

ONE HUNDRED THIRTIETH ANNUAL REPORT  
NORTH CAROLINA BOARD OF PHARMACY

October 1, 2010 – September 30, 2011

MEMBERS AND ORGANIZATION

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*COMMISSIONED BY HER EXCELLENCY THE GOVERNOR OF NORTH CAROLINA*

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Betty H. Dennis, Chapel Hill, President ..... Term expires April 30, 2012  
Gene Winston Minton, Littleton, Vice President..... Term expires April 30, 2015  
Rebecca W. Chater, Asheville ..... Term expires April 30, 2012  
R. Joseph McLaughlin, Jr., New Bern..... Term expires April 30, 2016  
J. Parker Chesson, Jr., Durham..... Term expires April 30, 2015  
Ellis Lazelle Marks, Rockingham ..... Term expires April 30, 2015

Carol Yates Day, Carrboro ..... Term begins May 1, 2012  
William A. Mixon, Hickory ..... Term begins May 1, 2012

Executive Director

Jack W. Campbell IV, Chapel Hill

General Counsel

Clinton R. Pinyan, Greensboro

Investigators/Inspectors

Karen Matthew, Director, Greensboro  
Joshua Kohler, Assistant Director, Raleigh  
Krystal Brashears, Wilson  
Thomas Currin, Garner  
Holly Price Hunt, Lincolnton  
Aaron Jeffers, Holly Ridge  
Jason Smith, Matthews  
Loretta Wiesner, Asheville  
J. Ken Wilkins, Walnut Cove

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Chapel Hill, North Carolina  
July 1, 2012

To Her Excellency  
Governor Beverly Perdue  
Raleigh, North Carolina

Dear Governor Perdue:

In compliance with N.C.G.S. § 93B-2, the Board of Pharmacy is pleased to submit to you the One Hundred Twenty-Ninth Annual Report of the North Carolina Board of Pharmacy. This report contains the proceedings of the Board for the fiscal year ending September 30, 2011 ("FY2011").

Respectfully yours,

NORTH CAROLINA BOARD OF PHARMACY

by:



Jack W. Campbell IV, Executive Director

## Introduction

FY2011 saw the election of two new members of the Board of Pharmacy. Carol Yates Day of Carrboro and William Allan Mixon of Hickory. Both were elected in May 2011 to five-year terms to commence on May 1, 2012 upon commissioning by Governor Perdue. Voter turnout among pharmacists was the largest recorded since 1986, which Board staff attributed to the number of candidates and an improved electronic voting procedure.

As required by G.S. § 93B-5, all members of the Board received training during FY2011 on G.S. Chapter 150B, The Administrative Procedure Act; G.S. Chapter 132, The Public Records Law; G.S. Chapter 143, Article 33, The Open Meetings Act; G.S. Chapter 143, Articles 31 and 31A, The State Tort Claims Act and The Defense of State Employees Law; G.S. Chapter 138A, The State Government Ethics Act; and G.S. Chapter 120C, Lobbying. Staff from the North Carolina Ethics Commission graciously held training for Board members at the Board's Chapel Hill offices. Attorneys from the Board's outside counsel firm – Brooks, Pierce, McLendon, Humphrey, and Leonard – provided comprehensive, live training on each of the other statutes.

Board members and staff remain active as thought leaders in pharmacy practice and regulation at the state, regional, and national level – participating as speakers, committee members, task force leaders, and officers in organizations such as the National Association of Boards of Pharmacy, American Society for Pharmacy Law, and North Carolina Association of Pharmacists. Such participation further enhances the Board's reputation as a thought leader in pharmacy regulation.

As detailed in the Board's 129<sup>th</sup> Annual Report, the Board promulgated a rule authorizing certain pharmacy technicians who are employed at hospital pharmacies, who hold an associate of arts degree in pharmacy technology, and who are subject to strict pharmacist-manager supervision and quality assurance requirements to validate work of other technicians in non-dispensing distributive activities such as floor stock replenishment and unit dose packaging. The rule came as a result of a multi-year pilot study of the concept at Broughton State Hospital and Wake Forest University Medical Center. A coalition of North Carolina community colleges implemented associates degree programs in anticipation of, and support for, the rule. That rule was, however, held for legislative review.

