

**ONE HUNDRED TWENTY-EIGHTH ANNUAL REPORT  
NORTH CAROLINA BOARD OF PHARMACY**

**October 1, 2008 – September 30, 2009**

**MEMBERS AND ORGANIZATION**

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*COMMISSIONED BY HER EXCELLENCY THE GOVERNOR OF NORTH CAROLINA*

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**L. Stan Haywood, Asheboro, President.....Term expires April 30, 2010**  
**R. Joseph McLaughlin, Jr., New Bern, Vice President....Term expires April 30, 2011**  
**Rebecca W. Chater, Asheville .....Term expires April 30, 2012**  
**Wallace E. Nelson, Hertford.....Term expires April 30, 2010**  
**Betty H. Dennis, Chapel Hill .....Term expires April 30, 2012**  
**J. Parker Chesson, Jr., Durham.....Term expires April 30, 2010**

**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**  
**Melissa Cummings, Rocky Mount**  
**Thomas Currin, Garner**  
**Holly Price Hunt, Lincolnton**  
**Jason Smith, Matthews**  
**J. Ken Wilkins, Walnut Cove**

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Chapel Hill, North Carolina  
July 1, 2010

To Her Excellency  
Governor Beverly Perdue  
Raleigh, North Carolina

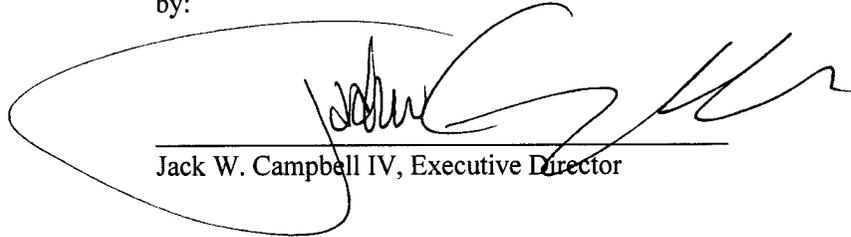
Dear Governor Perdue:

In compliance with Article 4, Section 90-57 of the General Statutes of North Carolina, the Board of Pharmacy is pleased to submit to you the One Hundred Twenty-Eighth Annual Report of the North Carolina Board of Pharmacy. This report contains the proceedings of the Board for the fiscal year ending September 30, 2009 ("FY2009").

Respectfully yours,

NORTH CAROLINA BOARD OF PHARMACY

by:



Jack W. Campbell IV, Executive Director

## Introduction

FY2009 was another active one for the Board of Pharmacy. FY2009 saw the Board's continued roll-out of initiatives aimed at minimizing paper-based license and permit renewal, continuing education reporting, and Board elections. Acceptance and appreciation of these initiatives has met with overwhelming support from the Board's licensees, permittees, and registrants. The Board continues to facilitate innovative practice ideas by hosting an annual Pharmacy Leaders' Forum, which brings together practitioners from a wide range of disciplines. These conferences alert the Board to practice trends, efficacy of existing regulation, and potential need for additional or different regulation. During FY2009, the Board worked closely with Representative Randy Stewart on the passage of SL 2009-423 establishing the Drug, Supplies, and Medical Device Repository Program in the North Carolina Board of Pharmacy. This statute brings much-needed guidance on whether and under what circumstances drugs, supplies, and medical devices may be donated for redispensing to patients in need.

Enforcement activity, detailed further below, was as active as in prior years. Board staff continues to communicate with – and work closely with – local, state, and federal law enforcement officials in addressing legal issues concerning controlled substance diversion and illegal Internet-based pharmacy operations. Board investigative staff continues to strengthen ties with enforcement officials affiliated with the North Carolina Department of Justice, North Carolina Division of Medical Assistance, and the United States Department of Justice to ensure that our agencies are working cooperatively in resolving cases that often present legal issues in a number of fields. Importantly, Board staff host a quarterly meeting with law enforcement officials from these and other agencies to discuss common issues and strategies.

The Board's financial statement and audit report for FY2009 are also appended to this report. Please note that the audited FY2009 statements were previously submitted in January 2010 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. Board staff has received mixed, and conflicting, advice concerning the October 31 deadline added to N.C.G.S. § 93B-2(b) by recent amendment.

