

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

October 1, 2012 – September 30, 2013

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
December 5, 2013

To His Excellency
Governor Pat McCrory
Raleigh, North Carolina

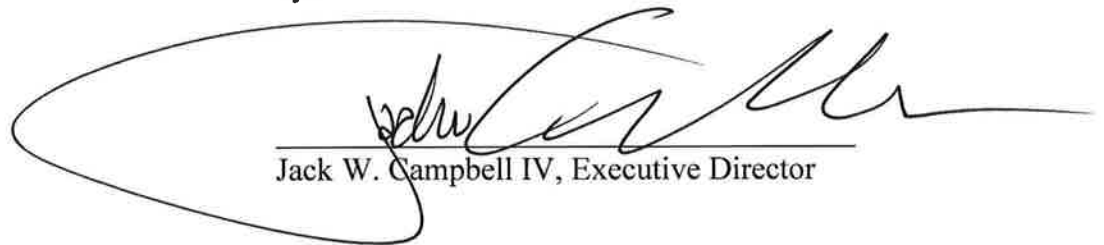
Dear Governor McCrory:

In compliance with N.C.G.S. § 93B-2, the Board of Pharmacy is pleased to submit to you the One Hundred Thirty-Second Annual Report of the North Carolina Board of Pharmacy. This report, for the reasons stated on the following page, is the second annual report submitted in 2013 (the previous having been submitted on July 1, 2013).

Respectfully yours,

NORTH CAROLINA BOARD OF PHARMACY

by:



Jack W. Campbell IV, Executive Director

Note Concerning the Timing of this Annual Report and the Board's Financial Statement and Audit Report

For many years, the Board has filed its Chapter 93B Annual Report summarizing the previous year's activity in late June or early July. The Board submitted its last Chapter 93B Annual Report on July 1, 2013.

This date was chosen because it allowed the Board to append to the Annual Report its most recent audited financial statements. The Board's fiscal year runs from October 1 to September 30. The Board's audit is typically completed, reviewed, and approved by the following January or February. Moreover, by statute the annual license/permit/registration renewal season runs through March 1. Accordingly, a June/July submission date allowed submission of all data in its most complete, current version (and, of course, a June/July submission was "by October 31" as required by Chapter 93B-2).

This year, however, Board staff received conflicting advice about the Annual Report submission date from different state entities. In light of this conflicting advice, the Board has chosen to submit another Chapter 93B Annual Report now.

As a result of this date shift, the Board cannot submit its audited FY2013 financial statement contemporaneously. Indeed, the Board's annual financial audit is occurring at the time of this writing. Please note that the audited FY2012 statement was previously submitted in January 2013 (and again with the Chapter 93B Annual Report filed July 1, 2013) to the appropriate agencies as required by Chapter 93B. That financial report is resubmitted as an attachment to this report. The Board will submit its audited FY2013 financial statement as soon as the audit has been completed, reviewed, and received by the Board. Board staff apologizes for any inconvenience created by this piecemeal submission, but unless and until consistent advice is received on the timing of report submission, this appears to be the only available option.

Introduction

2013 was a year of significant legislative, regulatory, and administrative action by the Board of Pharmacy.

There have been no changes to Board composition since the last Annual Report. The next Board election will take place in the spring of 2014. Two positions on the Board will be filled: The Northeastern District seat presently held by Gene Minton, and the Central District seat presently held by Lazelle Marks. Messrs. Minton and Marks are serving their first five-year terms and thus are eligible for re-election. Nominations are open through March 15, 2014. Board staff has encouraged any actively licensed pharmacist living in these two districts to find out more about the election process by attending one of two planned forums in early 2014. Board staff and members will be available to answer questions and discuss what it means to serve on the Board.

In May 2013, the Board's Executive Director, Jay Campbell, was presented with the Lester E. Hosto Award for Distinguished Service by the National Association of Boards of Pharmacy (NABP). The Hosto Award is the highest honor bestowed by NABP.

In September 2013, the Board hosted MALTAGON, a regional meeting of state board of pharmacy staff and members, in Asheville, NC. Staff and members from twelve state boards of pharmacy attended three days of meetings focused on effective protection of the public health and safety.

In September 2013, the Board hosted the annual Pharmacy Leaders Forum in Greensboro. This one-day event brings together pharmacy leaders from around the state to discuss pharmacy practice improvement and enhancement.

