

NORTH CAROLINA BOARD OF PHARMACY

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NORTH CAROLINA BOARD OF PHARMACY

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NORTH CAROLINA BOARD OF PHARMACY
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2017

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, 2017. 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 two years 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 activities, capital and related financing activities, and investing activities, and are 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. 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>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current assets	\$ 4,594,330	\$ 5,783,690	\$ 5,707,463
Non-current assets	3,764,303	2,205,277	1,788,012
Net capital assets	1,839,259	1,744,226	1,513,425
Total assets	<u>10,197,892</u>	<u>9,733,193</u>	<u>9,008,900</u>
Liabilities:			
Current liabilities	74,532	122,308	9,215
Non-current liabilities	158,258	151,580	152,318
Total liabilities	<u>232,790</u>	<u>273,888</u>	<u>161,533</u>
Net position:			
Invested in capital assets - net of related depreciation	1,839,259	1,744,226	1,513,425
Unrestricted	8,125,843	7,715,079	7,333,942
Total net position	<u>\$ 9,965,102</u>	<u>\$ 9,459,305</u>	<u>\$ 8,847,367</u>

NORTH CAROLINA BOARD OF PHARMACY
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2017

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>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 4,340,239	\$ 4,321,491	\$ 4,238,829
Operating expenses	3,860,678	3,744,620	3,381,149
Operating income	479,561	576,871	857,680
Non-operating revenues	26,236	35,067	12,199
Changes in net position	505,797	611,938	869,879
Net position - beginning of year	9,459,305	8,847,367	7,977,488
Net position - end of year	<u>\$ 9,965,102</u>	<u>\$ 9,459,305</u>	<u>\$ 8,847,367</u>

Operating revenues consisted primarily of pharmacists and pharmacy renewals for the years ended September 30, 2017 and 2016. Operating revenues increased by approximately \$20,000 primarily due to increases in licensees. Operating expenses related to the operation of the Board and include personnel costs, investigative costs, professional fees, supplies, utilities and depreciation. Operating expenses increased by approximately \$116,000 or 3% due primarily to an increase in personnel costs, partially offset by a decrease in fees paid for the pharmacist recovery program. The Board recorded depreciation expense of \$98,324 and \$92,412, for the years ended September 30, 2017 and 2016, respectively. Non-operating revenues consisted primarily of net investment income and unrealized and realized gains (losses) 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017, 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
December 6, 2017

NORTH CAROLINA BOARD OF PHARMACY
Statements of Net Position
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS:		
Current assets:		
Cash	\$ 825,072	\$ 1,494,419
Investments, current portion	3,660,446	4,184,584
Accrued interest	17,140	7,038
Accounts receivable	190	655
Prepaid expenses	91,482	96,994
Total current assets	<u>4,594,330</u>	<u>5,783,690</u>
Non-current assets:		
Investments, less current portion	3,519,921	1,985,334
Note receivable - officer life insurance	244,382	219,943
Total non-current assets	<u>3,764,303</u>	<u>2,205,277</u>
Capital assets, net of depreciation	<u>1,839,259</u>	<u>1,744,226</u>
Total assets	<u>10,197,892</u>	<u>9,733,193</u>
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	<u>74,532</u>	122,308
Total current liabilities	<u>74,532</u>	<u>122,308</u>
Noncurrent liabilities:		
Accrued vacation	<u>158,258</u>	151,580
Total noncurrent liabilities	<u>158,258</u>	<u>151,580</u>
Total liabilities	<u>232,790</u>	<u>273,888</u>
NET POSITION:		
Net investment in capital assets	1,839,259	1,744,226
Unrestricted	<u>8,125,843</u>	<u>7,715,079</u>
Total net position	<u>\$ 9,965,102</u>	<u>\$ 9,459,305</u>