To the extent that Board staff has been able to understand the proffered advice, the North Carolina Office of State Management and Budget takes the position that on each October 31, the Board must submit a financial report. Board staff has explained that on October 31, the audit for the fiscal year ending the preceding September 30 will not be – and cannot be – completed. Board staff has further explained that it submits the audited financial statement no later than October 31 of each year once the audit of the prior fiscal year is complete. *See* N.C.G.S. § 93B-2(b) (“No later than October 31 of each year, each occupational licensing board shall file . . . a financial report that includes the source and amount of all funds credited to the occupational licensing board and the purpose and amount of all funds disbursed by the occupational licensing board during the previous fiscal year.” (emphasis added)). The State Auditor's office appears to agree with the Board's interpretation. OSMB staff has, however, rejected that position and instead

directed that the Board submit an unaudited financial statement on October 31 each year and then submit the audited financial statement when completed. The Board of Pharmacy (and, likely, other occupational licensing boards) would welcome more definitive guidance that recognizes the practical reality of differing fiscal years among occupational licensing boards and avoids the need to file duplicative financial statements.

N.C.G.S. § 93B-2 Report Contents

North Carolina Board of Pharmacy  
Census of Registrants  
As of September 30, 2009

**PHARMACISTS**

Total number of active pharmacists licensed as of September 30, 2009.....	12,526
Total number of active pharmacists residing in North Carolina .....	9,764
Inactive pharmacists residing in North Carolina.....	1,683
Total number of active pharmacists residing outside of North Carolina.....	2,762
Total number deceased in FY 2009 .....	11

**Breakdown of Employment Settings In-State**

Retail Pharmacy – Chain.....	3,286
Retail Pharmacy – Independent .....	1,407
Hospital Pharmacies.....	2,117
Nursing Homes .....	114
Government, Health Departments and Teaching .....	177
Pharmaceutical Manufacturing and Wholesale Sales .....	131
Other .....	1,207
Sales and Research.....	112
Unknown Position.....	1,212

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

Under 30 years of age .....	1,239
30 – 39 years of age .....	2,837
40 – 49 years of age .....	2,321
50 – 59 years of age .....	1,924
60 – 65 years of age .....	723
Over 65 years of age .....	720
In-state Pharmacists – Female.....	5,428
In-state Pharmacists – Male .....	4,336

**PHARMACIES**

Total in-state Pharmacy permits on roster as of September 30, 2009 .....	2,461
Retail Pharmacy – Chain.....	1,199
Retail Pharmacy – Independent .....	622
Hospital Pharmacies.....	180
Nursing Homes .....	38
Health Departments.....	91
Free Clinics .....	37
IV Infusion .....	41
Automated Dispensing Systems.....	34
Others.....	219
Total out-of-state Pharmacy permits on roster as of September 30, 2009 .....	374

**DEVICE AND MEDICAL EQUIPMENT**

Total DME permits on roster as of September 30, 2009.....	763
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**DISPENSING PHYSICIANS**

Total Physicians registered to dispense as of September 30, 2009 .....	808
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**PHYSICIAN ASSISTANTS AND NURSE PRACTITIONERS**

Total PA's and NP's registered to dispense as of September 30, 2009 ..... 234

**PHARMACY TECHNICIANS**

Total Pharmacy Technicians registered as of September 30, 2009..... 13,890

(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. Effective May 1, 2010, two new Members joined the Board: Gene Minton of Littleton and Lazelle Marks of Rockingham. These new members will be noted on the cover of the 129th Annual Report of the Board of Pharmacy detailing FY2010 next year.

Governor Perdue appointed public member J. Parker Chesson, Jr. to a second five-year term effective May 1, 2010.

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

536 persons applied to the Board for licensure by examination in FY2009.

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

21 candidates were refused on the basis that the candidate did not possess the qualifications necessary to sit for examination.

This number for FY2009 is anomalously high. It stems from a change in Board policy concerning when graduates of foreign schools of pharmacy become eligible to sit for examination.

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

508 candidates sat for examination in FY2009. No candidates withdrew from examination. 7 candidates did not appear for examination. 21 candidates, as noted and explained above, were not allowed to sit for examination.

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

The Board issued 486 licenses by examination in FY2009.

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

253 persons applied for licensure by reciprocity in FY2009.

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

249 persons were granted licensure by reciprocity in FY2009.

