

ONE HUNDRED THIRTY-FIRST

ANNUAL REPORT

NORTH CAROLINA

BOARD OF PHARMACY

2012



**ONE HUNDRED THIRTY-FIRST ANNUAL REPORT
NORTH CAROLINA BOARD OF PHARMACY**

October 1, 2011 – September 30, 2012

MEMBERS AND ORGANIZATION

COMMISSIONED BY HIS EXCELLENCY THE GOVERNOR OF NORTH CAROLINA

Gene Winston Minton, Littleton, President..... Term expires April 30, 2015
Ellis Lazelle Marks, Rockingham, Vice President..... Term expires April 30, 2015
R. Joseph McLaughlin, Jr., New Bern..... Term expires April 30, 2016
J. Parker Chesson, Jr., Durham Term expires April 30, 2015
Carol Yates Day, Carrboro..... Term expires April 30, 2017
William A. Mixon, Hickory..... Term expires April 30, 2017

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

Chapel Hill, North Carolina
July 1, 2013

To His Excellency
Governor Pat McCrory
Raleigh, North Carolina

Dear Governor McCrory:

In compliance with N.C.G.S. § 93B-2, the Board of Pharmacy is pleased to submit to you the One Hundred Thirty-First Annual Report of the North Carolina Board of Pharmacy. This report contains the proceedings of the Board for the fiscal year ending September 30, 2012 ("FY2012").

Respectfully yours,

NORTH CAROLINA BOARD OF PHARMACY

by:

Jack W. Campbell IV, Executive Director

Introduction

FY 2012 saw significant transition at the North Carolina Board of Pharmacy. The Board welcomed new members Carol Yates Day of Carrboro, and William A. “Bill” Mixon of Hickory. Pharmacists in the state elected Mrs. Day and Mr. Mixon to the Board in May 2011 as the Board representatives from the Northern and Western Districts, respectively. After a year of learning more about the Board and their roles as Board members, Mrs. Day and Mr. Mixon were commissioned by then-Governor Bev Perdue on May 1, 2012.

Simultaneously, Betty Dennis and Rebecca Chater completed 10 years of superlative service to the Board and the citizens of North Carolina. Board members and staff bid Dr. Dennis and Mrs. Chater a fond farewell, with tremendous gratitude for their service. The next Board member elections will take place in spring 2014 for the Central and Northeastern District seats (presently held by Lazelle Marks and Gene Minton, respectively; each is eligible to run for a second term).

Implementation of Legislation

FY2012 required the Board to implement statutes enacted during the 2011 General Assembly Session.

S.L. 2012-196, An Act to Allow Licensure By Endorsement for Military Personnel and Military Spouses. S.L. 2012-196, requiring occupational licensing boards to allow licensure by endorsement for military personnel and spouses, directed implementation within one year of July 24, 2012. The Board immediately directed Board Member Joey McLaughlin, Executive Director Jay Campbell, and R.Ph. Bill Pickard (Col., USA Ret.) to review the statute and make recommendations to the Board on any rule or procedural changes that may be necessary to implement the statute. That review concluded that the Board’s existing license reciprocity and technician registration processes readily met S.L. 2012-196’s requirements. The Board notified then-Governor Perdue of these conclusions in September 2012.

S.L. 2011-349, An Act to Direct Pharmacies to Require Photo Identification Prior to Dispensing Certain Controlled Substances. S.L. 2011-349 presented a number of practical challenges to pharmacists attempting to comply with its mandates. Board of Pharmacy members and staff cooperated with personnel at the North Carolina Department of Health and Human Services Drug Control Unit to quickly address the numerous questions that arose. The result was a comprehensive, and frequently updated, guidance document that, according to feedback received, greatly assisted implementation.

S.L. 2011-315, Facilitate Locum Tenens Physicians. Though, as the title suggests, S.L. 2011-315 is principally concerned with locum tenens physician regulation, Section 3 authorized pharmacists to administer influenza vaccine to patients aged 14 and older pursuant to requirements established by 21 NCAC 46.2507. The impetus for this

statutory expansion came from pharmacists' demonstrated ability to serve younger patients during the 2010 H1N1 flu outbreak.