The General Assembly adjourned the 2011 long session without taking action on a bill introduced to repeal the technician rule, and the rule went into effect in June 2011. The rule has seen substantial support from hospitals and the North Carolina community college system, and graduates of the North Carolina community colleges are being employed in these newly-created technician positions.

Consistent with obligations imposed by the Regulatory Reform Act of 2011, the Board completed comprehensive reviews of its existing rules and timely filed all reports. As a result of that review, the Board appointed a task force to review all rules governing

hospital and long term care pharmacy practice. These rules have not been updated in several years, and the task force is charged to recommend amendments aimed at modernizing, clarifying, and simplifying regulatory requirements. The task force's report and recommendations are due during FY2012.

At the request of public health authorities, the Board promulgated an amendment to 21 NCAC 46.2901, which governs return of outdated drugs to manufacturers and wholesalers. Public health officials were concerned that in the case of prescription drugs whose only FDA-approved indication is as an antidote to biological, chemical, or radiological poisoning, the "full credit" requirement discourages wholesalers from selling these emergency medications in North Carolina knowing they are likely to never be used and be returned for refund. The amendment resolved this issue.

The Board also promulgated an amendment to rules governing the administration of vaccines by pharmacists. A group of pharmacists noted that the rule requires any vaccinating pharmacist to be certified as a CPR provider. Some pharmacists who are unable to obtain CPR certification due to a physical disability are otherwise qualified to administer vaccines. Working with the Medical Board, the Board removed this impediment to pharmacist vaccination by amending the rule to allow such pharmacists to administer vaccines so long as they do so in the presence of another pharmacist or pharmacy technician who is a certified CPR provider.

Enforcement activity, detailed further below, remains active. Board staff communicates – and works closely – with local, state, and federal law enforcement officials. Such cooperation is critical to effective policing of controlled substance diversion issues.

In FY2011, this close cooperation also proved invaluable in investigating and prosecuting gray-market diversion of shortage prescription drugs by pharmacies and wholesalers. The Board's efforts in this emergent fraud scheme drew the praise of a committee of the U.S. Congress, which singled out the Board's speedy and thorough response to this issue as a model to be followed by other state and federal authorities.

The Board's financial statement and audit report for FY2011 are appended to this report. Please note that the audited FY2011 statements were previously submitted in January 2012 to the appropriate agencies as required by Chapter 93B. The Board's fiscal year runs from October 1 to September 30. The Board's audit is typically completed by the following January.

N.C.G.S. § 93B-2 Report Contents

North Carolina Board of Pharmacy  
Census of Registrants  
As of September 30, 2011

**PHARMACISTS**

Total number of active pharmacists licensed.....	13,451
Total number of active pharmacists residing in North Carolina.....	10,321
Inactive pharmacists residing in North Carolina .....	1,898
Total number of active pharmacists residing outside of North Carolina.....	3,130
Total number deceased in FY 2010.....	10

**Breakdown of Employment Settings In-State**

Retail Pharmacy – Chain.....	3,614
Retail Pharmacy – Independent.....	1,536
Hospital Pharmacies .....	2,455
Nursing Homes.....	117
Government, Health Departments and Teaching.....	172
Pharmaceutical Manufacturing and Wholesale Sales.....	123
Other.....	1,306
Sales and Research .....	95
Unknown Position .....	902

**Age and Gender of Active Pharmacists in North Carolina**

Under 30 years of age.....	1,243
30 – 39 years of age.....	2,865
40 – 49 years of age.....	2,565
50 – 59 years of age.....	2,035
60 – 65 years of age.....	837
Over 65 years of age.....	776
In-state Pharmacists – Female .....	5,842
In-state Pharmacists – Male.....	4,479

