

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

October 1, 2009 – September 30, 2010

MEMBERS AND ORGANIZATION

COMMISSIONED BY HER EXCELLENCY THE GOVERNOR OF NORTH CAROLINA

Rebecca W. Chater, Asheville, PresidentTerm expires April 30, 2012
Betty H. Dennis, Chapel Hill, Vice President.....Term expires April 30, 2012
R. Joseph McLaughlin, Jr., New Bern.....Term expires April 30, 2016
J. Parker Chesson, Jr., Durham.....Term expires April 30, 2010
Gene Winston Minton, LittletonTerm expires April 30, 2015
Ellis Lazelle Marks, RockinghamTerm expires April 30, 2015

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

Chapel Hill, North Carolina
July 1, 2011

To Her Excellency
Governor Beverly Perdue
Raleigh, North Carolina

Dear Governor Perdue:

In compliance with N.C.G.S. § 93B-2, the Board of Pharmacy is pleased to submit to you the One Hundred Twenty-Ninth Annual Report of the North Carolina Board of Pharmacy. This report contains the proceedings of the Board for the fiscal year ending September 30, 2010 ("FY2010").

Respectfully yours,

NORTH CAROLINA BOARD OF PHARMACY

by:

Jack W. Campbell IV, Executive Director

Introduction

FY2010 saw the seating of two new members of the Board of Pharmacy – Gene Minton of Littleton and Lazelle Marks of Rockingham. North Carolina pharmacists elected Messrs. Minton and Marks to serve on the Board in June 2009. After a year spent learning the Board’s mission and processes, as well as receiving required training, Governor Perdue commissioned Messrs. Minton and Marks to their seats in May 2010.

North Carolina pharmacists elected Joey McLaughlin, Jr. of New Bern to a second five-year term of service with the Board in May 2010. Mr. McLaughlin will receive his renewed commission in May 2011.

Stan Haywood of Asheboro and Wallace Nelson of Edenton completed ten years of superlative service with the Board in May 2010. Both were awarded the Order of the Long Leaf Pine in recognition of their unstinting commitment to the protection of the public health and safety.

During FY2010, the Board completed rulemaking to implement SL 2009-423 establishing the Drug, Supplies, and Medical Device Repository Program. This substantial rulemaking has brought clarity and security to prescribers, pharmacists, and patients where donation of prescription drugs for redispensing in free or charitable pharmacies is concerned. The Board received substantial assistance in this effort from the North Carolina Association of Free Clinics, which continues to help match up donors and recipients.

The Board also promulgated a rule in FY2010 to implement SL 2009-458 concerning license renewals by members of the armed services deployed overseas. The rule reflects the Board’s long-standing practice to waive CE and other requirements for license renewal where armed services personnel are deployed and cannot reasonably meet them.

The Board promulgated a rule authorizing certain pharmacy technicians who are employed at hospital pharmacies, who hold an associates degree in pharmacy technology, and who are subject to strict pharmacist-manager supervision and quality assurance requirements to validate work of other technicians in non-dispensing distributive activities such as floor stock replenishment and unit dose packaging. The rule came as a result of a multi-year pilot study of the concept at Broughton State Hospital and Wake Forest University Medical Center. A coalition of North Carolina Community Colleges implemented associates degree programs in anticipation of, and support for, the rule. The rule was, however, held for legislative review. As of this writing, the rule remains pending the General Assembly’s adjournment from the 2011 regular session.

In the fall of 2009, responding to a request from State Health Director Jeff Engel, MD, the Board worked with the North Carolina Medical Board to pass emergency and temporary rules allowing pharmacists to administer influenza and H1N1 vaccines to

patients as young as 14. Dr. Engel requested this change to more effectively enlist pharmacists in addressing the public health crisis raised by the H1N1 pandemic.

Enforcement activity, detailed further below, remains active. Board staff continues to communicate – and work closely – with local, state, and federal law enforcement officials. Such cooperation is critical to effective policing of controlled substance diversion issues. Board staff continues host a quarterly meeting with federal, state, and local law enforcement officials to discuss common issues and strategies

In FY2010, Board investigative staff stepped up efforts to police illegal shipments of prescription drugs to North Carolina residents by unlicensed out-of-state entities. Recent years have shown an upward trend in such activity, which can contribute to dissemination of counterfeit prescription drugs, trafficking of controlled substances (including steroids and human growth hormone), compounding using substandard methods, distribution of prescription drugs without legitimate and necessary prescriber oversight, and poor health outcomes. This enforcement focus has led to closer cooperation with regulatory authorities in other states, including joint operations by North Carolina Board of Pharmacy Inspectors and their counterparts in other areas of the country.