Legislative Activity Affecting Pharmacy Regulation

S.L. 2013-246, An Act to Protect the Public's Health by Increasing Access to Immunizations and Vaccines through the Expanded Role of Immunizing Pharmacists. S.L. 2013-246 is the culmination of a multi-year effort to improve vaccination rates and public safety among North Carolina citizens by significantly expanding pharmacists' ability to administer immunizations. Immunizing pharmacists who meet the requirements in the statute may administer any Centers for Disease Control and Prevention-recommended vaccination to any patient at least 18 years of age pursuant to a prescription order. Immunizing pharmacists may administer pneumococcal, zoster, hepatitis B, meningococcal, tetanus, tetanus-diphtheria, and Tdap vaccines to patients at least 18 years of age pursuant to written protocols as defined in existing vaccination rules (found at 21 NCAC 46.2507). Board members and staff worked closely with numerous stakeholders to aid passage of the statute and to ensure its timely implementation.

S.L. 2013-79, An Act Amending Laws Pertaining to the Regulation of Pharmacy Technicians, Pharmacy Audits, and Prescriptions for Schedule II Substances. S.L. 2013-79 makes several alterations to law governing the practice of pharmacy. Among them:

- “No Schedule II substance shall be dispensed pursuant to a written prescription more than six months after the date it was prescribed.” The new six-month limitation applies to all prescriptions issued on or after October 1, 2013.

- The statute governing pharmacy technicians (NCGS 90-85.15A) has to date made registration as a pharmacy technician contingent upon active employment as a pharmacy technician. Effective October 1, 2013, however, a certified pharmacy technician may apply for registration (and may renew registration) even if the certified technician is not actively employed in that role. A certified technician is required to notify the Board within 10 days of beginning employment as a pharmacy technician. The technician’s certification is deemed to satisfy the pharmacy technician training program requirements. This change was welcomed by pharmacists, technicians, and Board staff as a significant simplification and improvement.

- The statute also added to the significant substantive and procedural protections afforded pharmacies undergoing a third-party payer audit.

S.L. 2013-152, An Act to Revise the North Carolina Controlled Substances Reporting System Act, As Recommended by the Child Fatality Task Force. This statute makes several amendments to the North Carolina Controlled Substances Reporting System (CSRS) Act. Among them:

- Elimination of the reporting exception for dispensing physicians. Dispensing physicians must now report into the CSRS just as a pharmacy.

- Dispensers must now report required information to the CSRS “no later than three business days after the day when the prescription was delivered.” Dispensers are “encouraged to report the information no later than 24 hours after the prescription was delivered.”

- Dispensers must now report the “method of payment for the prescription.”

These changes become effective January 1, 2014. The Board will work with the Department of Health and Human Services (DHHS) Drug Control Unit to ensure that implementation by pharmacies proceeds smoothly.

Rulemaking Activity

Hospital, Long-Term Care, and Health-Care Facility Pharmacy Practice Rules Overhaul

On March 1, 2013, a number of amendments to the rules primarily governing hospital, long-term care, and similar health care facility oriented practices went into effect. These amendments eliminate unnecessary provisions; they simplify and clarify others.

In many instances, the amendments eliminate, or markedly reduce, record keeping requirements. Moreover, new Rule 21 NCAC 46.2508, which is applicable to all pharmacy practice settings, specifies:

Unless otherwise specified in the rules in this Section or other applicable law, any documentation required by the rules in this Section may be electronically created and maintained, provided that the system that creates and maintains the electronic record:

- (1) is capable of printing the documentation so that the pharmacist-manager can provide it to the Board within 48 hours of a request;
- (2) contains security features to prevent unauthorized access to the records; and
- (3) contains daily back-up functionality to protect against record loss.

Other areas addressed by the new rule amendments include revisions to the remote medication order entry rule, authorization of default medication quantities for medical orders, and simplification of Rule 21 NCAC 46.1414's provisions governing auxiliary medication inventories. The text of these recent amendments may be found here: www.ncbop.org/LawsRules/HospitalLTCRuleChangesEff030113.pdf.

This significant improvement in Board rules came as a result of the hard work of a year-plus-long task force, whose members 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.

Simplification and Clarification of Rules Governing Automated Dispensing Devices

On April 19, 2013, the Board published proposed amendments to the rules governing automated dispensing devices. These amendments are designed to simplify, clarify, and consolidate a universal set of standards governing the use of automated prescription drug dispensing devices. At the close of 2013, the rulemaking process was

nearing a conclusion, and the Board expects these amended rules to be effective early in 2014.

Administrative Improvements

Enhancing Access and Use of the North Carolina Controlled Substance Reporting System

North Carolina has operated a Controlled Substance Reporting System (CSRS) since 2007. It is administered by the Drug Control Unit of the North Carolina Department of Health and Human Services. All pharmacists are authorized to access the CSRS.