**PHARMACIES**

Total in-state Pharmacy permits on roster.....	2,637
Retail Pharmacy – Chain.....	1,227
Retail Pharmacy – Independent.....	679
Hospital Pharmacies .....	182
Nursing Homes.....	37
Health Departments.....	94
Free Clinics.....	37
IV Infusion .....	36
Automated Dispensing Systems .....	90
Others .....	255
Total out-of-state Pharmacy permits on roster .....	420

**DEVICE AND MEDICAL EQUIPMENT**

Total DME permits on roster..... 823

**DISPENSING PHYSICIANS**

Total Physicians registered..... 877

**PHYSICIAN ASSISTANTS AND NURSE PRACTITIONERS**

Total PA's and NP's registered to dispense ..... 246

**PHARMACY TECHNICIANS**

Total Pharmacy Technicians registered..... 14,606

(1) *The Address of the Board, and the Names of Its Members and Officers*

Board offices are located at 6015 Farrington Road, Suite 201, Chapel Hill, NC 27514.

The Board members and officers are noted on the cover page of this report.

(2) *The Number of Persons Who Applied to the Board for Examination*

526 persons applied to the Board for licensure by examination in FY2011.

(3) *The Number of Persons Who Were Refused Examination*

One (1) candidate was refused on the basis that the candidate did not possess the qualifications necessary to sit for examination.

(4) *The Number of Persons Who Took the Examination*

519 candidates sat for examination in FY2011. One (1) candidate withdrew from examination. Seven (7) candidates did not appear for examination. One (1) candidate, as noted above, was not allowed to sit for examination.

(5) *The Number of Persons to Whom Initial Licenses Were Issued*

The Board issued 504 licenses by examination in FY2011.

(6) The Number of Persons Who Applied for License by Reciprocity or Comity

217 persons applied for licensure by reciprocity in FY2011.

(7) The Number of Persons Who Were Granted Licenses by Reciprocity or Comity

201 persons were granted licensure by reciprocity in FY2011.

(8) The Number of Licenses Suspended or Revoked in FY2011

Total number of complaints received	319
Total number of "no action" decisions after investigation	99
Total number of "no action" decisions due to Board having no jurisdiction over complaint	27
Total number of staff letters* issued post pre-hearing conference or by informal administrative disposition	Letters of Caution 35 Letters of Concern 13 Letters of Warning 93
Total number of cases resulting in consent orders	16
Total number of cases resulting in full board hearings	13
Pharmacist licenses revoked	0
Pharmacist licenses suspended	4
Pharmacist licenses surrendered	17
Pharmacy Permit Revocations	0
Pharmacy Permit Suspensions	1
Pharmacy Permit Surrender	1
DME Permit Suspensions	0
DME Permit Surrenders	1

\* A "staff letter" is not deemed a formal disciplinary action.

(9) The Number of Licenses Terminated For Any Reason Other than Failure to Pay the Required Renewal Fee

Beyond the number of licenses suspended or revoked for disciplinary reasons (see number 8 above), no licenses were terminated for reasons other than failure to pay the required renewal fee.

(10) The Substance of Any Anticipated Request by the Occupational Licensing Board to the General Assembly to Amend Statutes Related to the Occupational Licensing Board

The Board of Pharmacy does not anticipate any request to the General Assembly to amend the Pharmacy Practice Act in FY2012. The Board has expressed support for

legislative efforts to grant broader vaccination administration authority to pharmacists, and such legislation is pending before the General Assembly at the time of this writing.

(11) *The Substance of Any Anticipated Change in Rules Adopted by the Occupational Licensing Board or the Substance of Any Anticipated Adoption of New Rules By the Occupational Licensing Board*

The Board may undertake rulemaking on the following topics during FY2012:

- Amendments to Board rules governing hospital and long-term care facility practices. A task force is expected to recommend amendments aimed at simplifying and clarifying existing rules.
- Amendments to Board rules governing physical requirements for pharmacies aimed at simplifying and clarifying existing rules.
- Any rulemaking compelled by new statutes enacted by the General Assembly.