(8) The Number of Licenses Suspended or Revoked in FY2009

Total number of complaints received	308
Total number of “no action” decisions after investigation	124
Total number of “no action” decisions due to Board having no jurisdiction over complaint	26
Total number of staff letters* issued post pre-hearing conference or by informal administrative disposition	Letters of Caution 43 Letters of Concern 12 Letters of Warning 42
Total number of cases resulting in consent orders	16
Total number of cases resulting in full board hearings	18
Pharmacist licenses revoked	0
Pharmacist licenses suspended	14
Pharmacist licenses surrendered	11
Pharmacy Permit Revocations	0
Pharmacy Permit Suspensions	1
Pharmacy Permit Surrender	0
DME Permit Suspensions	2

\* 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 FY2010.

(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 FY2010:

- (i) Amend the rules governing the requirements for, and methods of, counseling patients by pharmacists on medication therapy.
- (ii) Amend the rules governing the authority of pharmacy technicians with advanced training and education.
- (iii) Promulgate rules concerning donation and receipt of previously-dispensed prescription drugs to free and charitable clinics.
- (iv) Amend rules governing hospital pharmacy practice to simplify and/or eliminate recordkeeping requirements that are no longer necessary to protect the public health and safety.
- (v) Promulgate rules concerning remote order entry practices in community pharmacy settings.

**NORTH CAROLINA BOARD OF PHARMACY**

**Chapel Hill, North Carolina**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2009 AND 2008**

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**BLACKMAN & SLOOP, CPAs, P.A.**

Certified Public Accountants  
1414 Raleigh Road, Suite 300  
Chapel Hill, North Carolina 27517  
Telephone: 919-942-8700

**INDEPENDENT AUDITOR'S REPORT**

To the Board Members  
North Carolina Board of Pharmacy

We have audited the accompanying statements of net assets of the North Carolina Board of Pharmacy (a nonprofit organization) as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets, and cash flows for the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2009 and 2008, and its changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Blackman & Sloop*

Chapel Hill, North Carolina  
January 14, 2010

**NORTH CAROLINA BOARD OF PHARMACY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(Unaudited)**

**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 years ended September 30, 2009 and 2008. 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. Effective in 2003, the Board adopted the provisions of GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*.

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, capital financing, and investing activities, 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, 2009 and 2008. 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**

(Unaudited)

**Statements of Net Assets (continued)**

The following table summarizes the Board's assets, liabilities and net assets at September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Assets:		
Current assets	\$ 3,025,337	\$ 2,253,015
Capital assets, net	1,798,047	1,892,217
Total Assets	<u>\$ 4,823,384</u>	<u>\$ 4,145,232</u>
Liabilities and Net Assets:		
Current liabilities	\$ 161,202	\$ 167,061
Noncurrent liabilities	1,020,724	1,081,040
Total Liabilities	<u>1,181,926</u>	<u>1,248,101</u>
Net Assets		
Invested in capital assets - net of related debt	717,004	753,204
Unrestricted	<u>2,924,454</u>	<u>2,143,927</u>
Total Net Assets	<u>3,641,458</u>	<u>2,897,131</u>
Total Liabilities and Net Assets	<u>\$ 4,823,384</u>	<u>\$ 4,145,232</u>

Current assets consist primarily of cash and cash equivalents 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 decrease in liabilities is due to the payments on principal for the mortgage.

**NORTH CAROLINA BOARD OF PHARMACY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(Unaudited)**

**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, 2009 and 2008, are presented as follows:

	2009	2008
Operating Revenue	\$ 3,220,676	\$ 3,191,870
Operating Expenses	2,548,641	2,575,224
Operating Income	672,035	616,646
Nonoperating Revenue	72,292	73,995
Changes in Net Assets	744,327	690,641
Net Assets - Beginning of Year	2,897,131	2,206,490
Net Assets - End of Year	\$ 3,641,458	\$ 2,897,131

Operating revenue consists primarily of pharmacists and pharmacy renewals for the years ended September 30, 2009 and 2008. The consistency of the operating revenue is attributable to the unchanged fees and no major industry changes during the 2009 fiscal year. Nonoperating revenue consists primarily of investment income. 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. In the current year, there was increased support for the Pharmacist Recovery Network. The Board recorded depreciation expense of \$138,323 and \$159,097, for the years ended September 30, 2009 and 2008, 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.

