

NORTH CAROLINA BOARD OF PHARMACY

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NORTH CAROLINA BOARD OF PHARMACY

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NORTH CAROLINA BOARD OF PHARMACY
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2016

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the North Carolina Board of Pharmacy (the "Board"), for the fiscal year ended September 30, 2016. The following financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and the previous year are presented in the analysis.

Using the Financial Statements

The Board's financial report includes three financial statements: Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. These financial statements are prepared in accordance with the principles of the Governmental Accounting Standards Board ("GASB").

The Statements of Net Position include all Board current and noncurrent assets and liabilities. Current assets are those that are expected to be converted to cash within one year, and current liabilities are expected to be settled within one year.

The Statements of Revenues, Expenses and Changes in Net Position present the revenues collected and earned and expenses paid and incurred during the fiscal year.

The Statements of Cash Flows report cash from operating, investing activities, and capital financing, and is presented using the direct method.

Statements of Net Position

The Statements of Net Position present a fiscal snapshot of the Board's financial position as of September 30, 2016 and 2015. The statements provide information on current and noncurrent assets and liabilities. The data provides information on assets available to continue operations; amounts due to vendors and lending institutions; and the net position available for expenditure by the Board.

The following table summarizes the Board's assets, liabilities and net position at September 30:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Current assets	\$ 5,783,690	\$ 5,707,463	\$ 3,948,298
Non-current assets	2,205,277	1,788,012	2,679,081
Net capital assets	1,744,226	1,513,425	1,494,642
Total assets	<u>9,733,193</u>	<u>9,008,900</u>	<u>8,122,021</u>
Liabilities:			
Current liabilities	122,308	9,215	-
Non-current liabilities	151,580	152,318	144,533
Total liabilities	<u>273,888</u>	<u>161,533</u>	<u>144,533</u>
Net position:			
Invested in capital assets - net of related depreciation	1,744,226	1,513,425	1,494,642
Unrestricted	7,715,079	7,333,942	6,482,846
Total net position	<u>\$ 9,459,305</u>	<u>\$ 8,847,367</u>	<u>\$ 7,977,488</u>

NORTH CAROLINA BOARD OF PHARMACY
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2016

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position represent the Board's results of operations. The following presents condensed financial information for Board operations for the fiscal years ended September 30:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 4,321,491	\$ 4,238,829	\$ 3,923,591
Operating expenses	3,744,620	3,381,149	3,217,682
Operating income	576,871	857,680	705,909
Non-operating revenues	35,067	12,199	4,686
Changes in net position	611,938	869,879	710,595
Net position - beginning of year	8,847,367	7,977,488	7,266,893
Net position - end of year	<u>\$ 9,459,305</u>	<u>\$ 8,847,367</u>	<u>\$ 7,977,488</u>

Operating revenues consisted primarily of pharmacists and pharmacy renewals for the years ended September 30, 2016 and 2015. The increase in operating revenues was caused mostly by CVS buying Target pharmacies. This transfer of ownership required new permitting registration. The new receipting policy for reciprocity fees also increased that revenue line. Operating expenses related to the operation of the Board, including personnel costs, investigative costs, professional fees, supplies, utilities, and depreciation. Operating expenses increased this year due to the Board changing vendors for the Pharmacist Recovery Program (Note 10) and the Board purchased D&O insurance for Board members and cyber insurance in the current fiscal year. The Board recorded depreciation expense of \$92,412 and \$91,766, for the years ended September 30, 2016 and 2015, respectively. Non-operating revenues consisted primarily of investment income and unrealized gain on investments.

Events Affecting Future Operations

The Board entered into a five year agreement with Thoughtspan Technologies Inc., (Note 10), whereby Thoughtspan agrees to design, implement and support a new North Carolina Board of Pharmacy web-based licensing information and online renewal system software.

Contacting the Board's Management

This financial report is designed to provide our state, pharmacists, and creditors with a general overview of the Board's finances and demonstrate accountability of all funds received. Additional financial information may be obtained by contacting the Board at 919-246-1050.