**NORTH CAROLINA BOARD OF PHARMACY**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011 AND 2010**

**FURR & NEWELL, LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

NORTH CAROLINA BOARD OF PHARMACY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**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, 2011. 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 Assets; Statements of Revenues, Expenses and Changes in Net Assets; and Statements of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) principles.

The Statements of Net Assets 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 Assets present the revenues earned and expenses 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 Assets**

The Statements of Net Assets present a fiscal snapshot of the Board's financial position as of September 30, 2011 and 2010. 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 assets available for expenditure by the Board.

NORTH CAROLINA BOARD OF PHARMACY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**Statements of Net Assets - continued**

The following table summarizes the Board's assets, liabilities and net assets at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
<b>Assets:</b>		
Current assets	\$2,300,393	\$2,239,364
Capital assets, net	1,666,877	1,711,887
Other non-current assets	<u>1,619,606</u>	<u>1,709,819</u>
Total assets	<u>5,586,876</u>	<u>5,661,070</u>
<b>Liabilities and net assets:</b>		
Current liabilities	54,423	75,134
Non-current liabilities	<u>96,638</u>	<u>1,050,350</u>
Total liabilities	<u>151,061</u>	<u>1,125,484</u>
<b>Net assets:</b>		
Invested in capital assets - net of related debt	1,666,877	691,162
Unrestricted	<u>3,768,938</u>	<u>3,844,424</u>
Total net assets	<u>\$5,435,815</u>	<u>\$4,535,586</u>

Current assets consist primarily of cash and cash equivalents and short-term investments, which decreased in the current year primarily due the accelerated mortgage payoff in March 2011. The decrease in net capital assets is attributable to the disposal of old assets and depreciation expense recorded in the current year. The decrease in non-current liabilities and increase in the balance of Invested in capital assets - net of related debt is also due to the accelerated payoff of the mortgage.

NORTH CAROLINA BOARD OF PHARMACY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**Statements of Revenues, Expenses and Changes in Net Assets**

The Statements of Revenues, Expenses and Changes in Net Assets represent the Board's results of operations. The condensed statements for the fiscal years ended September 30, 2011 and 2010, are presented as follows:

	<u>2011</u>	<u>2010</u>
Operating revenues	\$3,474,633	\$3,335,954
Operating expenses	<u>2,593,294</u>	<u>2,435,563</u>
Operating income	881,339	900,391
Non-operating revenue (expense)	<u>18,890</u>	<u>(6,263)</u>
Changes in net assets	900,229	894,128
Net assets - beginning of year	<u>4,535,586</u>	<u>3,641,458</u>
Net assets - end of year	<u>\$5,435,815</u>	<u>\$4,535,586</u>

Operating revenue consists primarily of pharmacists and pharmacy renewals for the years ended September 30, 2011 and 2010. The consistency of the operating revenue is attributable to the unchanged fees and no major industry changes during the 2011 fiscal year. Non-operating revenue (expense) consists primarily of investment income and interest expense. Operating expenses are related to the operation of the Board, including personnel costs, investigative costs, professional fees, supplies, utilities, and depreciation. Operating expenses were consistent with the prior year. The Board recorded depreciation expense of \$115,886 and \$130,347, for the years ended September 30, 2011 and 2010, respectively.

**Contacting the Board's Financial 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.

**FURR & NEWELL, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS  
RALEIGH, NORTH CAROLINA

INDEPENDENT AUDITOR'S REPORT

Members of the Board  
North Carolina Board of Pharmacy  
Chapel Hill, North Carolina

We have audited the statements of net assets of the North Carolina Board of Pharmacy as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the fiscal years then ended. 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. Those standards require that we plan and perform the audits 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.