The CSRS is an important informational tool. As health care professionals, pharmacists must exercise professional judgment and make reasonable use of information available to them. Certainly, the clinical appropriateness of a prescription cannot be assessed by a CSRS report standing alone. But the CSRS can aid a pharmacist to identify a potentially troubling prescription or prescriber. The CSRS can also help a pharmacist assess a patient receiving potentially inappropriate treatment that has nothing to do with “doctor shopping” or the like (*e.g.*, a patient seeing multiple specialists who are not communicating among each other)

In 2013, Board staff surveyed pharmacists concerning access and use of the CSRS. Responders across all practice fields who reported that they did not access the CSRS as a component of their practices identified two primary reasons: (1) the pharmacists have not activated access; and (2) employer/ place of practice did not provide or allow access to the CSRS.

Acting on the results, Board staff surveyed pharmacy employers about access through employer computer systems, and strongly encouraged practice sites to make access to the CSRS readily available. Most reported that they had provided access. Board staff has encouraged pharmacists whose employers continue to bar CSRS access from practice sites to notify the Board for appropriate action.

A chief reason given by pharmacists for failure to activate CSRS access was a cumbersome, paper-based application system. Board staff conferred with Drug Control Unit staff about that process. After discussing options with Drug Control Unit staff, the Board of Pharmacy agreed to develop and implement an electronic portal CSRS application process that every North Carolina pharmacist can access from their individual Board of Pharmacy on-line account. The portal went live on May 1, 2013. Pharmacist activation of CSRS access spiked upward immediately.

Response to a Report from the State Auditor

In late 2013, the Board received the results of an audit conducted by the Office of the State Auditor. The report revealed a weakness in the Board’s stand-alone inspection

program. The Board was grateful for constructive feedback that can help improve the Board's ability to protect the public health and safety.

The Board conducts both an investigations program and an inspections program (and the two are, necessarily, complimentary). The Board agreed that the audit process provided valuable input into how staff can improve the inspection program by better data creation, tracking, and generation.

As the report noted, the Board carries out hundreds of inspections annually, whether "stand-alone" or coupled to a complaint-based pharmacy investigation. In carrying out that program, Board staff used a methodology to monitor inspection rates that should have resulted in the inspection of approximately 25% of the thousands of pharmacies licensed in the state annually. Accordingly, this guidepost method predicted a turn through 100% of licensed pharmacies approximately every four years – a cycle that, consistent with competing obligations, resources, and risk-based is a reasonable one.

The Board acknowledged that inspections occurred somewhat less frequently than the guidepost method suggested. The reason for this discrepancy, which Board staff itself recognized (and discussed with the on-site auditor), was that the then-paper-based system for tracking routine stand-alone inspections did not sufficiently guarantee that pharmacies selected for inspections were completely new each year.

More specifically, at the time of the audit, all investigation records for a pharmacy permit were stored electronically and linked to the subject pharmacy permit, allowing identification of a pharmacy that had been inspected as part of an investigation. But the same was not true for routine stand-alone inspection reports. Those reports were kept and filed in a paper format that was not easily indexed. This paper-based system resulted in a labor-intensive process to match those inspection reports to the permit database and ensure that new pharmacies were being selected for routine inspections each year. This created a risk that a subset of pharmacies would fall through the cracks and not be inspected within a four-year time frame.

Immediately upon conclusion of the on-site audit, Board staff overhauled the information storage and collection system to minimize the risk that pharmacies would be overlooked during inspection assignments. The following improvements have been implemented, or are in process to implementation, by Board staff:

1. Inspection check-list forms have been improved for content (including development of new specialized forms for compounding pharmacies and hospital pharmacies) and formatted as on-line PDF documents. Investigators now enter inspection information into the on-line form, review the findings with the pharmacist-manager, and email a copy of the form to the Board office and others as appropriate. The electronic inspection form is saved to the Board's on-line document system, where it is linked to the pharmacy permit.

2. The Board's database now allows staff readily to run electronic reports for all investigators showing inspection dates for pharmacies located within an investigator's assigned geographical area. Consequently, investigators are now better able to identify any pharmacy that has gone an anomalously long period of time without an inspection.
3. The Board has, on its own initiative, acquired more specific data concerning practices at permitted pharmacies. This will allow investigators to better employ risk-based factors when identifying pharmacies in need of inspection.
4. The Board has revamped and formalized its risk-based inspection processes.
5. The Board has revamped its investigative territories, added two additional field inspectors, and an additional case review officer.