Independent Auditor's Report

To the Board of Directors
North Carolina Board of Pharmacy
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Board of Pharmacy (the "Board"), an enterprise fund of the State of North Carolina, which comprise the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic 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 basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the basic 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 Board'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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Board of Pharmacy as of September 30, 2016 and 2015, and its changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements are presented only for the North Carolina Board of Pharmacy and do not purport to and do not present fairly the financial position of the State of North Carolina as of September 30, 2016, nor the changes in its financial position and its cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 1 – 2, 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.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
January 3, 2017

NORTH CAROLINA BOARD OF PHARMACY
Statements of Net Position
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS:		
Current assets:		
Cash	\$ 1,494,419	\$ 2,050,540
Investments, current portion	4,184,584	3,532,972
Accrued interest	7,038	5,648
Accounts receivable	655	291
Prepaid expenses	96,994	118,012
Total current assets	<u>5,783,690</u>	<u>5,707,463</u>
Non-current assets:		
Investments, less current portion	1,985,334	1,606,763
Note receivable - officer life insurance	219,943	181,249
Total non-current assets	<u>2,205,277</u>	<u>1,788,012</u>
Capital assets, net of depreciation	<u>1,744,226</u>	<u>1,513,425</u>
Total assets	<u>9,733,193</u>	<u>9,008,900</u>
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	<u>122,308</u>	<u>9,215</u>
Total current liabilities	<u>122,308</u>	<u>9,215</u>
Noncurrent liabilities:		
Accrued vacation	<u>151,580</u>	<u>152,318</u>
Total noncurrent liabilities	<u>151,580</u>	<u>152,318</u>
Total liabilities	<u>273,888</u>	<u>161,533</u>
NET POSITION:		
Net investment in capital assets	1,744,226	1,513,425
Unrestricted	<u>7,715,079</u>	<u>7,333,942</u>
Total net position	<u>\$ 9,459,305</u>	<u>\$ 8,847,367</u>

NORTH CAROLINA BOARD OF PHARMACY
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Pharmacist renewals	\$ 2,042,010	\$ 1,959,930
Pharmacist reciprocity	300,600	234,000
Pharmacist exam fees	68,120	65,100
Pharmacist/manager changes	24,675	28,735
Pharmacist reinstatements	22,410	18,630
Pharmacy renewals	662,200	643,400
Pharmacy permits	262,000	372,000
Pharmacy reinstatements	3,200	5,600
Technician renewals	432,360	411,840
Technician registrations	117,480	112,500
Technician reinstatements	36,240	36,360
Device and DME permits and renewals	237,500	240,600
Dispensing physician renewals and permits	69,300	66,075
Dispensing PA/NP renewals and permits	22,425	22,275
Pharmacy/pharmacists, lists and labels	15,556	16,609
Law books	740	10
Miscellaneous	4,675	5,165
Total operating revenues	<u>4,321,491</u>	<u>4,238,829</u>
Operating expenses:		
Salaries	1,804,359	1,660,480
Payroll taxes	130,202	119,150
Retirement contributions	108,304	90,923
Employee benefits	249,031	218,674
Unemployment claims	7,215	5,830
Educational expense	368	1,812
Board meeting and election expenses	16,814	18,107
Meetings per diem	15,050	10,075
Professional meetings	23,921	11,034
Inspection expense	95,306	104,961
Building dues and maintenance	29,487	23,750
Office utilities	8,469	9,856
Janitorial service	12,000	13,948
Telephone	25,391	21,911
Auto expense	30,281	37,388
Supplies	68,940	25,259
Books, dues, and subscriptions	11,186	9,504
Postage	6,593	10,907
Printing	5,186	5,002

See Notes to Financial Statements

NORTH CAROLINA BOARD OF PHARMACY
Statements of Revenues, Expenses and Changes in Net Position (Continued)
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating expenses (Continued):		
Equipment lease	\$ 8,516	\$ 10,433
Maintenance	19,736	19,354
Special meetings and projects	38,944	63,349
Insurance	27,724	8,393
Executive director's expense	6,984	7,928
Office staff travel	13,345	16,040
Miscellaneous	2,711	1,837
Consulting fees	132,892	162,150
Bank service charges	123,504	121,207
Depreciation	92,412	91,766
Legal fees	286,477	258,012
Pharmacist recovery programs	332,068	209,500
Audit fee	10,500	10,200
Temporary office help	704	2,409
Total operating expenses	<u>3,744,620</u>	<u>3,381,149</u>
Operating income	<u>576,871</u>	<u>857,680</u>
Non-operating revenues (expense):		
Net investment income	17,997	13,703
Unrealized and realized gain (loss) on investments	15,075	(3,890)
Gain on sale of fixed assets	1,995	2,386
Total non-operating revenues	<u>35,067</u>	<u>12,199</u>
Changes in net position	611,938	869,879
Net position - beginning of year	<u>8,847,367</u>	<u>7,977,488</u>
Net position - end of year	<u><u>\$ 9,459,305</u></u>	<u><u>\$ 8,847,367</u></u>