Rulemaking Activity

During FY 2012, the Board amended 21 NCAC 46.2507, Administration of Vaccines by Pharmacist, to allow pharmacists who are unable to perform CPR due to physical disability to vaccinate. The amended rule provides that pharmacists otherwise meeting all requirements to administer vaccines may do so when in the presence of a pharmacist or pharmacy technician who holds current, provider-level CPR certification. This amendment eliminates an unnecessary barrier to vaccine access and was supported by the Medical and Nursing Boards.

Throughout FY 2012, a hospital/long-term care pharmacy task force undertook a comprehensive review of every Board rule governing pharmacy practice at these institutions. The Board's Task Force included: Board Member Joey McLaughlin, Former Board Member Dr. Betty Dennis, Former Board Member R.Ph. Wallace Nelson, R.Ph. Tom Nicholson, R.Ph. Cecil Davis, R.Ph. James Strickland, Dr. Neelu Patil, and R.Ph. Beth Williams. The Board charged the Working Group to identify possible rule amendments – which could include additions, changes, or deletions – to simplify and clarify existing requirements. In the years since the Board promulgated many of these rules, practice models have evolved. The Working Group endeavored to ensure that these rules continue protect the public health and safety, but do not burden pharmacy practice in unnecessary ways. At the conclusion of its review, the Working Group identified an extensive list of recommended amendments, all designed to clarify, simplify, and, where appropriate, eliminate requirements. After discussing the recommendations thoroughly, the Board took action on nearly all. (The rule amendments became effective early in FY 2013).

The Board also substantially amended 21 NCAC 46.1601's requirements governing required references for a pharmacy. The amendments created additional options for maintaining an appropriate pharmacy reference library, including specific allowance of electronic references.

During FY 2012, the Board received an update on the implementation of 21 NCAC 46.1418, Supervision of Unit Dose Medications Systems. This rule, which allows pharmacy technicians with advanced training to supervise non-patient-specific distribution of certain prescription drugs in in-patient hospitals, proved somewhat controversial during rulemaking process. To assess the rule's operation, the Board heard a report from Michael Nnadi of Novant Health Systems; Jerry McKee of CCNC; Melinda Zimmerman of Broughton State Hospital; and Jason Chou of Wake Forest University Baptist Medical Center. Mr. Nnadi commended the Board on its progressive and historic decision to enact the rule. North Carolina, he reported, is in the forefront of technician validation. Seventeen states have implemented some form of technician validation in the in-patient hospital setting, with three states specifically referencing (and endorsing) the North Carolina model.

Several studies have shown (including a published paper by Jerry McKee and Melinda Zimmerman) that the rule has improved inpatient care and allows pharmacists to spend more time on clinical activities. Data collected at Broughton State Hospital showed the rate of medication errors in covered functions was infinitesimal and substantially lower than that of pharmacists conducting the same activities. Jason Chou reported that quality assurance records from WFUBMC show the same results, and that the use of validating technicians to perform nonjudgmental end product checking is freeing pharmacists to perform more clinically oriented involvement in patient care. Indeed, as a result, WFUBMC has committed over \$1 million to hiring additional clinical pharmacists.

As a result of Rule .1418, twelve community colleges in North Carolina now offer an A.A.S. degree in pharmacy technology. Novant Health and WFUBMC have hired or will be hiring a number of AAS pharmacy technology graduates.

Administrative Improvements

During FY 2012, the Board significantly simplified the process for approval of continuing education courses required for relicensure. Beginning March 1, 2012, the Board of Pharmacy ceased approving requests for continuing education (CE) courses that are not accredited by Accreditation Council for Pharmacy Education (ACPE) or the North Carolina Association of Pharmacists (NCAP). The reasons for change were two-fold: (1) the volume of such requests has increased substantially in the past two years, hindering Board staff's ability to focus on the Board's core functions; and (2) relatedly, Board staff was concerned about its ability to assess these requests for substantive acceptability as CE courses.