Board members and staff are cognizant of, and devoted to, their critical duty to protect the public health and safety. The Board is grateful that its structure, personnel, and resources allow it to respond quickly, creatively, and efficiently to challenges and opportunities.

The complete report and Board response, which provides further context about the Board's overall investigation and inspection program, may be found here: <http://www.ncauditor.net/EpsWeb/Reports/FiscalControl/FCA-2013-8151.pdf>

Enforcement Focus

Compounding Pharmacy Issues

Early in FY 2013, a national tragedy unfolded as a result of contaminated drug products compounded by the New England Compounding Center (NECC), a Massachusetts compounding pharmacy.

The Board's Immediate Response to the NECC-Caused Fungal Meningitis Outbreak

The Board summarily suspended NECC's out-of-state pharmacy permit on October 3, 2012, one hour after receiving confirmation that NECC products were suspected in the fungal meningitis outbreak.

Board investigative staff cooperated closely with North Carolina Division of Public Health staff to visit and/or telephone every clinic in North Carolina identified as having received potentially contaminated methylprednisolone products from NECC. The Board staff specifically thanks Amanda Fuller Moore and her staff at the Division of Public Health for their superb efforts. During these in-person and telephone contacts, Board and Division of 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, Board staff again cooperated with Public Health staff to ensure that all affected clinics had pulled every NECC product from inventory and were notifying patients as recommended by Food and Drug Administration (FDA).

Immediately upon learning that FDA had urged Ameridose, another Massachusetts facility affiliated with NECC, to recall all compounded products produced there, the Board members summarily suspended Ameridose's out-of-state pharmacy permits.

The Pharmacy Compounding Working Group

The Board 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 United States Pharmacopeia Chapter <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; and (5) what particular issues, if any, with respect to out-of-state compounding pharmacies, require different or additional regulatory approaches.

The working group provided its report and recommendations to the Board in March 2013. Implemented changes include stepped-up inspections (both in terms of frequency and scope) of compounding pharmacies, revamping of Board inspection tools specifically geared toward compounding pharmacies, several rounds of additional compounding-focused training for Board investigators, state-wide educational efforts for pharmacists, and close cooperation with the federal Food and Drug Administration (FDA) in inspections and investigations.

As of this writing, the working group is drafting proposed rule amendments aimed at further clarifying compounding pharmacy standards and ensuring conformity with H.R. 3204, the Drug Quality and Safety Act, a federal statute signed into law in late November 2013.

Involvement in National Pharmacy Compounding Efforts

Board staff is working closely with National Association of Boards of Pharmacy (NABP) 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.

In addition, committees in both the US Senate and US House of Representatives convened to analyze the causes of the NECC tragedy and to explore potential federal

regulation in the area of pharmacy compounding. In response to requests from these committees, Board staff provided substantial information on North Carolina's regulation of pharmacy compounding. In a report produced by then-Representative (now Senator) Ed Markey of Massachusetts, the North Carolina Board of Pharmacy was specifically praised for its investigation, inspection, and enforcement programs.

The Board's Executive Director, Jay Campbell, was selected to serve as a speaker and representative of state boards of pharmacy at a December 2012 meeting among federal and state regulatory bodies hosted by FDA. That meeting brought together federal regulators and regulators from all 50 states to discuss means of improving compounding pharmacy oversight.

"Grey-Market" Wholesaling.

As was true last year, during 2013, the Board continued to be 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.

As a result of Board investigative staff's work to shut down several such operations, Board investigators were asked to consult with federal and other state authorities on the issue and investigation strategies.

Board investigative staff continued to cooperate 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 building criminal cases against bad actors.

* * *

The statistics reported below demonstrate the Board's active licensing, permitting, registration, and disciplinary docket.

N.C.G.S. § 93B-2 Report Contents

North Carolina Board of Pharmacy
Census of Registrants
As of September 30, 2013

PHARMACISTS

Total number of active pharmacists licensed.....	14,478
Total number of active pharmacists residing in North Carolina.....	10,971
Inactive pharmacists residing in North Carolina.....	2,151
Total number of active pharmacists residing outside of North Carolina.....	3,507
Total number deceased in FY 2013.....	12

Breakdown of Employment Settings In-State

Retail Pharmacy – Chain.....	3,654
Retail Pharmacy – Independent.....	1,579
Hospital Pharmacies.....	2,738
Nursing Homes.....	114
Government, Health Departments and Teaching.....	157
Pharmaceutical Manufacturing and Wholesale Sales.....	109
Other.....	1,452
Sales and Research.....	88
Unknown Position.....	1,079