The Board's financial statement and audit report for FY2010 are appended to this report. Please note that the audited FY2010 statements were previously submitted in January 2011 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 N.C.G.S. § 93B-2(b) October 31 deadline.

Staff at 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 agrees 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.

North Carolina Board of Pharmacy
Census of Registrants
As of September 30, 2010

PHARMACISTS

Total number of active pharmacists licensed	13,010
Total number of active pharmacists residing in North Carolina	10,062
Inactive pharmacists residing in North Carolina	1,771
Total number of active pharmacists residing outside of North Carolina.....	2,948
Total number deceased in FY 2010	11

Breakdown of Employment Settings In-State

Retail Pharmacy – Chain.....	3,303
Retail Pharmacy – Independent	1,455
Hospital Pharmacies.....	2,190
Nursing Homes	116
Government, Health Departments and Teaching	167
Pharmaceutical Manufacturing and Wholesale Sales	128
Other	1,239
Sales and Research.....	104
Unknown Position.....	1,359

Age and Gender of Active Pharmacists in North Carolina

Under 30 years of age	1,234
30 – 39 years of age	2,830
40 – 49 years of age	2,485
50 – 59 years of age	1,979
60 – 65 years of age	779
Over 65 years of age	755
In-state Pharmacists – Female.....	5,641
In-state Pharmacists – Male	4,421

PHARMACIES

Total in-state Pharmacy permits on roster	2,543
Retail Pharmacy – Chain.....	1,219
Retail Pharmacy – Independent	642
Hospital Pharmacies.....	180
Nursing Homes	38
Health Departments.....	93
Free Clinics	39
IV Infusion	38
Automated Dispensing Systems.....	69
Others.....	225
Total out-of-state Pharmacy permits on roster.....	403

DEVICE AND MEDICAL EQUIPMENT

Total DME permits on roster	816
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DISPENSING PHYSICIANS

Total Physicians registered	879
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PHYSICIAN ASSISTANTS AND NURSE PRACTITIONERS

Total PA's and NP's registered to dispense 243

PHARMACY TECHNICIANS

Total Pharmacy Technicians registered 14,448

(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.

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*

490 persons applied to the Board for licensure by examination in FY2010.

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

Four (4) candidates were 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*

482 candidates sat for examination in FY2010. One (1) candidate withdrew from examination. Three (3) candidates did not appear for examination. Four (4) candidates, as noted above, were not allowed to sit for examination.

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

The Board issued 475 licenses by examination in FY2010.

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

232 persons applied for licensure by reciprocity in FY2010.

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

220 persons were granted licensure by reciprocity in FY2010.

(8) The Number of Licenses Suspended or Revoked in FY2010

Total number of complaints received	279
Total number of “no action” decisions after investigation	146
Total number of “no action” decisions due to Board having no jurisdiction over complaint	27
Total number of staff letters* issued post pre-hearing conference or by informal administrative disposition	Letters of Caution 26 Letters of Concern 32 Letters of Warning 78
Total number of cases resulting in consent orders	26
Total number of cases resulting in full board hearings	14
Pharmacist licenses revoked	2
Pharmacist licenses suspended	12
Pharmacist licenses surrendered	18
Pharmacy Permit Revocations	0
Pharmacy Permit Suspensions	1
Pharmacy Permit Surrender	1
DME Permit Suspensions	0

* 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 FY2011. The Board has expressed support for legislative efforts to grant broader vaccination administration authority to pharmacists, and such legislation is pending before the General Assembly at the time of this writing.

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

The Board may undertake rulemaking on the following topics during FY2011:

- Amendment to 21 N.C.A.C. 46.2901 to exempt antidotes to nuclear, biological, or chemical poisoning from certain return-for-credit requirements.
- Amendments to Board rules governing hospital and long-term care facility practices. A task force is expected to recommend amendments aimed at simplifying and clarifying existing rules.