NORTH CAROLINA BOARD OF PHARMACY
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Pharmacist renewals	\$ 2,104,785	\$ 2,042,010
Pharmacist reciprocity	241,800	300,600
Pharmacist exam fees	64,200	68,120
Pharmacist/manager changes	27,205	24,675
Pharmacist reinstatements	19,170	22,410
Pharmacy renewals	681,400	662,200
Pharmacy permits	249,000	262,000
Pharmacy reinstatements	1,200	3,200
Technician renewals	452,940	432,360
Technician registrations	108,600	117,480
Technician reinstatements	36,420	36,240
Device and DME permits and renewals	230,700	237,500
Dispensing physician renewals and permits	64,050	69,300
Dispensing PA/NP renewals and permits	23,775	22,425
Pharmacy/pharmacists, lists and labels	26,255	15,556
Law books	-	740
Miscellaneous	8,739	4,675
Total operating revenues	4,340,239	4,321,491
Operating expenses:		
Salaries	1,958,457	1,804,359
Payroll taxes	140,488	130,202
Retirement contributions	117,024	108,304
Employee benefits	278,935	249,031
Unemployment claims	228	7,215
Educational expense	1,891	368
Board meeting and election expenses	18,710	16,814
Meetings per diem	13,875	15,050
Professional meetings	20,196	23,921
Inspection expense	99,830	95,306
Building dues and maintenance	35,875	29,487
Office utilities	7,623	8,469
Janitorial service	13,800	12,000
Telephone	29,838	25,391
Auto expense	24,701	30,281
Supplies	26,676	68,940
Books, dues, and subscriptions	10,833	11,186
Postage	6,365	6,593
Printing	7,221	5,186

See Notes to Financial Statements

NORTH CAROLINA BOARD OF PHARMACY
Statements of Revenues, Expenses and Changes in Net Position (Continued)
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating expenses (Continued):		
Equipment lease	\$ 3,822	\$ 8,516
Maintenance	25,309	19,736
Special meetings and projects	46,310	38,944
Insurance	45,683	27,724
Executive director's expense	6,478	6,984
Office staff travel	18,541	13,345
Miscellaneous	4,253	2,711
Consulting fees	115,463	132,892
Bank service charges	124,045	123,504
Depreciation	98,324	92,412
Legal fees	280,293	286,477
Pharmacist recovery programs	250,000	332,068
Audit fee	10,900	10,500
Temporary office help	18,691	704
Total operating expenses	<u>3,860,678</u>	<u>3,744,620</u>
Operating income	<u>479,561</u>	<u>576,871</u>
Non-operating revenues (expense):		
Net investment income	43,171	17,997
Unrealized and realized gain (loss) on investments	(21,363)	15,075
Gain on sale of fixed assets	4,428	1,995
Total non-operating revenues	<u>26,236</u>	<u>35,067</u>
Changes in net position	505,797	611,938
Net position - beginning of year	<u>9,459,305</u>	<u>8,847,367</u>
Net position - end of year	<u><u>\$ 9,965,102</u></u>	<u><u>\$ 9,459,305</u></u>

NORTH CAROLINA BOARD OF PHARMACY
Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from fees	\$ 4,331,965	\$ 4,315,712
Other cash received	8,739	5,415
Cash payments to employees for service	(1,951,779)	(1,805,097)
Cash payments to suppliers for goods and services	(1,482,041)	(1,290,567)
Cash payments for other operating expenses	(364,120)	(423,171)
Net cash provided by operating activities	<u>542,764</u>	<u>802,292</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(209,637)	(329,138)
Proceeds from sale of capital assets	20,708	7,920
Net cash used in capital and related financing activities	<u>(188,929)</u>	<u>(321,218)</u>
Cash flows from investing activities:		
Purchase of investments	(7,220,792)	(7,208,280)
Proceeds from sales of investments	6,188,980	6,193,172
Issuance of note receivable	(24,439)	(38,694)
Net investment income	33,069	16,607
Net cash used in investing activities	<u>(1,023,182)</u>	<u>(1,037,195)</u>
Net decrease in cash	(669,347)	(556,121)
Cash - beginning of year	<u>1,494,419</u>	<u>2,050,540</u>
Cash - end of year	<u>\$ 825,072</u>	<u>\$ 1,494,419</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 479,561	\$ 576,871
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	98,324	92,412
Changes in assets and liabilities:		
Accounts receivable	465	(364)
Prepaid expenses	5,512	21,018
Accounts payable and accrued liabilities	(47,776)	113,093
Accrued vacation	6,678	(738)
Total adjustments	<u>63,203</u>	<u>225,421</u>
Net cash provided by operating activities	<u>\$ 542,764</u>	<u>\$ 802,292</u>

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

Capital Assets

Capital assets are recorded at cost. The Board capitalizes assets that have a cost of \$2,000 or greater at the date of acquisition and an expected useful life in excess of one year. 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 \$500,000 of the unrestricted net position to cover potential litigation costs, \$642,000 to cover IT infrastructure, \$75,000 to cover funds for a substance abuse program, 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, 2017 and 2016, consisted of the following:

	2017	2016
Money market funds	\$1,021,530	\$1,036,845
Traded certificates of deposit	3,149,184	5,133,073
Government securities	3,009,653	-
	<u>\$7,180,367</u>	<u>\$6,169,918</u>

Investment income totaled \$72,520 and \$43,760, for the years ended September 30, 2017 and 2016 respectively. Related investment fees totaled \$29,349 and \$25,763, for the years ended September 30, 2017 and 2016, 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 and government securities.

The anticipated maturities of the Board's fixed income investments as of September 30, 2017 were as follows:

0 - 2 years	\$4,046,094
2 - 5 years	2,112,743
	<u>\$6,158,837</u>

The weighted average maturities of the certificates of deposit are 1.59 years at September 30, 2017.

The weighted average maturities of the government securities are 1.53 years at September 30, 2017.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2017, the Board's money market funds and the traded certificates of deposit were unrated and the government securities are fully backed by the United States government.

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, 2017, the Board had cash deposits and money market accounts that exceeded the Federal Deposit Insurance Corporation's (FDIC) limits of \$250,000 by \$2,113,866. In addition, government securities with a fair value of \$3,009,653 at September 30, 2017 are not insured by the FDIC. 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. At September 30, 2017, the Board owned investments that exceeded the SIPC limit of \$500,000 by \$6,180,367, which included multiple traded certificates of deposit investments totaling \$3,149,184 held in a brokerage account as well as a trust account that were individually insured up to \$250,000 under FDIC at September 30, 2017.

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, 2017 and 2016 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 \$244,382 and \$219,943, at September 30, 2017 and 2016, respectively.

NOTE 5 - ACCRUED VACATION

Changes to accrued vacation are as follows:

	2017	2016
Beginning accrued vacation	\$ 151,580	\$ 152,318
Vacation earned	142,700	138,716
Vacation used	(136,022)	(139,454)
Ending accrued vacation	<u>\$ 158,258</u>	<u>\$ 151,580</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, 2017, was as follows:

	Cost 9/30/2016	Additions	Disposals	Cost 9/30/2017
Capital Assets:				
Building	\$1,900,559	\$ -	\$ -	\$1,900,559
Building improvements	96,062	-	-	96,062
Furniture and fixtures	245,325	-	(1,532)	243,793
Equipment	340,423	6,465	(86,338)	260,550
Vehicles	223,228	65,172	(53,786)	234,614
Software	212,000	138,000	-	350,000
Total at historical cost	<u>3,017,597</u>	<u>209,637</u>	<u>(141,656)</u>	<u>3,085,578</u>
Less accumulated depreciation for:				
Building	645,848	48,820	-	694,668
Building improvements	13,010	5,712	-	18,722
Furniture and fixtures	236,283	3,077	(1,532)	237,828
Equipment	263,339	23,859	(86,338)	200,860
Vehicles	114,891	14,912	(37,506)	92,297
Software	-	1,944	-	1,944
Total accumulated depreciation	<u>1,273,371</u>	<u>98,324</u>	<u>(125,376)</u>	<u>1,246,319</u>
Total capital assets, net	<u>\$1,744,226</u>	<u>\$ 111,313</u>	<u>\$ (16,280)</u>	<u>\$1,839,259</u>

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>

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. The Board also leases a postage machine under an agreement that calls for lease payments of \$112 per month ending in May 2020.

Future annual lease payment requirements are as follows:

<u>Years Ending September 30:</u>	
2018	\$ 4,696
2019	1,348
2020	898
	<u>\$ 6,942</u>

The Board also leases other equipment on an as needed basis. Total equipment lease expense for the years ended September 30, 2017 and 2016, was \$3,822 and \$8,516, 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, 2017 and 2016, totaled \$287,316 and \$265,591, which consisted of \$116,985 and \$108,304 from the Board and \$170,331 and \$157,287 from employees, respectively.

During the years ended September 30, 2017 and 2016, the Board had no retirement forfeiture balances to offset retirement matching contributions.

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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 \$195,500 and \$220,000 related to the contract during the years ended September 30, 2017 and 2016, of which \$138,000 and \$212,000 was capitalized and included in capital assets in the accompanying statements of net position at September 30, 2017 and 2016, respectively.

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 agreement was renewed during the year ended September 30, 2017 and runs January 15, 2017 through June 30, 2018, 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 includes a \$250,000 annual fee payable in quarterly installments. Expenses for the pharmacist recovery programs totaled \$250,000 and \$332,068 for the years ended September 30, 2017 and 2016, respectively.

NOTE 11 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through December 6, 2017, which is the date the financial statements were available to be issued.

The audit was conducted in approximately 100 hours at a cost of \$11,225.