Age and Gender of Active Pharmacists in North Carolina

Under 30 years of age.....	1,440
30 – 39 years of age.....	2,898
40 – 49 years of age.....	2,761
50 – 59 years of age.....	2,040
60 – 65 years of age.....	947
Over 65 years of age.....	885
In-state Pharmacists – Female.....	6,379
In-state Pharmacists – Male.....	4,592

PHARMACIES

Total in-state Pharmacy permits on roster.....	2,793
Retail Pharmacy – Chain.....	1,272
Retail Pharmacy – Independent.....	704
Hospital Pharmacies.....	189
Nursing Homes.....	32
Health Departments.....	89
Free Clinics.....	37
IV Infusion.....	39
Automated Dispensing Systems.....	130
Others.....	300
Total out-of-state Pharmacy permits on roster.....	496

<u>DEVICE AND MEDICAL EQUIPMENT</u>	
Total DME permits on roster	890
<u>DISPENSING PHYSICIANS</u>	
Total Physicians registered	769
<u>PHYSICIAN ASSISTANTS AND NURSE PRACTITIONERS</u>	
Total PA's and NP's registered to dispense	262
<u>PHARMACY TECHNICIANS</u>	
Total Pharmacy Technicians registered.....	15,964

(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*

615 persons applied to the Board for licensure by examination in 2013.

(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*

541 candidates sat for examination in 2013. Two (2) candidates withdrew from examination. Eighteen (18) 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 569 licenses by examination in FY2013.

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

305 persons applied for licensure by reciprocity in FY2013.

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

296 persons were granted licensure by reciprocity in FY2013.

(8) The Number of Licenses Suspended or Revoked in FY2013

Total number of complaints received	272
Total number of "no action" decisions after investigation	57
Total number of "no action" decisions due to Board having no jurisdiction over complaint	64
Total number of staff letters issued post pre-hearing conference or by informal administrative disposition	Letters of Caution 22 Letters of Concern 7 Letters of Warning 55
Total number of cases resulting in consent orders	8
Total number of cases resulting in full board hearings	3
Pharmacist licenses revoked	1
Pharmacist licenses suspended	4
Pharmacist licenses surrendered	12
Pharmacy technician registrations revoked	0
Pharmacy technician licenses suspended	8
Pharmacy technicians surrendered	17
Pharmacy Permit Revocations	0
Pharmacy Permit Suspensions	4
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), 2 licenses, permits, or registrations 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 FY2014.

(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 FY2014:

- Amendments to Board rules governing pharmacy compounding intended conform state requirements with new federal statutes governing compounding activity.
- Rulemaking to implement Section 3 of S.L. 2013-52 concerning Board receipt of reports from the North Carolina Controlled Substances Reporting System.
- Completion of rulemaking underway to simplify and consolidate standards governing automated dispensing devices.

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

	2012	2011
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	3,563,661	3,474,633
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

	<u>2012</u>	<u>2011</u>
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	<u>2,715,310</u>	<u>2,593,294</u>
Operating income	<u>848,351</u>	<u>881,339</u>
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)	<u>28,837</u>	<u>18,890</u>
Change 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>

See accompanying notes and accountant's report.

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

	<u>2012</u>	<u>2011</u>
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	<u>(1,261,249)</u>	<u>(1,155,616)</u>
Net cash provided by operating activities	<u>979,613</u>	<u>1,072,195</u>
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	<u>(819,880)</u>	<u>(20,603)</u>
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	<u>(25,306)</u>	<u>(1,096,817)</u>
Net increase (decrease) in cash	134,427	(45,225)
Cash - beginning of year	<u>437,858</u>	<u>483,083</u>
Cash - end of year	<u>\$ 572,285</u>	<u>\$ 437,858</u>
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	<u>131,262</u>	<u>190,856</u>
Net cash provided by operating activities	<u>\$ 979,613</u>	<u>\$ 1,072,195</u>

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:

	2012	2011
	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:

	Cost 9/30/2011	Increases	Decreases	Cost 9/30/2012
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
	<u>2,784,988</u>	<u>25,732</u>	<u>122,229</u>	<u>2,688,491</u>
Total at historical cost				
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
	<u>1,118,111</u>	<u>105,062</u>	<u>122,229</u>	<u>1,100,944</u>
Total accumulated depreciation				
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:

	Cost 9/30/2011	Increases	Decreases	Cost 9/30/2012
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:

Years Ending September 30

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.