Going forward, the Board will continue to provide credit for certain categories of non-ACPE and non-NCAP CE (*e.g.*, Board meeting attendance, CPR training, precepting pharmacy students, residency training, Spanish or other foreign language class, continuing medical education, continuing nursing education, continuing dental education). Those categories are well known to North Carolina pharmacists and can be reviewed in the FAQs section of the Board's website.

Shifting approval of other non-ACPE continuing education courses to the North Carolina Association of Pharmacists has greatly simplified the process for pharmacists and Board staff. The changes have met with widespread appreciation.

In FY 2012, the Board created the Clinical Pharmacist Practitioner Advisory Committee. Under North Carolina law, clinical pharmacist practitioners ("CPPs") are advance-trained pharmacists who, in collaboration with a supervising physician, may assume a primary role in initiating, altering and monitoring prescription drug therapy. The CPP Advisory Committee, composed of expert practicing CPPs from around the state, has improved and streamlined the CPP application process, provided valuable

advice to the Board members, and improved the interface with the Medical Board, which holds joint responsibility for regulation of CPPs.

The Board again hosted its annual Pharmacy Leaders' Forum, which brings together practitioners from all walks of pharmacy practice, pharmacy administration, and pharmacy regulation to discuss current issues. Prior to the Forum, the Board members gathered for their annual retreat. As part of the retreat, Barney Barnhardt of Barnhardt & Associates conducted a training session on effective, ethical, and legal board service. The presentation focused on specific requirements imposed on Board members by North Carolina law; best practices that Board members should employ to avoid inadvertent violations of North Carolina law, ethical violations, and exposure to personal liability. This training is over and above the extensive training requirements of Chapter 93B, and it was well received by the members.

Enforcement Focus

As the data included in this report show, the Board continues to have an active enforcement docket.

"Grey-Market" Wholesaling. During FY 2012, the Board was recognized nationally as a leader in dealing with so-called "grey market wholesaling" of prescription drugs. North Carolina pharmacists are aware of the many nationwide drug shortages – often for critical care medications.

As is the case whenever any critical good is in short supply, unscrupulous actors seize opportunities to take advantage. Board staff received reports of pharmacies allegedly using their permits to acquire "shortage" drugs for the purpose of transferring such drugs to grey-market wholesalers, who in turn seek to sell these shortage drugs at exorbitant prices. Board staff obtained the surrender of a pharmacy permits and a pharmacist license in a case involving a "pharmacy" acquiring only "shortage" drugs and transferring them to a grey-market wholesaler. The pharmacy conducted no patient dispensing at all. Other cases remain under investigation. Board investigative staff cooperated closely with officials at the Food and Drug Safety Division North Carolina Department of Agriculture charged with enforcing laws governing prescription drug wholesalers, as well as federal authorities. The Board was singled out in a report prepared by U.S. Representative Elijah Cummings as a model for dealing with this issue.

Illegitimate Prescriptions for Controlled Substances. It is well known, and well publicized, that there exists a significant problem of illegitimate prescriptions for controlled substances generated at "pain clinics" and other such facilities. This is not a new phenomenon, and Board staff receives frequent reports of such prescriptions being presented in North Carolina pharmacies. Florida pain clinics have been the principal source, though Georgia clinics are increasingly a problem. And, in any event, this type of activity is not limited to Florida and Georgia. It can originate in any state – including North Carolina.

The story is a familiar one. A patient appears at a North Carolina pharmacy. The patient is often from Ohio, Tennessee, West Virginia, Kentucky, or another surrounding state. The patient presents a prescription – typically for oxycodone products (especially OxyContin® 30 mg tablets), benzodiazepines, and other controlled substances – written by a prescriber in another state. The typical patient ranges in age from the 20s to 50s and will pay cash. The patients offer stories – often elaborate – that attempt to explain why, for example, a Tennessee resident would be presenting a Georgia-based prescription for 120 OxyContin® 30 mg tablets to a pharmacy in western North Carolina. A call to the pain clinic will – unsurprisingly – lead to someone there stating the prescription is “legitimate.” Note that this sort of behavior is not limited to out-of-state residents; patients with North Carolina residences can also present prescriptions of this sort.

Pharmacists must continually be mindful that prior to filling any prescriptions, the pharmacist must take into consideration Board rules. Also, under federal and North Carolina law, a prescription is valid only if issued for a legitimate medical purpose by an individual prescriber in the usual course of practice. Both the prescriber and the pharmacist share an equal, corresponding responsibility to ensure that controlled substances are dispensed legally

The Board is, and remains, active in deterring and punishing pharmacists and pharmacies that enable illegal dispensing of this type. The Board frequently coordinates its enforcement efforts with the federal Drug Enforcement Administration.

Compounding Pharmacy. In September 2012, reports began to appear that a compounding pharmacy, later identified as the New England Compounding Center (“NECC”) had distributed a compounded medication (preservative-free methylprednisolone acetate for injection) suspected to have caused fungal meningitis in numerous patients nationwide. Within an hour of Board staff’s confirming that NECC products were suspected of causing the fungal meningitis outbreak, the Board members summarily suspended NECC’s out-of-state pharmacy permit, becoming the first regulatory body (federal or state) to take action against NECC.

Board investigative staff cooperated closely with North Carolina Department of Public Health staff to visit and/or telephone every clinic in North Carolina identified as having received potentially contaminated methylprednisolone products from NECC. During these in-person and telephone contacts, Board and Public Health staff ensured that the clinics were aware of the recall, had removed NECC products from inventory, and were notifying potentially affected patients. When the NECC recall was extended to all sterile products produced by that pharmacy, Board investigative staff again cooperated closely with Public Health staff to ensure that all affected clinics had pulled every NECC product from inventory and had notified patients as recommended by the FDA.

Immediately upon learning that the FDA had urged an NECC-affiliated company, Ameridose, to recall all compounded products produced at that facility, the Board members summarily suspended Ameridose’s out-of-state pharmacy permits.

Unlike most state boards of pharmacy, the North Carolina Board is fortunate to have the resources to keep seven inspector/investigators in the field. Accordingly, Board inspector/investigators are frequently in pharmacies throughout the state conducting “routine” inspections, “follow-up” inspections, and investigations of complaints (each complaint investigation also includes a complete inspection of the pharmacy). Board field staff have been instructed to prioritize (consistent with overall investigative work load) inspections of compounding pharmacies to ensure continuing compliance with relevant law.

The Board also created, empaneled, and charged a Pharmacy Compounding Working Group to conduct a comprehensive review of all aspects of compounding pharmacy regulation including: (1) whether and to what extent changes are needed in either or both of the North Carolina Pharmacy Practice Act and Board of Pharmacy rules governing compounding pharmacy; (2) whether and to what extent USP <797> standards should be specifically incorporated into state law; (3) whether and to what extent North Carolina law should mandate or recognize any form of “accreditation” for compounding pharmacies; (4) whether and to what extent changes are needed in Board investigator training or inspection methods with respect to compounding pharmacies; (5) what particular issues, if any, with respect to out-of-state compounding pharmacies require different or additional regulatory approaches. Each of these broad topics will encompass numerous subsidiary issues. The working group will provide a report and recommendation to the full Board on these issues.

Board staff is working closely with National Association of Boards of Pharmacy staff on the NABP Compounding Action Plan – a broad-gauge national effort aimed at supporting state boards of pharmacy in providing effective oversight of compounding pharmacy practices.

Note Concerning the Board’s Financial Statement and Audit Report

The Board’s financial statement and audit report for FY2012 are appended to this report. Please note that the audited FY2012 statements were previously submitted in January 2013 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.

North Carolina Board of Pharmacy
Census of Registrants
As of September 30, 2012

PHARMACISTS

Total number of active pharmacists licensed.....	13,945
Total number of active pharmacists residing in North Carolina.....	10,620
Inactive pharmacists residing in North Carolina	2,015
Total number of active pharmacists residing outside of North Carolina.....	3,325
Total number deceased in FY 2010.....	8

Breakdown of Employment Settings In-State

Retail Pharmacy – Chain.....	3,641
Retail Pharmacy – Independent.....	1,572
Hospital Pharmacies.....	2,586
Nursing Homes.....	122
Government, Health Departments and Teaching.....	159
Pharmaceutical Manufacturing and Wholesale Sales.....	115
Other.....	1,387
Sales and Research	89
Unknown Position	948

Age and Gender of Active Pharmacists in North Carolina

Under 30 years of age.....	1,325
30 – 39 years of age.....	2,865
40 – 49 years of age.....	2,646
50 – 59 years of age.....	2,066
60 – 65 years of age.....	906
Over 65 years of age.....	812
In-state Pharmacists – Female	6,066
In-state Pharmacists – Male.....	4,554

PHARMACIES

Total in-state Pharmacy permits on roster.....	2,740
Retail Pharmacy – Chain.....	1,246
Retail Pharmacy – Independent.....	690
Hospital Pharmacies.....	186
Nursing Homes.....	34
Health Departments.....	91
Free Clinics.....	39
IV Infusion	35
Automated Dispensing Systems	121
Others	298
Total out-of-state Pharmacy permits on roster	457

DEVICE AND MEDICAL EQUIPMENT

Total DME permits on roster..... 886

DISPENSING PHYSICIANS

Total Physicians registered..... 844

PHYSICIAN ASSISTANTS AND NURSE PRACTITIONERS

Total PA's and NP's registered to dispense 257

PHARMACY TECHNICIANS

Total Pharmacy Technicians registered..... 15,052

(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 27517.

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*

545 persons applied to the Board for licensure by examination in FY2012.

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

No 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*

543 candidates sat for examination in FY2012. One (1) candidate withdrew from examination. Nine (9) candidates did not appear for examination. As noted above, no candidate was refused examination.

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

The Board issued 532 licenses by examination in FY2012.

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

242 persons applied for licensure by reciprocity in FY2012.

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

230 persons were granted licensure by reciprocity in FY2012.

(8) The Number of Licenses Suspended or Revoked in FY2012

Total number of complaints received	284
Total number of "no action" decisions after investigation	99
Total number of "no action" decisions due to Board having no jurisdiction over complaint	42
Total number of staff letters issued post pre-hearing conference or by informal administrative disposition	Letters of Caution 26 Letters of Concern 23 Letters of Warning 101
Total number of cases resulting in consent orders	44
Total number of cases resulting in full board hearings	8
Pharmacist licenses revoked	0
Pharmacist licenses suspended	7
Pharmacist licenses surrendered	11
Pharmacy technician registrations revoked	
Pharmacy technician licenses suspended	10
Pharmacy technicians surrendered	37
Pharmacy Permit Revocations	0
Pharmacy Permit Suspensions	1
Pharmacy Permit Surrender	1
DME Permit Suspensions	0
DME Permit Surrenders	0

(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), 14 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 FY2013. The Board has expressed support for legislative efforts to grant broader vaccination administration authority to pharmacists, and would likely support any such legislative effort undertaken in the 2013-2014 session.

(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 FY2013:

- Amendments to Board rules governing automated dispensing devices. A task force is expected to recommend amendments aimed at simplifying and clarifying existing rules.
- Amendments to Board rules governing sterile compounding with an aim toward strengthening and clarifying such requirements.
- Any rulemaking compelled by new statutes enacted by the General Assembly.

NORTH CAROLINA BOARD OF PHARMACY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

FURR & NEWELL, LLP
CERTIFIED PUBLIC ACCOUNTANTS

NORTH CAROLINA BOARD OF PHARMACY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, 2012. 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, 2012 and 2011. 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, 2012

Statements of Net Assets - continued

The following table summarizes the Board's assets, liabilities and net assets at September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets:		
Current assets	\$2,975,718	\$2,300,393
Non-current assets	1,899,395	1,619,606
Net capital assets	<u>1,587,547</u>	<u>1,666,877</u>
Total assets	<u>6,462,660</u>	<u>5,586,876</u>
Liabilities and net assets:		
Current liabilities	27,721	54,423
Non-current liability	<u>121,936</u>	<u>96,638</u>
Total liabilities	<u>149,657</u>	<u>151,061</u>
Net assets:		
Invested in capital assets - net of related debt	1,587,547	1,666,877
Unrestricted	<u>4,725,456</u>	<u>3,768,938</u>
Total net assets	<u>\$6,313,003</u>	<u>\$5,435,815</u>

Current assets consist primarily of cash and short-term investments, which increased in the current year primarily due to the increase in the number of licenses issued. The decrease in net capital assets is attributable to the disposal of old assets and depreciation expense recorded in the current year. The increase in non-current liabilities is due to a change in the vacation accrual policy.

NORTH CAROLINA BOARD OF PHARMACY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, 2012 and 2011, are presented as follows:

	<u>2012</u>	<u>2011</u>
Operating revenues	\$3,563,661	\$3,474,633
Operating expenses	<u>2,715,310</u>	<u>2,593,294</u>
Operating income	848,351	881,339
Non-operating revenue	<u>28,837</u>	<u>18,890</u>
Changes in net assets	877,188	900,229
Net assets - beginning of year	<u>5,435,815</u>	<u>4,535,586</u>
Net assets - end of year	<u>\$6,313,003</u>	<u>\$5,435,815</u>

Operating revenue consists primarily of pharmacists and pharmacy renewals for the years ended September 30, 2012 and 2011. The consistency of the operating revenue is attributable to the unchanged fees and no major industry changes during the 2012 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 \$105,061 and \$115,886, for the years ended September 30, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Furr & Newell, LLP

January 7, 2013

NORTH CAROLINA BOARD OF PHARMACY
STATEMENTS OF NET ASSETS
SEPTEMBER 30

ASSETS	2012	2011
Current assets		
Cash	\$ 572,285	\$ 437,858
Investments	2,311,611	1,743,658
Accrued interest	16,427	15,877
Prepaid expenses	75,395	103,000
Total current assets	2,975,718	2,300,393
Non-current assets		
Investments	1,791,460	1,536,109
Note receivable - officer life insurance	107,935	83,497
Total non-current assets	1,899,395	1,619,606
Capital assets, net of depreciation	1,587,547	1,666,877
TOTAL ASSETS	6,462,660	5,586,876
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	18,391	33,523
Unemployment claims payable	9,330	20,900
Total current liabilities	27,721	54,423
Non-current liability		
Accrued vacation	121,936	96,638
TOTAL LIABILITIES	149,657	151,061
Net assets		
Invested in capital assets - net of depreciation	1,587,547	1,666,877
Unrestricted net assets	4,725,456	3,768,938
TOTAL NET ASSETS	\$6,313,003	\$5,435,815

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>2012</u>	<u>2011</u>
Operating revenues		
Pharmacist renewals	\$ 1,776,195	\$ 1,718,685
Pharmacist reciprocity	138,000	120,600
Pharmacist exam fees	58,500	53,600
Pharmacist/manager changes	21,525	21,665
Pharmacist reinstatements	17,145	14,580
Pharmacy renewals	602,200	531,800
Pharmacy permits	133,500	245,000
Pharmacy reinstatements	2,000	4,000
Technician renewals	366,330	357,630
Technician registrations	76,680	72,420
Technician reinstatements	31,080	29,640
Device and DME permits and renewals	241,000	207,000
Dispensing physician renewals and permits	65,775	69,075
Dispensing PA/NP renewals and permits	20,250	18,975
Pharmacy/pharmacists, list and labels	12,622	8,859
Law books	24	54
Miscellaneous	835	1,050
Total operating revenues	<u>3,563,661</u>	<u>3,474,633</u>
Operating expenses		
Salaries	1,348,097	1,271,394
Payroll taxes	96,805	92,549
Retirement contributions	79,368	91,369
Employee benefits	190,724	141,902
Unemployment claims	-	20,900
Educational expense	6,295	1,500
Board meeting and election expenses	16,457	14,473
Meetings per diem	10,900	9,000
Professional meetings	12,178	4,114
Inspection expense	45,152	48,935
Building dues and maintenance	19,416	17,787
Office utilities	8,560	8,641
Janitorial service	12,100	13,785
Telephone	12,063	11,449
Auto expense	33,895	40,689
Supplies	24,327	25,214
Books, dues and subscriptions	4,040	3,835
Postage	6,763	5,166
Printing	5,976	5,543
Equipment lease	12,735	16,657
Maintenance	19,532	21,421
Special meetings and projects	16,874	13,313

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

	2012	2011
Operating expenses (continued)		
Insurance	\$ 7,866	\$ 7,379
Executive director's expense	15,057	16,897
Office staff travel	5,284	5,416
Miscellaneous	2,956	1,893
Consulting fees	59,471	60,489
Bank service charges	98,542	95,932
Depreciation	105,061	115,886
Legal fees	235,507	202,330
Pharmacist recovery network	189,000	189,000
Audit fee	9,300	9,000
Temporary office help	5,009	9,436
Total operating expenses	2,715,310	2,593,294
Operating income	848,351	881,339
Non-operating revenues (expenses)		
Investment income, net	60,252	50,633
Unrealized and realized loss on investments	(31,840)	(26,527)
Gain on sale of fixed assets	425	13,025
Interest expense	-	(18,241)
Net non-operating revenues (expenses)	28,837	18,890
Change in net assets	877,188	900,229
Net assets - beginning of year	5,435,815	4,535,586
Net assets - end of year	\$ 6,313,003	\$ 5,435,815

See accompanying notes and accountant's report.

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

	2012	2011
Cash flows from operating activities		
Cash received from fees	\$ 3,562,802	\$ 3,493,849
Other cash received	859	1,104
Cash payments to employees for services	(1,322,799)	(1,267,142)
Cash payments for operating expenses	(1,261,249)	(1,155,616)
Net cash provided by operating activities	979,613	1,072,195
Cash flows from investing activities		
Purchase of investments	(5,220,558)	(3,187,205)
Proceeds from sales of investments	4,365,414	3,140,262
Issuance of note receivable	(24,438)	(24,438)
Investment fees	(14,320)	(13,223)
Interest on investments	74,022	64,001
Net cash used by investing activities	(819,880)	(20,603)
Cash flows from capital and related financing activities		
Acquisition of capital assets	(25,731)	(70,876)
Proceeds from sale of capital assets	425	13,025
Principal payments on note	-	(1,020,725)
Interest payments on note	-	(18,241)
Net cash used in capital and related financing activities	(25,306)	(1,096,817)
Net increase (decrease) in cash	134,427	(45,225)
Cash - beginning of year	437,858	483,083
Cash - end of year	\$ 572,285	\$ 437,858
Reconciliation of operating income		
to net cash provided by operating activities		
Operating income	\$ 848,351	\$ 881,339
Adjustments to reconcile operating income		
to net cash provided by operating activities		
Depreciation	105,061	115,886
Changes in assets and liabilities		
Accounts receivable	-	20,320
Prepaid expenses	27,605	8,348
Accounts payable and accrued expenses	(15,132)	21,150
Unemployment claims payable	(11,570)	20,900
Accrued vacation	25,298	4,252
Total adjustments	131,262	190,856
Net cash provided by operating activities	\$ 979,613	\$ 1,072,195

See accompanying notes and accountant's report.

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

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. 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, 2012 AND 2011

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

Cash consists of money on deposit with banks.

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. 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. 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 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.

NORTH CAROLINA BOARD OF PHARMACY
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012 AND 2011

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, 2012 and 2011, consisted of the following:

	<u>2012</u>	<u>2011</u>
	Fair	Fair
	Value	Value
Certificates of deposit	\$1,802,525	\$1,241,266
Traded certificates of deposit	1,790,902	1,418,763
Money market funds	225,056	388,969
Government bonds	284,588	100,119
Cash - brokerage	-	130,650
	<u>\$4,103,071</u>	<u>\$3,279,767</u>

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

Note 2 - Deposits and Investments - continued

Investment income totaled \$74,572 and \$63,856, for the years ending September 30, 2012 and 2011, respectively. Related investment fees totaled \$14,320 and \$13,223, for the years ending September 30, 2012 and 2011, respectively.