NORTH CAROLINA BOARD OF PHARMACY
Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from fees	\$ 4,315,712	\$ 4,233,521
Other cash received	5,415	5,175
Cash payments to employees for service	(1,805,097)	(1,652,695)
Cash payments to suppliers for goods and services	(1,290,567)	(1,316,009)
Cash payments for other operating expenses	(423,171)	(279,547)
Net cash provided by operating activities	802,292	990,445
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(329,138)	(111,648)
Proceeds from sale of capital assets	7,920	3,485
Net cash used in capital and related financing activities	(321,218)	(108,163)
Cash flows from investing activities:		
Purchase of investments	(7,208,280)	(1,220,702)
Proceeds from sales of investments	6,193,172	1,208,053
Issuance of note receivable	(38,694)	(24,438)
Net investment income	16,607	13,912
Net cash used in investing activities	(1,037,195)	(23,175)
Net increase (decrease) in cash	(556,121)	859,107
Cash - beginning of year	2,050,540	1,191,433
Cash - end of year	\$ 1,494,419	\$ 2,050,540
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 576,871	\$ 857,680
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	92,412	91,766
Changes in assets and liabilities:		
Accounts receivable	(364)	(133)
Prepaid expenses	21,018	24,132
Accounts payable and accrued liabilities	113,093	9,215
Accrued vacation	(738)	7,785
Total adjustments	225,421	132,765
Net cash provided by operating activities	\$ 802,292	\$ 990,445

NORTH CAROLINA BOARD OF PHARMACY

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The North Carolina Board of Pharmacy (the "Board") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 90 of the North Carolina General Statutes (NCGS). The Board is composed of six members who are appointed by the Governor, five after their election by North Carolina pharmacists, and one directly as the Board's public member. The Board is established to maintain minimum standards for the practice of pharmacy within the State of North Carolina. The Board's operations are funded primarily through license renewal and permit registration fees. The Board's operations are financed with self-generated revenues from fees charged to examinees and licensees.

Basis of Presentation

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board ("GASB").

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Reporting Entity

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's Comprehensive Annual Financial Report (CAFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

Basis of Accounting

The basic financial statements of the Board are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of the cash flows. The Board classifies its revenue and expenses as operating and non-operating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of license renewal fees and permits. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing types of activities and are classified as non-operating in the financial statements.

NORTH CAROLINA BOARD OF PHARMACY

Notes to Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

This classification includes cash on deposit and money market accounts with financial institutions. For purposes of reporting the statements of cash flows, the Board considers all highly liquid investments purchased with a maturity of three months or less as cash equivalents.

Investments

Investments consist of money market funds and certificates of deposit invested through brokerage accounts. Money market funds and certificates of deposit maturing within the next fiscal year are shown as current. Investments are reported at fair value. Board investment policies are in line with the State Treasurer under N.C.G.S. §147-69.1 regarding investment options.

In February 2015, the Governmental Accounting Standards Board ("GASB") issued Statement No. 72, *Fair Value Measurement and Application*. This statement is effective for financial statements for periods beginning after June 15, 2015. This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Board has elected to adopt GASB Statement No. 72 for the year ending September 30, 2016.

Capital Assets

Capital assets are recorded at cost. Property and equipment are capitalized if their life is expected to be greater than one year and their cost is \$2,000 or greater. Depreciation is computed over estimated useful asset lives ranging from three to thirty-nine years using the straight-line method.

Vacation and Sick Leave

Board employees may accumulate up to 320 hours of earned vacation which is fully vested when earned. On December 31, accrued vacation in excess of the limit is transferred and added to sick leave balances.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. Unused sick leave is not paid upon termination of employment; therefore, no accrual for sick leave has been made.

Net Position

The Board's net position is classified as follows:

Net Investment in Capital Assets - This classification represents the Board's total investment in capital assets, net of accumulated depreciation.

Unrestricted - This classification represents assets with no external restriction as to use or purpose. Unrestricted net position is used for the general operations of the Board and may be used at the discretion of the governing board to meet current expenses for any purpose. The Board has reserved \$200,000 of the unrestricted net position to cover potential litigation costs, \$780,000 to cover IT infrastructure, and \$1,075,000 to cover insurance deductibles.

NORTH CAROLINA BOARD OF PHARMACY

Notes to Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

NOTE 2 - DEPOSITS AND INVESTMENTS

Investments reported at fair value at September 30, 2016 and 2015, consisted of the following:

	2016	2015
Traded certificates of deposit	\$5,133,073	\$4,626,820
Money market funds	1,036,845	512,915
	<u>\$6,169,918</u>	<u>\$5,139,735</u>

Investment income totaled \$43,760 and \$38,518, for the years ended September 30, 2016 and 2015 respectively. Related investment fees totaled \$25,763 and \$24,815, for the years ended September 30, 2016 and 2015, respectively.