## NORTH CAROLINA BOARD OF PHARMACY

## STATEMENTS OF NET ASSETS

## EXHIBIT A

September 30, 2009 and 2008

	<u>ASSETS</u>	
	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 448,344	\$ 1,018,508
Investments	2,407,464	1,142,862
Note receivable - officer life insurance	34,621	10,183
Accrued interest	10,841	3,307
Deposit	12,719	-
Prepaid expenses	111,348	78,155
<b>TOTAL CURRENT ASSETS</b>	<u>3,025,337</u>	<u>2,253,015</u>
<b>NONCURRENT ASSETS:</b>		
Capital assets, net	<u>1,798,047</u>	<u>1,892,217</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,823,384</u>	<u>\$ 4,145,232</u>
	<u>LIABILITIES AND NET ASSETS</u>	
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 11,769	\$ 24,827
Accrued vacation	89,114	84,261
Current portion of note payable	60,319	57,973
<b>TOTAL CURRENT LIABILITIES</b>	<u>161,202</u>	<u>167,061</u>
<b>NONCURRENT LIABILITIES:</b>		
Note payable, less current portion	<u>1,020,724</u>	<u>1,081,040</u>
<b>TOTAL LIABILITIES</b>	<u>1,181,926</u>	<u>1,248,101</u>
<b>NET ASSETS:</b>		
Invested in capital assets - net of related debt	717,004	753,204
Unrestricted	<u>2,924,454</u>	<u>2,143,927</u>
<b>TOTAL NET ASSETS</b>	<u>3,641,458</u>	<u>2,897,131</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,823,384</u>	<u>\$ 4,145,232</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**NORTH CAROLINA BOARD OF PHARMACY**  
**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**

EXHIBIT B

Page 1 of 2

For the Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUE:</b>		
Pharmacist renewals	\$ 1,588,275	\$ 1,545,996
Pharmacist reciprocity	149,400	142,800
Pharmacist exam fees	52,600	54,100
Pharmacist/manager changes	20,510	22,155
Pharmacist reinstatements	16,740	19,980
Pharmacy renewals	540,400	527,576
Pharmacy permits	109,500	130,500
Pharmacy reinstatements	1,600	2,800
Technician renewals	323,370	295,641
Technician registrations	81,510	104,835
Technician reinstatements	38,010	36,840
Device and DME permits and renewals	195,700	195,691
Dispensing physician renewals and permits	64,350	61,692
Dispensing PA/NP renewals and permits	18,075	19,605
Pharmacy/pharmacists lists and labels	17,681	28,317
Law books	201	356
Miscellaneous	2,754	2,986
	<u>3,220,676</u>	<u>3,191,870</u>
<b>TOTAL OPERATING REVENUE</b>		
<b>OPERATING EXPENSES:</b>		
Salaries	1,193,935	1,147,455
Legal fees	205,856	209,974
Pharmacist recovery network	188,335	130,000
Employee benefits	155,981	157,331
Depreciation	138,323	159,097
Bank service charges	89,776	76,074
Payroll taxes	86,525	84,203
Retirement contributions	70,582	70,439
Consulting fees	60,447	80,831
Interest	45,750	53,965
Inspection expense	39,390	52,625
Auto expense	30,105	52,012
Maintenance	22,042	18,073
Building dues and maintenance	21,730	17,002
Postage	20,544	28,171
Executive director's expenses	18,432	22,527
Supplies	18,085	26,540

The accompanying Notes to Financial Statements are an integral part of these statements.

**NORTH CAROLINA BOARD OF PHARMACY**  
**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**

EXHIBIT B

Page 2 of 2

For the Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>OPERATING EXPENSES (CONTINUED):</b>		
Board meeting and election expenses	18,073	12,643
Equipment lease	15,580	10,887
Special meetings and projects	15,421	48,472
Janitorial service	14,010	12,194
Telephone	11,784	15,163
Audit fee	11,600	7,400
Meetings per diem	9,900	9,600
Office utilities	9,371	8,773
Professional meetings	9,348	9,227
Insurance	6,631	9,462
Printing	6,390	14,552
Office staff travel	4,356	7,054
Books, dues and subscriptions	4,088	3,132
Miscellaneous	4,045	1,933
Educational expense	878	449
Office rent and storage	804	390
Renewal forms	524	9,608
Temporary office help	-	7,966
	<u>2,548,641</u>	<u>2,575,224</u>
<b>TOTAL OPERATING EXPENSES</b>		
	<u>672,035</u>	<u>616,646</u>
<b>OPERATING INCOME</b>		
<b>NONOPERATING REVENUE:</b>		
Investment income, net	51,294	69,649
Realized gain on investments	6,584	-
Unrealized gain (loss) on investments	24,023	(429)
(Loss) gain on sale of fixed assets	(9,609)	4,775
	<u>72,292</u>	<u>73,995</u>
<b>NONOPERATING REVENUE</b>		
	<u>744,327</u>	<u>690,641</u>
<b>CHANGES IN NET ASSETS</b>		
	<u>2,897,131</u>	<u>2,206,490</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>		
	<u>\$ 3,641,458</u>	<u>\$ 2,897,131</u>
<b>NET ASSETS - END OF YEAR</b>		

