteria: Procedures should be in place to ensure that all transactions are posted to the accounting software before bank reconciliations are prepared and reconciling items should be reviewed during the bank reconciliation process.

Effect: Since not all transactions were posted to the accounting software before the bank reconciliation was prepared, the bank reconciliation did not reconcile to the book balance. Also adjusting journal entries were required to be proposed to remove reconciling items that were not truly reconciling items, but rather were recording errors.

Recommendation: We recommend that management ensure that all transactions are posted to the accounting software before preparing the bank reconciliation. We also recommend that management review all reconciling items to ensure that all reconciling items are truly reconciling items and not the result of an error in recording transactions.

NORTH DAKOTA STATE BOARD OF PHARMACY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

Response: The Board agrees with the finding and is in the process of creating controls to ensure all transactions are posted to the accounting software before the bank reconciliation is prepared and to ensure all reconciling items are reviewed during the reconciliation process.

Significant Deficiencies

11-05 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: As a matter of proper internal controls, proper segregation of duties is necessary.

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 of Directors remain involved in the financial affairs of the Entity 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 Entity 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.

11-06 Write-off of Uncollectible Accounts

Condition: Accounts receivable balances that were determined to be uncollectible as of year-end were not written off to bad debt expense.

Criteria: Procedures should be in place to periodically review accounts receivable balances to determine if the balance is still collectible.

Effect: Due to management not reviewing the collectability of accounts receivable during the year, an adjusting journal entry was proposed during the audit to write-off accounts receivable balances that management did not believe were collectible as of year-end.

Recommendation: We recommend that management periodically review accounts receivable balances and determine the likelihood of collection on aging receivable balances. If an accounts receivable balance is determined to uncollectible, the uncollectible amount should be written off so that the accounts receivable balance is stated at the truly collectible balance.

Response: The Board agrees with the finding and will implement a process to periodically review the collectability of accounts receivable.

NORTH DAKOTA STATE BOARD OF PHARMACY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

11-07 Payroll Deposit Errors

Condition: The January, March, and June 2011 payroll deposits made did not agree with the amounts reported on the Quarterly payroll reports.

Criteria: Organizations are required to remit the correct amount of payroll tax withholdings to the requisite agency at least quarterly.

Effect: Due to the payroll deposits made not agreeing with the amounts reported on the Quarterly payroll reports, the Board was required to pay penalties and interest on the additional payroll deposits that were required to be made due to the underfunded deposits made in January, March, and June 2011.

Recommendation: We recommend that management review the payroll deposits prior to them being made and compare them to the Quarterly payroll reports to ensure the correct amounts are paid.

Response: The Board agrees with the finding and will implement a process to review the payroll deposits and ensure the correct amounts are paid.