NORTH CAROLINA BOARD OF PHARMACY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

NORTH CAROLINA BOARD OF PHARMACY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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, 2010. 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, 2010 and 2009. 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, 2010

Statements of Net Assets - continued

The following table summarizes the Board's assets, liabilities and net assets at September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Assets:		
Current assets	\$ 3,890,124	\$ 2,990,716
Capital assets, net	1,711,887	1,798,047
Other non-current assets	59,059	34,621
Total assets	<u>5,661,070</u>	<u>4,823,384</u>
Liabilities and net assets:		
Current liabilities	167,520	161,202
Non-current liabilities	957,964	1,020,724
Total liabilities	<u>1,125,484</u>	<u>1,181,926</u>
Net assets:		
Invested in capital assets - net of related debt	691,162	717,004
Unrestricted	3,844,424	2,924,454
Total net assets	<u>\$ 4,535,586</u>	<u>\$ 3,641,458</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
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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, 2010 and 2009, are presented as follows:

	<u>2010</u>	<u>2009</u>
Operating revenue	\$3,335,954	\$3,220,676
Operating expenses	<u>2,475,903</u>	<u>2,548,641</u>
Operating income	860,051	672,035
Non-operating revenue	<u>34,077</u>	<u>72,292</u>
Changes in net assets	894,128	744,327
Net assets - beginning of year	<u>3,641,458</u>	<u>2,897,131</u>
Net assets - end of year	<u><u>\$4,535,586</u></u>	<u><u>\$3,641,458</u></u>

Operating revenue consists primarily of pharmacists and pharmacy renewals for the years ended September 30, 2010 and 2009. The consistency of the operating revenue is attributable to the unchanged fees and no major industry changes during the 2010 fiscal year. Non-operating 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. The Board recorded depreciation expense of \$130,347 and \$138,323, for the years ended September 30, 2010 and 2009, 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.

BOYCE, FURR & COMPANY, 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 financial statements of the North Carolina Board of Pharmacy as of September 30, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The financial statements of the North Carolina Board of Pharmacy as of September 30, 2009, were audited by other auditors whose report dated January 14, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2010 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, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the 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 required supplementary information. However, we did not audit this information and express no opinion on it.

December 9, 2010

Boyce, Furr & Company, LLP

NORTH CAROLINA BOARD OF PHARMACY
STATEMENTS OF NET ASSETS
SEPTEMBER 30

ASSETS	2010	2009
Current assets		
Cash	\$ 483,083	\$ 448,344
Investments	3,259,351	2,407,464
Accounts receivable	20,320	-
Accrued interest	16,022	10,841
Deposit	-	12,719
Prepaid expenses	111,348	111,348
Total current assets	3,890,124	2,990,716
Non-current assets		
Capital assets, net	1,711,887	1,798,047
Note receivable - officer life insurance	59,059	34,621
Total non-current assets	1,770,946	1,832,668
 TOTAL ASSETS	 5,661,070	 4,823,384
 LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	12,373	11,769
Accrued vacation	92,386	89,114
Current portion of note payable	62,761	60,319
Total current liabilities	167,520	161,202
Long-term debt		
Note payable, less current portion	957,964	1,020,724
 TOTAL LIABILITIES	 1,125,484	 1,181,926
Net assets		
Invested in capital assets - net of depreciation	691,162	717,004
Unrestricted net assets	3,844,424	2,924,454
 TOTAL NET ASSETS	 \$ 4,535,586	 \$ 3,641,458

See accompanying notes and accountant's report.

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

	2010	2009
Operating revenues		
Pharmacist renewals	\$ 1,655,775	\$ 1,588,275
Pharmacist reciprocity	131,400	149,400
Pharmacist exam fees	48,900	52,600
Pharmacist/manager changes	18,690	20,510
Pharmacist reinstatements	15,120	16,740
Pharmacy renewals	549,200	540,400
Pharmacy permits	144,500	109,500
Pharmacy reinstatements	2,800	1,600
Technician renewals	342,060	323,370
Technician registrations	83,040	81,510
Technician reinstatements	28,920	38,010
Device and DME permits and renewals	212,200	195,700
Dispensing physician renewals and permits	69,525	64,350
Dispensing PA/NP renewals and permits	18,900	18,075
Pharmacy/pharmacists, list and labels	13,731	17,681
Law books	517	201
Miscellaneous	676	2,754
Total operating revenues	3,335,954	3,220,676
Operating expenses		
Salaries	1,140,727	1,193,935
Payroll taxes	84,416	86,525
Retirement contributions	65,011	70,582
Employee benefits	141,281	155,981
Educational expense	1,230	878
Board meeting and election expenses	18,373	18,073
Meetings per diem	12,500	9,900
Professional meetings	11,875	9,348
Inspection expense	40,011	39,390
Interest	40,340	45,750
Building dues and maintenance	26,553	21,730
Office utilities	10,050	9,371
Janitorial service	12,000	14,010
Telephone	13,462	11,784
Auto expense	40,587	30,105
Supplies	20,927	18,085
Books, dues and subscriptions	5,092	4,088
Postage	11,226	20,544
Printing	5,629	6,390
Equipment lease	16,610	15,580
Maintenance	19,970	22,042
Special meetings and projects	30,915	15,421

continued

See accompanying notes and accountant's report.