The accompanying Notes to Financial Statements are an integral part of these statements.

## NORTH CAROLINA BOARD OF PHARMACY

## STATEMENTS OF CASH FLOWS

EXHIBIT C

For the Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from fees	\$ 3,217,721	\$ 3,188,528
Other cash received	2,955	3,342
Cash payments to employees for services	(1,189,082)	(1,146,120)
Cash payments for operating expenses	<u>(1,275,342)</u>	<u>(1,289,788)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>756,252</u>	<u>755,962</u>
<b>CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets	(57,212)	(81,063)
Proceeds from the sale of assets	3,450	6,403
Proceeds from note payable	-	1,153,056
Principal payments on note	<u>(57,973)</u>	<u>(1,203,896)</u>
<b>NET CASH USED BY CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES</b>	<u>(111,735)</u>	<u>(125,500)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(4,797,601)	(1,630,775)
Proceeds from sale of investments	3,566,905	1,591,000
Issuance of note receivable	(24,438)	(10,183)
Investment fees	(6,098)	(5,095)
Interest on investments	<u>46,551</u>	<u>71,448</u>
<b>NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES</b>	<u>(1,214,681)</u>	<u>16,395</u>
<b>NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS</b>	(570,164)	646,857
<b>CASH AND EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,018,508</u>	<u>371,651</u>
<b>CASH AND EQUIVALENTS - END OF YEAR</b>	<u>\$ 448,344</u>	<u>\$ 1,018,508</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 672,035	\$ 616,646
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	138,323	159,097
Changes in assets and liabilities:		
Accounts receivable	11	6,315
Deposit	(12,719)	10,000
Prepaid expenses	(33,193)	(37,349)
Accounts payable	(13,058)	(82)
Accrued vacation	<u>4,853</u>	<u>1,335</u>
Total adjustments	<u>84,217</u>	<u>139,316</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 756,252</u>	<u>\$ 755,962</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**NORTH CAROLINA BOARD OF PHARMACY****NOTES TO FINANCIAL STATEMENTS**

Page 1 of 10

**NORTH CAROLINA BOARD OF PHARMACY**

The North Carolina Board of Pharmacy, (the “Board”) was 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 renewals, permits, and license examination fees.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES****A. 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 before 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 and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**B. 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 formally 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. Annually, the State of North Carolina issues general purpose financial statements which include the activity of occupational licensing boards.

**C. 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

## NORTH CAROLINA BOARD OF PHARMACY

## NOTES TO FINANCIAL STATEMENTS

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**  
**(CONTINUED)**

## C. Basis of Accounting (continued).

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 statement of revenues, expenses, and changes 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 Board 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.

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

## D. Cash and Cash Equivalents.

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

## E. Investments.

Investments are stated at fair market value based on readily available published values. Money market funds invested through brokerage accounts are considered investments.

## F. 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.

## NORTH CAROLINA BOARD OF PHARMACY

## NOTES TO FINANCIAL STATEMENTS

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**  
**(CONTINUED)**

## G. 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 recorded.

## H. 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.

## I. Income Taxes.

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

## J. 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.

## NORTH CAROLINA BOARD OF PHARMACY

## NOTES TO FINANCIAL STATEMENTS

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**CASH AND CASH EQUIVALENTS**

At September 30, 2009 and 2008, the Board has cash balances at financial institutions that exceed the Federal Deposit Insurance Corporation limit by approximately \$247,000 and \$727,000, respectively. Bank balances of \$250,000 are fully insured with the federal depository insurance coverage, thus amounts held in deposit greater than insured balances are subject to credit risk.