In our opinion, the 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, 2011 and 2010, and the changes in financial position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 an assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



January 12, 2012

NORTH CAROLINA BOARD OF PHARMACY  
STATEMENTS OF NET ASSETS  
SEPTEMBER 30

ASSETS	2011	2010
Current assets		
Cash	\$ 437,858	\$ 483,083
Investments	1,743,658	1,608,591
Accounts receivable	-	20,320
Accrued interest	15,877	16,022
Prepaid expenses	103,000	111,348
Total current assets	2,300,393	2,239,364
Non-current assets		
Investments	1,536,109	1,650,760
Capital assets, net	1,666,877	1,711,887
Note receivable - officer life insurance	83,497	59,059
Total non-current assets	3,286,483	3,421,706
 TOTAL ASSETS	 5,586,876	 5,661,070
 LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	33,523	12,373
Unemployment claims payable	20,900	-
Current portion of note payable	-	62,761
Total current liabilities	54,423	75,134
Long-term debt		
Accrued vacation	96,638	92,386
Note payable, less current portion	-	957,964
Total long-term debt	96,638	1,050,350
 TOTAL LIABILITIES	 151,061	 1,125,484
 Net assets		
Invested in capital assets - net of depreciation	1,666,877	691,162
Unrestricted net assets	3,768,938	3,844,424
 TOTAL NET ASSETS	 \$5,435,815	 \$4,535,586

See accompanying notes and accountant's report.

NORTH CAROLINA BOARD OF PHARMACY  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED SEPTEMBER 30

	2011	2010
Operating revenues		
Pharmacist renewals	\$ 1,718,685	\$ 1,655,775
Pharmacist reciprocity	120,600	131,400
Pharmacist exam fees	53,600	48,900
Pharmacist/manager changes	21,665	18,690
Pharmacist reinstatements	14,580	15,120
Pharmacy renewals	531,800	549,200
Pharmacy permits	245,000	144,500
Pharmacy reinstatements	4,000	2,800
Technician renewals	357,630	342,060
Technician registrations	72,420	83,040
Technician reinstatements	29,640	28,920
Device and DME permits and renewals	207,000	212,200
Dispensing physician renewals and permits	69,075	69,525
Dispensing PA/NP renewals and permits	18,975	18,900
Pharmacy/pharmacists, list and labels	8,859	13,731
Law books	54	517
Miscellaneous	1,050	676
Total operating revenues	3,474,633	3,335,954
Operating expenses		
Salaries	1,271,394	1,140,727
Payroll taxes	92,549	84,416
Retirement contributions	91,369	65,011
Employee benefits	141,902	141,281
Unemployment claims	20,900	-
Educational expense	1,500	1,230
Board meeting and election expenses	14,473	18,373
Meetings per diem	9,000	12,500
Professional meetings	4,114	11,875
Inspection expense	48,935	40,011
Building dues and maintenance	17,787	26,553
Office utilities	8,641	10,050
Janitorial service	13,785	12,000
Telephone	11,449	13,462
Auto expense	40,689	40,587
Supplies	25,214	20,927
Books, dues and subscriptions	3,835	5,092
Postage	5,166	11,226
Printing	5,543	5,629
Equipment lease	16,657	16,610
Maintenance	21,421	19,970
Special meetings and projects	13,313	30,915

continued

See accompanying notes and accountant's report.

NORTH CAROLINA BOARD OF PHARMACY  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED SEPTEMBER 30

	<u>2011</u>	<u>2010</u>
Operating expenses (continued)		
Insurance	\$ 7,379	\$ 7,754
Executive director's expense	16,897	16,433
Office staff travel	5,416	4,434
Miscellaneous	1,893	1,889
Consulting fees	60,489	50,289
Bank service charges	95,932	92,612
Depreciation	115,886	130,347
Legal fees	202,330	187,925
Pharmacist recovery network	189,000	189,000
Audit fee	9,000	11,600
Temporary office help	9,436	14,835
Total operating expenses	<u>2,593,294</u>	<u>2,435,563</u>
Operating income	<u>881,339</u>	<u>900,391</u>
Non-operating revenues (expenses)		
Investment income, net	50,633	42,444
Unrealized and realized loss on investments	(26,527)	(7,739)
Gain (loss) on sale of fixed assets	13,025	(628)
Interest expense	(18,241)	(40,340)
Net non-operating revenues (expenses)	<u>18,890</u>	<u>(6,263)</u>
Change in net assets	900,229	894,128
Net assets - beginning of year	<u>4,535,586</u>	<u>3,641,458</u>
Net assets - end of year	<u>\$ 5,435,815</u>	<u>\$ 4,535,586</u>

See accompanying notes and accountant's report.