Interest rate risk: Interest rate risk is the risk that the Board may face should interest rate variances affect the fair value of investments. The Board minimizes this risk by investing only in certificates of deposit.

The anticipated maturities of the Board's fixed income investments as of September 30, 2016 were as follows:

0 - 2 years	\$4,419,731
2 - 5 years	713,342
	<u>\$5,133,073</u>

The weighted average maturities of the certificates of deposit are 1.20 years at September 30, 2016.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2016, the Board's money market funds and the traded certificates of deposit were unrated.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

NORTH CAROLINA BOARD OF PHARMACY

Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

At September 30, 2016, the Board had cash deposits that exceeded the Federal Deposit Insurance Corporation's (FDIC) limits of \$250,000 by \$2,292,910. The Securities Investor Protection Corporation (SIPC) is a nonprofit membership corporation funded by its member securities broker-dealers. The SIPC insures against the loss or theft of securities as well as the failure or insolvency of the brokerage firm. Also, at September 30, 2016, the Board owned investments that exceeded the SIPC limit of \$500,000 by \$5,169,918. The Board had multiple traded certificates of deposit investments held in a brokerage account as well as a trust account that were individually insured up to \$250,000 under FDIC at September 30, 2016.

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value, as defined under U.S. GAAP, is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Board's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The Board's investments at September 30, 2016 and 2015 are all classified within the Level 2 fair value hierarchy.

NOTE 4 - OFFICER LIFE INSURANCE

The Board owns a life insurance policy jointly with the Executive Director. The amount recorded as note receivable - officer life insurance, represents the Board's equity in the policy, which totaled \$219,943 and \$181,249, at September 30, 2016 and 2015, respectively.

NOTE 5 - ACCRUED VACATION

Changes to accrued vacation are as follows:

	2016	2015
Beginning accrued vacation	\$ 152,318	\$ 144,533
Vacation earned	138,716	121,845
Vacation used	(139,454)	(114,060)
Ending accrued vacation	<u>\$ 151,580</u>	<u>\$ 152,318</u>

NORTH CAROLINA BOARD OF PHARMACY
Notes to Financial Statements

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the Board for the year ended September 30, 2016, was as follows:

	Cost 9/30/2015	Additions	Disposals	Cost 9/30/2016
Capital Assets:				
Building	\$1,900,559	\$ -	\$ -	\$1,900,559
Building improvements	44,217	51,845	-	96,062
Furniture and Fixtures	245,325	-	-	245,325
Equipment	352,586	29,773	(41,936)	340,423
Vehicles	218,973	35,520	(31,265)	223,228
Software	-	212,000	-	212,000
Total at historical cost	<u>2,761,660</u>	<u>329,138</u>	<u>(73,201)</u>	<u>3,017,597</u>
Less accumulated depreciation for:				
Building	\$ 597,028	\$ 48,820	\$ -	\$ 645,848
Building improvements	8,450	4,560	-	13,010
Furniture and Fixtures	231,885	4,398	-	236,283
Equipment	278,884	20,466	(36,011)	263,339
Vehicles	131,988	14,168	(31,265)	114,891
Total accumulated depreciation	<u>1,248,235</u>	<u>92,412</u>	<u>(67,276)</u>	<u>1,273,371</u>
Total capital assets, net	<u>\$1,513,425</u>	<u>\$ 236,726</u>	<u>\$ (5,925)</u>	<u>\$1,744,226</u>

Capital asset activity for the Board for the year ended September 30, 2015, was as follows:

	Cost 9/30/2014	Additions	Disposals	Cost 9/30/2015
Capital Assets:				
Building	\$1,900,559	\$ -	\$ -	\$1,900,559
Building improvements	30,142	14,075	-	44,217
Furniture and Fixtures	241,562	3,763	-	245,325
Equipment	385,501	38,692	(71,607)	352,586
Vehicles	179,420	55,118	(15,565)	218,973
Total at historical cost	<u>2,737,184</u>	<u>111,648</u>	<u>(87,172)</u>	<u>2,761,660</u>
Less accumulated depreciation for:				
Building	\$ 548,208	\$ 48,820	\$ -	\$ 597,028
Building improvements	6,525	1,925	-	8,450
Furniture and Fixtures	226,961	4,924	-	231,885
Equipment	325,300	24,092	(70,508)	278,884
Vehicles	135,548	12,005	(15,565)	131,988
Total accumulated depreciation	<u>1,242,542</u>	<u>91,766</u>	<u>(86,073)</u>	<u>1,248,235</u>
Total capital assets, net	<u>\$1,494,642</u>	<u>\$ 19,882</u>	<u>\$ (1,099)</u>	<u>\$1,513,425</u>

NORTH CAROLINA BOARD OF PHARMACY
Notes to Financial Statements

NOTE 7 - OPERATING LEASES

The Board leases a copying machine under an agreement that calls for lease payments of \$3,348 per year ending in September 2018.