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

	<u>2010</u>	<u>2009</u>
Operating expenses (continued)		
Insurance	\$ 7,754	\$ 6,631
Executive director's expense	16,433	18,432
Office staff travel	4,434	4,356
Miscellaneous	1,889	4,045
Consulting fees	50,289	60,447
Bank service charges	92,612	89,776
Depreciation	130,347	138,323
Legal fees	187,925	205,856
Pharmacist recovery network	189,000	188,335
Audit fee	11,600	11,600
Temporary office help	14,835	-
Office rent and storage	-	804
Renewal forms	-	524
Total operating expenses	<u>2,475,903</u>	<u>2,548,641</u>
Operating income	<u>860,051</u>	<u>672,035</u>
Non-operating revenues (expenses)		
Investment income, net	42,444	51,294
Realized gain on investments	3,398	6,584
Unrealized gain (loss) on investments	(11,137)	24,023
Loss on sale of fixed assets	(628)	(9,609)
Net non-operating revenues	<u>34,077</u>	<u>72,292</u>
Change in net assets	894,128	744,327
Net assets - beginning of year	<u>3,641,458</u>	<u>2,897,131</u>
Net assets - end of year	<u>\$ 4,535,586</u>	<u>\$ 3,641,458</u>

See accompanying notes and accountant's report.

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

	2010	2009
Cash flows from operating activities		
Cash received from fees	\$ 3,314,441	\$ 3,217,721
Other cash received	1,193	2,955
Cash payments to employees for services	(1,137,455)	(1,189,082)
Cash payments for operating expenses	(1,191,506)	(1,275,342)
Net cash provided by operating activities	986,673	756,252
Cash flows from investing activities		
Purchase of investments	(4,020,387)	(4,797,601)
Proceeds from sale of investments	3,160,762	3,566,905
Issuance of note receivable	(24,438)	(24,438)
Investment fees	(11,862)	(6,098)
Interest on investments	49,125	46,551
Net cash used by investing activities	(846,800)	(1,214,681)
Cash flows from capital and related financing activities		
Acquisition of capital assets	(45,001)	(57,212)
Proceeds from the sale of assets	185	3,450
Principal payments on note	(60,318)	(57,973)
Net cash used by capital and related financing activities	(105,134)	(111,735)
Net increase (decrease) in cash	34,739	(570,164)
Cash - beginning of year	448,344	1,018,508
Cash - end of year	\$ 483,083	\$ 448,344
Reconciliation of operating income		
to net cash used by operating activities		
Operating income	\$ 860,051	\$ 672,035
Adjustments to reconcile operating income		
to net cash provided by operating activities		
Depreciation	130,347	138,323
Changes in assets and liabilities		
Accounts receivable	(20,320)	11
Deposit	12,719	(12,719)
Prepaid expenses	-	(33,193)
Accounts payable and accrued expenses	604	(13,058)
Accrued vacation	3,272	4,853
Total adjustments	126,622	84,217
Net cash provided by operating activities	\$ 986,673	\$ 756,252

See accompanying notes and accountant's report.

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

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 license examination fees.

Basis of Presentation

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

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

Reporting Entity

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

Basis of Accounting

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

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

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

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

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

Note 1 - Summary of Significant Accounting Policies - continued

Basis of Accounting - continued

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

Cash and Cash Equivalents

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

Investments

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

Capital Assets

Capital assets are recorded at cost. Property and equipment are capitalized if their life is expected to be greater than one year and their cost is \$500 or greater. Depreciation is computed over estimated useful asset lives ranging from three to thirty-nine years using the straight-line method.

Long-Lived Assets

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

Vacation and Sick Leave

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

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

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

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 - Fair Value of Financial Assets

Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Board utilizes market data or assumptions that market participants would use in pricing the asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The financial assets included in the Statements of Net Assets requiring fair value classification are the certificates of deposit. The investments are considered Level 1 inputs. There were no changes during the year ended September 30, 2010, to the Board's valuation technique used to measure these investments.

Level 1 - Quoted prices in active markets for identical assets or liabilities. The Level 1 assets are comprised of certificates of deposit whose fair value is based on stated interest rates.