NORTH CAROLINA BOARD OF PHARMACY  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30

	2011	2010
Cash flows from operating activities		
Cash received from fees	\$3,493,849	\$3,314,441
Other cash received	1,104	1,193
Cash payments to employees for services	(1,267,142)	(1,137,455)
Cash payments for operating expenses	(1,155,616)	(1,151,166)
Net cash provided by operating activities	1,072,195	1,027,013
Cash flows from investing activities		
Purchase of investments	(3,187,205)	(4,020,387)
Proceeds from sale of investments	3,140,262	3,160,762
Issuance of note receivable	(24,438)	(24,438)
Investment fees	(13,223)	(11,862)
Interest on investments	64,001	49,125
Net cash used in investing activities	(20,603)	(846,800)
Cash flows from capital and related financing activities		
Acquisition of capital assets	(70,876)	(45,001)
Proceeds from sale of assets	13,025	185
Principal payments on note	(1,020,725)	(60,318)
Interest payments on note	(18,241)	(40,340)
Net cash used in capital and related financing activities	(1,096,817)	(145,474)
Net increase (decrease) in cash	(45,225)	34,739
Cash - beginning of year	483,083	448,344
Cash - end of year	\$ 437,858	\$ 483,083
Reconciliation of operating income		
to net cash used in operating activities		
Operating income	\$ 881,339	\$ 900,391
Adjustments to reconcile operating income		
to net cash provided by operating activities		
Depreciation	115,886	130,347
Changes in assets and liabilities		
Accounts receivable	20,320	(20,320)
Deposit	-	12,719
Prepaid expenses	8,348	-
Accounts payable and accrued expenses	21,150	604
Unemployment claims payable	20,900	-
Accrued vacation	4,252	3,272
Total adjustments	190,856	126,622
Net cash provided by operating activities	\$1,072,195	\$1,027,013

See accompanying notes and accountant's report.

NORTH CAROLINA BOARD OF PHARMACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010

Note 1 - Summary of Significant Accounting Policies

**Description of Organization**

The North Carolina Board of Pharmacy (the "Board") is established under Chapter 90 of the North Carolina General Statutes 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.

**Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. The Board applied all applicable Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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**

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of North Carolina because the State exercises oversight responsibility in that the Governor appoints the Board members, five after their election by North Carolina pharmacists, and one directly as the Board's public member - and public service is rendered within the State's boundaries. The accompanying financial statements present only the activity of the North Carolina Board of Pharmacy.

**Basis of Accounting**

In accordance with *Statement of Governmental Accounting Standards 34*, the Board presents a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

The financial statements report all activities of the North Carolina Board of Pharmacy using the current financial resource measurement focus and the full accrual basis of accounting.

The Statement of Revenues, Expenses, and Change in Net Assets demonstrates the degree to which the direct expenses of the Board are offset by license renewal fees and permits.

The financial statements report all activities of the North Carolina Board of Pharmacy using the current financial resource measurement focus and the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized when incurred, if measurable.

NORTH CAROLINA BOARD OF PHARMACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010

Note 1 - Summary of Significant Accounting Policies - continued

**Basis of Accounting - continued**

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 consist of those revenues and expenses that are related to investing types of activities and are classified as non-operating in the financial statements.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of money on deposit with banks and are considered available for current use.

**Investments**

The Board reports investments at fair value as required by *Statement of Governmental Accounting Standards 31*. Fair value is based on readily available published values. Money market funds invested through brokerage accounts are considered investments.

**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 \$500 or greater. Depreciation is computed over estimated useful asset lives ranging from three to thirty-nine years using the straight-line method.

**Long-Lived Assets**

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Recoverability of the asset to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for an amount by which the carrying amount of the asset exceeds the fair value of the asset.

**Vacation and Sick Leave**

Board employees may accumulate up to thirty days 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.