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

The anticipated maturities of the Board's fixed income investments as of September 30, 2012, were as follows:

0 - 2 years	\$ 3,534,249
3 + years	<u>343,766</u>
	<u>\$ 3,878,015</u>

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2012, all of the Board's government bonds had an AAA credit rating as rated by Moody's Investor Service, and the 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.

At September 30, 2012, the Board had cash deposits that exceeded the Federal Depository Insurance Corporation (FDIC) limits of \$250,000 by \$230,324. 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, 2012, the Board owned investments that exceeded the SIPC limit of \$500,000 by \$1,800,546. The Board had multiple traded and non-traded certificates of deposit investments held in a brokerage account as well as a trust account that were fully insured under FDIC at September 30, 2012.

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 \$107,935 and \$83,497, at September 30, 2012 and 2011, respectively.

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

Note 4 - Capital Assets

Capital asset activity for the Board for the year ended September 30, 2012, was as follows:

	<u>Cost</u> <u>9/30/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Cost</u> <u>9/30/2012</u>
Capital assets:				
Building	\$ 1,900,559	\$ -	\$ -	\$ 1,900,559
Building improvements	30,142	-	-	30,142
Furniture and fixtures	240,028	9,685	11,682	238,031
Equipment	439,231	16,047	110,547	344,731
Vehicles	175,028	-	-	175,028
Total at historical cost	<u>2,784,988</u>	<u>25,732</u>	<u>122,229</u>	<u>2,688,491</u>
Less accumulated depreciation for:				
Building	401,748	48,820	-	450,568
Building improvements	2,570	1,319	-	3,889
Furniture and fixtures	213,271	8,920	11,682	210,509
Equipment	380,441	22,452	110,547	292,346
Vehicles	120,081	23,551	-	143,632
Total accumulated depreciation	<u>1,118,111</u>	<u>105,062</u>	<u>122,229</u>	<u>1,100,944</u>
Total capital assets, net	<u>\$ 1,666,877</u>	<u>\$(79,330)</u>	<u>\$ -</u>	<u>\$ 1,587,547</u>

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

Note 4 - Capital Assets - continued

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

	<u>Cost</u> <u>9/30/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Cost</u> <u>9/30/2012</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>

Note 5 - Accrued Vacation

Changes to accrued vacation are as follows:

	<u>2012</u>	<u>2011</u>
Beginning accrued vacation	\$ 96,638	\$92,386
Vacation earned	100,696	94,549
Vacation used	<u>(75,398)</u>	<u>(90,297)</u>
Ending accrued vacation	<u>\$ 121,936</u>	<u>\$96,638</u>

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

Note 6 - 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, 2012, \$9,330 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 7 - Operating Leases

The Board leases a copying machine under an agreement that calls for lease payments of \$6,044 per year ending in October 2014. During the current fiscal year, the Board entered into an agreement to lease a mailing machine for quarterly payments of \$1,557 ending in May 2016. Total equipment lease expense for the years ended September 30, 2012 and 2011, was \$12,735 and \$16,657, respectively.

Future minimum lease payments are as follows:

<u>Years Ending September 30</u>	
2013	\$ 12,272
2014	12,272
2015	6,228
2016	<u>4,152</u>
	<u>\$ 34,924</u>

Note 8 - Retirement 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 comprised of the Executive Directors of the participating boards and agencies, with authority to amend the Plan.

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

Note 8 - Retirement 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, 2012 and 2011, totaled \$203,078 and \$211,428, which consisted of \$79,368 and \$91,369 from the Board and \$124,340 and \$120,059 from employees, respectively.

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 - Subsequent Events

Management of the Board evaluated subsequent events through January 7, 2013, which is the date the financial statements were available to be issued.