**INVESTMENTS**

Investments at September 30, 2009 and 2008, consisted of the following:

	2009		2008	
	Cost	Market	Cost	Market
Fixed income securities	\$ 1,578,854	\$ 1,602,917	\$ 455,790	\$ 455,830
Money market funds	804,547	804,547	687,032	687,032
	<u>\$ 2,383,401</u>	<u>\$ 2,407,464</u>	<u>\$ 1,142,822</u>	<u>\$ 1,142,862</u>

As of September 30, 2009 and 2008, the aggregate market value of assets exceeded cost by \$24,063 and \$40, respectively. Net unrealized gains of \$24,023 and losses of \$429 were recorded during the years ended September 30, 2009 and 2008, respectively, to properly state investments at market value. Investment income totaled \$57,392 and \$74,744, for the years ending September 30, 2009 and 2008, respectively. Related investment fees totaled \$6,098 and \$5,095, for the years ending September 30, 2009 and 2008, respectively.

Board investment policies are in line with the State Treasurer under N.C.G.S. § 147-69.1 regarding investment options. At September 30, 2009, investments in fixed income securities consist of \$1,181,997 in corporate bonds, maturing within five years, and \$420,920 in the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank, maturing within 5 years. At September 30, 2008, investments in fixed income securities consist of \$246,145 in corporate bonds, maturing within three months, and \$209,685 in the Federal National Mortgage Association, maturing within 5 years.

At September 30, 2009 and 2008, the Board investments exceed the Securities Investor Protection Corporation limit of \$500,000 by approximately \$1,207,000 and \$643,000, respectively, and thus are subject to credit risk.

**NORTH CAROLINA BOARD OF PHARMACY****NOTES TO FINANCIAL STATEMENTS**

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**INVESTMENTS (CONTINUED)**

Investments are subject to the following risks:

*Interest Rate Risk:* Interest rate risk is the risk the Board may face should interest rate variances affect the fair value of investments. The Board does not have a formal policy that addresses interest rate risk.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board does not have a formal policy that addresses credit risk.

*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. The Board does not have a formal policy for custodial credit risk.

**NOTE RECEIVABLE – 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 \$34,621 and \$10,183, at September 30, 2009 and 2008, respectively.

## NORTH CAROLINA BOARD OF PHARMACY

## NOTES TO FINANCIAL STATEMENTS

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**CAPITAL ASSETS**

Capital asset activity for the Board for the year ended September 30, 2009, was as follows:

	Cost 9/30/2008	Increases	Decreases	Cost 9/30/2009
Capital assets:				
Building	\$ 1,900,559	\$ -	\$ -	\$ 1,900,559
Building improvements	2,172	20,658	-	22,830
Furniture and fixtures	238,068	8,418	14,263	232,223
Equipment	437,849	7,810	66,170	379,489
Vehicles	186,556	20,326	16,654	190,228
	<u>2,765,204</u>	<u>57,212</u>	<u>97,087</u>	<u>2,725,329</u>
Less accumulated depreciation for:				
Building	255,288	48,820	-	304,108
Building improvements	162	301	-	463
Furniture and fixtures	161,920	28,921	11,865	178,976
Equipment	380,147	21,864	59,395	342,616
Vehicles	75,470	38,417	12,768	101,119
	<u>872,987</u>	<u>138,323</u>	<u>84,028</u>	<u>927,282</u>
Total accumulated depreciation	<u>872,987</u>	<u>138,323</u>	<u>84,028</u>	<u>927,282</u>
Total capital assets, net	<u>\$ 1,892,217</u>	<u>\$ (81,111)</u>	<u>\$ 13,059</u>	<u>\$ 1,798,047</u>

## NORTH CAROLINA BOARD OF PHARMACY

## NOTES TO FINANCIAL STATEMENTS

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**CAPITAL ASSETS (CONTINUED)**

Capital asset activity for the Board for the year ended September 30, 2008, was as follows:

	Cost 9/30/2007	Increases	Decreases	Cost 9/30/2008
Capital assets:				
Building	\$ 1,900,559	\$ -	\$ -	\$ 1,900,559
Building improvements	2,172	-	-	2,172
Furniture and fixtures	234,527	6,009	2,468	238,068
Equipment	444,540	27,954	34,645	437,849
Vehicles	203,179	47,100	63,723	186,556
	<u>2,784,977</u>	<u>81,063</u>	<u>100,836</u>	<u>2,765,204</u>
Less accumulated depreciation for:				
Building	206,468	48,820	-	255,288
Building improvements	83	79	-	162
Furniture and fixtures	134,438	29,502	2,020	161,920
Equipment	368,504	46,288	34,645	380,147
Vehicles	103,606	34,407	62,543	75,470
	<u>813,099</u>	<u>159,096</u>	<u>99,208</u>	<u>872,987</u>
Total accumulated depreciation	<u>813,099</u>	<u>159,096</u>	<u>99,208</u>	<u>872,987</u>
Total capital assets, net	<u>\$ 1,971,878</u>	<u>\$ (78,033)</u>	<u>\$ 1,628</u>	<u>\$ 1,892,217</u>

## NORTH CAROLINA BOARD OF PHARMACY

## NOTES TO FINANCIAL STATEMENTS

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**NOTE PAYABLE**

The note payable consists of a loan from a financial institution which is collateralized by the building. This note has a fixed interest rate of 3.92% and requires 180 monthly installments of principal and interest of \$8,516, with the final payment of all unpaid principal and interest due on June 17, 2023.

	<u>2009</u>	<u>2008</u>
Note payable at September 30,	\$ 1,081,043	\$ 1,139,013
Less current portion	<u>(60,319)</u>	<u>(57,973)</u>
Long-term portion at September 30,	<u>\$ 1,020,724</u>	<u>\$ 1,081,040</u>

Principal maturities are as follows:

<u>Year Ending September 30,</u>	
2010	\$ 60,319
2011	62,761
2012	65,198
2013	67,940
2014	70,690
Thereafter	<u>754,135</u>
	<u>\$ 1,081,043</u>

**OFFICE SPACE LEASE**

The Board leased a storage unit on a month to month basis through May 2009. Rental expense under this lease for the years ended September 30, 2009 and 2008, was \$804 and \$390, respectively.

**OPERATING LEASES**

During the current fiscal year, the Board leased a folding machine under an agreement that expires December 2012. Monthly rent is \$377. The Board leases a mailing machine on a quarterly basis through September 2012. Quarterly rent is \$1,467 plus usage fees. During the current fiscal year, the Board leased a copying machine under an agreement that expires November 2011. Annual rent is \$6,452. Total rental expense for the years ended September 30, 2009 and 2008, was \$15,580 and \$10,887, respectively.

## NORTH CAROLINA BOARD OF PHARMACY

## NOTES TO FINANCIAL STATEMENTS

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**OPERATING LEASES (CONTINUED)**

Future minimum lease payments are as follows:

<u>Year ending September 30,</u>	
2010	\$ 16,841
2011	16,841
2012	10,389
2013	<u>754</u>
	<u>\$ 44,825</u>

**RETIREMENT PLAN**

## A. 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 eight 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.

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; the Board's matching contributions are 100% vested after five years of credited service. 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.

**NORTH CAROLINA BOARD OF PHARMACY****NOTES TO FINANCIAL STATEMENTS**

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**RETIREMENT PLAN (CONTINUED)**

Contributions to the Plan for the years ended September 30, 2009 and 2008, totaled \$161,735 and \$148,147, which consisted of \$68,680 and \$63,168, from the Board and \$93,055 and \$84,979, from employees, respectively.

**B. Teachers' and State Employees' Retirement System.**

For employees employed prior to July 1, 1983, the Board contributes to the statewide Teachers' and State Employees' Retirement System ("TSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained in writing from the Office of State Controller, 3512 Bush Street, Raleigh, North Carolina, 27609, or by calling (919) 981-5454.

Plan members are required to contribute 6% of their annual covered salary, and the Board is required to contribute at an actuarially determined rate. The rate was 8.14% of payroll as of September 30, 2009 and 2008. The contribution requirements of plan members and the Board are established and may be amended by the North Carolina General Assembly. Contributions to the Plan for the years ended September 30, 2009 and 2008, totaled \$3,304 and \$12,803, which consisted of \$1,902 and \$7,271, from the Board and \$1,402 and \$5,532, from employees, respectively. There are no participants in this plan subsequent to December 31, 2009.

**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 of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$5,000,000 public officers' and employees' liability insurance via contract with a private insurance company.

**RECLASSIFICATIONS**

Certain items in the September 30, 2008, report have been reclassified to conform to current year classifications. Such reclassifications have no effect on previously reported net assets.