NORTH CAROLINA BOARD OF PHARMACY  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2011 AND 2010

Note 1 - Summary of Significant Accounting Policies - continued

**Net Assets**

*Invested in capital assets* - Invested in capital assets, net of related debt represents the Board's total investment in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Unrestricted net assets* - Unrestricted net assets are not subject to externally imposed stipulations pertaining to their use. Unrestricted net assets are 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 assets to cover potential litigation costs.

**Income Taxes**

The Board is a component of the State of North Carolina and is consequently exempt from federal and state income taxes.

**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, disclosures of contingent 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 at September 30, 2011 and 2010, consisted of the following:

	<u>2011</u>	<u>2010</u>
	Fair	Fair
	Value	Value
Money market funds	\$ 388,969	\$ 1,063,715
Bond securities	1,518,882	1,644,635
Certificates of deposit	1,241,266	548,021
Cash - brokerage	130,650	2,980
	<u>\$3,279,767</u>	<u>\$3,259,351</u>

NORTH CAROLINA BOARD OF PHARMACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010

Note 2 - Deposits and Investments - continued

Investment income totaled \$63,856 and \$54,306, for the years ending September 30, 2011 and 2010, respectively. Related investment fees totaled \$13,223 and \$11,862, for the years ending September 30, 2011 and 2010, respectively.

*Interest Rate Risk:* Interest rate risk is the risk the Board may face should interest rate variances affect the fair value of investments.

Board investment policies are in line with the State Treasurer under N.C.G.S. §147-69.1 regarding investment options. At September 30, 2011, investments in fixed income securities consisted of \$2,660,029 in certificates of deposits, maturing within four years and \$100,119 in the Federal Home Loan Bank, maturing within four years. At September 30, 2010, investments in fixed income securities consisted of \$2,090,968 in certificate of deposits, maturing within five years, and \$101,688 in the Federal Home Loan Bank, maturing within four years.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2011, the Board's security investment in the Federal Home Loan Bank had a credit rating of AAA by Moody's Investor Service.

*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.

At September 30, 2011, the Board had cash deposits that exceeded the Federal Depository Insurance Corporation (FDIC) limits of \$250,000 by \$105,766. 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, 2011, the Board owned investments that exceeded the SIPC limit of \$500,000 by \$1,407,850. The Board had multiple certificates of deposit investments held in a brokerage account as well as a trust account that were fully insured under FDIC at September 30, 2011.

Note 3 - 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 \$83,497 and \$59,059, at September 30, 2011 and 2010, respectively.

NORTH CAROLINA BOARD OF PHARMACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010

Note 4 - Capital Assets

Capital asset activity for the Board for the year ended September 30, 2011, was as follows:

	<u>Cost</u> <u>9/30/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Cost</u> <u>9/30/2011</u>
Capital assets:				
Building	\$ 1,900,559	\$ -	\$ -	\$ 1,900,559
Building improvements	22,830	7,312	-	30,142
Furniture and fixtures	236,793	3,235	-	240,028
Equipment	413,664	25,567	-	439,231
Vehicles	190,228	34,762	49,962	175,028
	<u>2,764,074</u>	<u>70,876</u>	<u>49,962</u>	<u>2,784,988</u>
Total at historical cost				
Less accumulated depreciation for:				
Building	352,928	48,820	-	401,748
Building improvements	1,293	1,277	-	2,570
Furniture and fixtures	203,304	9,967	-	213,271
Equipment	356,885	23,556	-	380,441
Vehicles	137,777	32,266	49,962	120,081
	<u>1,052,187</u>	<u>115,886</u>	<u>49,962</u>	<u>1,118,111</u>
Total accumulated depreciation				
Total capital assets, net	<u>\$ 1,711,887</u>	<u>\$ (45,010)</u>	<u>\$ -</u>	<u>\$ 1,666,877</u>

NORTH CAROLINA BOARD OF PHARMACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010

Note 4 - Capital Assets - continued

Capital asset activity for the Board for the year ended September 30, 2010, was as follows:

	<u>Cost</u> <u>9/30/2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Cost</u> <u>9/30/2010</u>
Capital assets:				
Building	\$ 1,900,559	\$ -	\$ -	\$ 1,900,559
Building improvements	22,830	-	-	22,830
Furniture and fixtures	232,223	4,570	-	236,793
Equipment	379,489	40,431	6,256	413,664
Vehicles	190,228	-	-	190,228
	<u>2,725,329</u>	<u>45,001</u>	<u>6,256</u>	<u>2,764,074</u>
Less accumulated depreciation for:				
Building	304,108	48,820	-	352,928
Building improvements	463	830	-	1,293
Furniture and fixtures	178,976	24,328	-	203,304
Equipment	342,616	19,711	5,442	356,885
Vehicles	101,119	36,658	-	137,777
	<u>927,282</u>	<u>130,347</u>	<u>5,442</u>	<u>1,052,187</u>
Total accumulated depreciation				
Total capital assets, net	<u>\$ 1,798,047</u>	<u>\$(85,346)</u>	<u>\$ 814</u>	<u>\$ 1,711,887</u>

Note 5 - Note Payable

At September 30, 2010, the Board had a note payable which consisted of a loan from a financial institution which was collateralized by the building. The note called for a fixed interest rate of 3.92% and required monthly installments of principal and interest of \$8,516 through June 17, 2023. In addition, the note balance was \$1,020,725 which consisted of a current portion of \$62,761 and a long-term portion of \$957,964. In March 2011, the Board paid off the balance of the note.

Note 6 - Accrued Vacation

Changes to accrued vacation are as follows:

	<u>2011</u>	<u>2010</u>
Beginning accrued vacation	\$ 92,386	\$ 89,114
Vacation earned	94,549	84,378
Vacation used	<u>(90,297)</u>	<u>(81,106)</u>
Ending accrued vacation	<u>\$ 96,638</u>	<u>\$ 92,386</u>

NORTH CAROLINA BOARD OF PHARMACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010

Note 7 - Unemployment Claims Payable

The Board is self-insured for unemployment claims for any terminated employees who file claims with the North Carolina Employment Security Commission (NCESC). The Board reimburses the NCESC for claims that are paid to terminated employees who are entitled to and receive unemployment benefits. The Board currently has two former employees who are entitled to these benefits. At September 30, 2011, \$20,900 is shown on the balance sheet related to unemployment claims payable. This amount represents an estimate of the amount the Board believes it will have to reimburse the NCESC related to the two terminated employees.

Note 8 - Operating Leases

During the current fiscal year, the Board leased a folding machine for a monthly rent of \$377 under an agreement that expires December 2012. The Board leases a mailing machine with a quarterly rent of \$1,467 through September 2012. Subsequent to year end, the Board entered into an operating lease agreement to replace a copying machine that the Board was leasing at September 30, 2011. The new agreement calls for yearly lease payments of \$6,044 per year over a three year period beginning in October 2011 and ending in October 2014. Total equipment lease expense for the years ended September 30, 2011 and 2010, was \$16,657 and \$16,610, respectively.

Future minimum lease payments are as follows:

Years Ending September 30

2012	\$ 16,202
2013	6,044
2014	<u>6,044</u>
	<u>\$ 28,290</u>

Note 9 - Retirement Plan

**North Carolina Licensing Boards Retirement Savings Plan**

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 with authority to amend the Plan, comprised of the Executive Directors of the participating boards and agencies.



NORTH CAROLINA BOARD OF PHARMACY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010

Note 9 - Retirement Plan - continued

**North Carolina Licensing Boards Retirement Savings Plan - continued**

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, 2011 and 2010, totaled \$211,428 and \$162,844, which consisted of \$91,369 and \$65,011 from the Board and \$120,059 and \$97,833 from employees, respectively.

Note 10 - 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 11 - Reclassification

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

Note 12 - Subsequent Events

Management of the Board evaluated subsequent events through January 12, 2012, which is the date the financial statements were available to be issued.