Future annual lease payment requirements are as follows:

<u>Years Ending September 30:</u>	
2017	\$ 3,348
2018	3,348
	<u>\$ 6,696</u>

The Board also leases other equipment on an as needed basis. Total equipment lease expense for the years ended September 30, 2016 and 2015, was \$8,516 and \$10,433, respectively.

NOTE 8 - RETIREMENT PLANS

The Board contributes to the North Carolina Licensing Boards Retirement Savings Plan ("Plan"), a 401(k) defined contribution plan. The Plan has been established to provide retirement benefits for employees of State boards or agencies who have not elected by resolution to cause their employees to be eligible to become members of the Teachers' and State Employees' Retirement System and for employees hired after July 1, 1983, by an electing board or agency. The Plan is administered by an administrative committee comprised of the Executive Directors of the participating boards and agencies, with authority to amend the Plan.

Participating employees must contribute at least six percent of their gross compensation and the Board matches those contributions 100%. The employees' contributions are immediately 100% vested, and employees vest in the Board's matching contributions 20% per Plan year until they are fully vested. For vesting purposes, an employee must complete 1,000 hours of service each Plan year.

Each participant's account is credited with their individual contributions, the Board's matching contributions, and Plan earnings and forfeitures of terminated participants' non-vested accounts. Allocations are based on participant earnings and account balances, as defined. Each participant is entitled to the benefit which can be provided from the participant's account.

Participants may retire with fully vested benefits at age 65, or at age 55 after completing five years of service. Upon termination of service, participants receive the vested value of their account in a lump-sum distribution.

Contributions to the Plan for the years ended September 30, 2016 and 2015, totaled \$265,591 and \$227,935, which consisted of \$108,304 and \$90,923 from the Board and \$157,287 and \$137,012 from employees, respectively.

During the years ended September 30, 2016 and 2015, the Board used \$0 and \$8,237, respectively, of retirement forfeiture balances to offset retirement matching contributions.

NORTH CAROLINA BOARD OF PHARMACY

Notes to Financial Statements

NOTE 9 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board protects itself from exposures to loss through the purchase of commercial liability insurance. Tort claims against Board members are self-insured under the authority of the State Tort Claims Act. In addition, the State provides an additional coverage to the Board under the State's public officers' and employees' liability insurance contract.

NOTE 10 - COMMITMENTS

On April 25, 2016, the Board entered into a five-year agreement with Thoughtspan Technologies, Inc., whereby Thoughtspan agrees to design, implement and support a new North Carolina Board of Pharmacy web-based licensing information and online renewal system software. The total contract price is \$699,903 which includes one time fees totaling \$366,000 for a perpetual license fee, configuration, implementation, conversion and training, and annual fees totaling \$333,903 for five years of support and maintenance after implementation. The annual fees are subject to an annual increase of 2%. The Board paid a total of \$220,000 related to the contract during the year ended September 30, 2016, of which \$212,000 was capitalized and included in capital assets in the accompanying statement of net position.

The Board entered into an agreement with North Carolina Physicians Health Program (NCPHP), a non-profit corporation, to offer recovery programs for pharmacists in North Carolina, effective January 15, 2016. This agreement replaced services previously obtained from the North Carolina Pharmacist Recovery Network. The term of the agreement runs January 15, 2016 through June 30, 2017, after which it will automatically renew for successive one-year terms unless either party provides written notice of termination at least six months prior to expiration. The contract included a one time administrative fee of \$50,000 and a \$250,000 annual fee which was prorated for the period from January 15, 2016 through June 30, 2016. Expenses for the pharmacist recovery programs totaled \$332,068 and \$209,500 for the years ended September 30, 2016 and 2015, respectively.

NOTE 11 - RECLASSIFICATION

Certain amounts in the prior year statement of cash flows were reclassified to conform to the current year presentation.

NOTE 12 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through January 3, 2017, which is the date the financial statements were available to be issued.

The audit was conducted in approximately 90 hours at a cost of \$10,900.