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

Note 2 - Fair Value of Financial Assets - continued

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables set forth the financial assets and liabilities as of September 30, 2010, that we measured at fair value on a recurring basis by level within the fair value hierarchy. As required, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement:

	Balance at September 30 2010	Fair Value Measurements Using		
		Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Certificates of Deposit	\$ 548,021	\$ 548,021	\$ -	\$ -
Money Market Funds	1,066,694	1,066,694	-	-
Bond Securities	<u>1,644,636</u>	<u>1,644,636</u>	-	-
Total Assets	<u><u>\$3,259,351</u></u>	<u><u>\$3,259,351</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Note 3 - Investments

Investments at September 30, 2010 and 2009, consisted of the following:

	2010		2009	
	Cost	Market	Cost	Market
Fixed income securities	\$2,169,105	\$2,192,656	\$1,578,854	\$1,602,917
Money market funds	1,066,695	1,066,695	804,547	804,547
	<u><u>\$3,235,800</u></u>	<u><u>\$3,259,351</u></u>	<u><u>\$2,383,401</u></u>	<u><u>\$2,407,464</u></u>

As of September 30, 2010 and 2009, the aggregate market value of assets exceeded cost by \$23,551 and \$24,063, respectively. Net unrealized losses of \$11,137 and gains of \$24,023 were recorded during the years ended September 30, 2010 and 2009, respectively, to properly state investments at market value. Investment income totaled \$54,306 and \$57,392, for the years ending September 30, 2010 and 2009, respectively. Related investment fees totaled \$11,862 and \$6,098, for the years ending September 30, 2010 and 2009, respectively.

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

Note 3 - Investments - continued

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

At September 30, 2010, the Board investments exceed the Securities Investor Protection Corporation limit of \$500,000 by \$2,292,249.

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.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

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.

Note 4 - Officer Life Insurance

The Board owns a life insurance policy jointly with the Executive Director. The amount recorded as note receivable - officer life insurance, represents the Board's equity in the policy, which totaled \$59,059 and \$34,621, at September 30, 2010 and 2009, respectively.

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

Note 5 - Capital Assets

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

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

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

Note 5 - Capital Assets - continued

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>
Total at historical cost				
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				
Total capital assets, net	<u>\$ 1,892,217</u>	<u>\$ (81,111)</u>	<u>\$ 13,059</u>	<u>\$ 1,798,047</u>

Note 6 - 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.

	2010	2009
Note payable at September 30	\$ 1,020,725	\$ 1,081,043
Less current portion	<u>(62,761)</u>	<u>(60,319)</u>
Long-term portion at September 30	<u>\$ 957,964</u>	<u>\$ 1,020,724</u>

NORTH CAROLINA BOARD OF PHARMACY
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010 AND 2009

Note 6 - Note Payable - continued

Required principal and interest payments are as follows:

<u>Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 62,761	\$ 39,428
2012	65,198	36,991
2013	67,940	34,249
2014	70,690	31,499
2015	73,551	28,638
Thereafter	680,585	111,382
	\$ 1,020,725	\$ 282,187

Note 7 - Operating Leases

During the current fiscal year, the Board leased a folding machine for a monthly rent of \$377 under an agreement that expires December 2012. The Board leases a mailing machine with a quarterly rent of \$1,467 through September 2012. The Board also leases a copying machine under an agreement that expires November 2011. Annual rent is \$6,452. Total equipment lease expense for the years ended September 30, 2010 and 2009, was \$16,610 and \$15,580, respectively.

Future minimum lease payments are as follows:

<u>Years Ending September 30</u>	
2011	\$ 16,841
2012	10,389
2013	754
	\$ 27,984

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

Note 8 - Retirement Plan

North Carolina Licensing Boards Retirement Savings Plan

The Board contributes to the North Carolina Licensing Boards Retirement Savings Plan ("Plan"), a 401(k) defined contribution plan. The Plan has been established to provide retirement benefits for employees of 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.

Contributions to the Plan for the years ended September 30, 2010 and 2009, totaled \$162,844 and \$161,735, which consisted of \$65,011 and \$68,680 from the Board and \$97,833 and \$93,055 from employees, respectively.

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 by writing to the Office of the 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. 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 year ended September 30, 2009 totaled \$3,304, which consisted of \$1,902 from the Board and \$1,402 from employees. There are no participants in this plan subsequent to December 31, 2008.

NORTH CAROLINA BOARD OF PHARMACY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009

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 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.

Note 10 - Subsequent Events

Management of the Board evaluated subsequent events through December 9, 2010, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

Note 11 - Reclassification

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation.