

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

October 1, 2007 – September 30, 2008

MEMBERS AND ORGANIZATION

COMMISSIONED BY HER EXCELLENCY THE GOVERNOR OF NORTH CAROLINA

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

Executive Director

Jack W. Campbell IV, Chapel Hill

General Counsel

Clinton R. Pinyan, Greensboro

Investigators/Inspectors

Karen Matthew, Director, Greensboro
Joshua Kohler, Assistant Director, Raleigh
Krystal Brashears, Wilson
Amy Cook, Charlotte
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, 2009

To Her Excellency
Governor Beverly Perdue
Raleigh, North Carolina

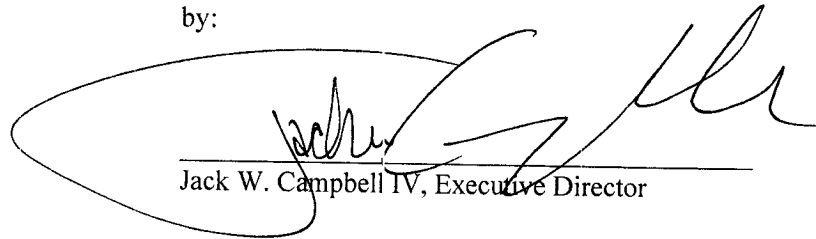
Dear Governor Perdue:

In compliance with Article 4, Section 90-57 of the General Statutes of North Carolina, the Board of Pharmacy is pleased to submit to you the One Hundred Twenty-Seventh Annual Report of the North Carolina Board of Pharmacy. This report contains the proceedings of the Board for the fiscal year ending September 30, 2008.

Respectfully yours,

NORTH CAROLINA BOARD OF PHARMACY

by:

A large, stylized handwritten signature in black ink, written over a horizontal line. The signature is cursive and appears to read 'Jack W. Campbell IV'.

Jack W. Campbell IV, Executive Director

Introduction

Fiscal Year 2008 was, as always, a busy one for the Board of Pharmacy. Administratively, FY 2008 marked the Board's roll-out of a number of initiatives aimed at minimizing paper-based license and permit renewal, continuing education reporting, and Board elections. These initiatives are designed to – and have proven successful at – significantly reducing pharmacist time and effort to accomplish these tasks, as well as improving record accuracy, storage, and processing by Board staff. Other accomplishments during FY 2008 that continue to improve the health and safety of the public include: work with the North Carolina Association of Free Clinics to provide an easy-to-use, comprehensive explanation of statutory and regulatory requirements applicable to such operations; implementation of a rule permitting pharmacists to administer the zoster vaccine to eligible senior citizens; and clarification and tightening of rules governing eligibility of graduates of foreign schools of pharmacy for licensure in North Carolina.

Enforcement activity, detailed further below, remains active. Diversion of controlled substances by pharmacy technicians continues to consume a disproportionate share of enforcement resources. Board staff continues to communicate with – and work closely with – local, state, and federal law enforcement officials in addressing this serious matter. Board enforcement staff also ramped up efforts to detect, punish, and prosecute out-of-state pharmacies – whether Internet-based or non-Internet-based – that ship prescription drugs to North Carolina residents without appropriate licenses and permits.

The Board's financial statement and audit report are also appended to this report. The Board continues to implement a number of initiatives designed to maintain its financial strength. Most significantly in FY 2008, the Board – with the permission of the Council of State – refinanced the mortgage on its office space, resulting in significantly better loan terms, with both short- and long-term financial advantages to the Board. Board staff continues to scrutinize all operating costs, changing and, where justified, eliminating procedures and operations to limit costs. These initiatives have helped the Board survive these difficult economic times and still provide top-level service to the citizens of North Carolina.

N.C.G.S. § 93B-2 Report Contents

North Carolina Board of Pharmacy
Census of Registrants
As of September 30, 2008

PHARMACISTS

Total number of active pharmacists licensed as of September 30, 2008.....	12,002
Total number of active pharmacists residing in North Carolina	9,374
Inactive pharmacists residing in North Carolina.....	1,597
Total number of active pharmacists residing outside of North Carolina.....	2,628
Total number deceased in FY 2008	18

Breakdown of Employment Settings In-State

Retail Pharmacy – Chain.....	3,172
Retail Pharmacy – Independent	1,386
Hospital Pharmacies.....	2,031
Nursing Homes	121
Government, Health Departments and Teaching	170
Pharmaceutical Manufacturing and Wholesale Sales	142
Other	1,182
Sales and Research.....	119
Unknown Position.....	1,050

Age and Gender of Active Pharmacists in North Carolina

Under 30 years of age	1,146
30 – 39 years of age	2,771
40 – 49 years of age	2,223
50 – 59 years of age	1,884
60 – 65 years of age	684
Over 65 years of age	666
In-state Pharmacists – Female.....	5,172
In-state Pharmacists – Male	4,202

PHARMACIES

Total in-state Pharmacy permits on roster as of September 30, 2008	2,390
Retail Pharmacy – Chain.....	1,163
Retail Pharmacy – Independent	602
Hospital Pharmacies.....	176
Nursing Homes	38
Health Departments.....	91
Free Clinics	39
IV Infusion	40
Automated Dispensing Systems.....	27
Others.....	214
Total out-of-state Pharmacy permits on roster as of September 30, 2008	368

DEVICE AND MEDICAL EQUIPMENT

Total DME permits on roster as of September 30, 2008.....	766
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DISPENSING PHYSICIANS

Total Physicians registered to dispense as of September 30, 2008.....	697
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PHYSICIAN ASSISTANTS AND NURSE PRACTITIONERS

Total PA's and NP's registered to dispense as of September 30, 2008 238

PHARMCY TECHNICIANS

Total Pharmacy Technicians registered as of September 30, 2008..... 13,131

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

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

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

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

544 persons applied to the Board for licensure by examination in fiscal year 2008.

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

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

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

528 candidates sat for examination in fiscal year 2008. Two (2) candidates withdrew from examination. 13 candidates did not appear for examination. One (1) candidate, noted above, was not allowed to sit for examination.

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

The Board issued 506 licenses by examination in fiscal year 2008.

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

238 persons applied for licensure by reciprocity in fiscal year 2008.

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

236 persons were granted licensure by reciprocity in fiscal year 2008.

(8) The Number of Licenses Suspended or Revoked in Fiscal Year 2008

Total number of complaints received	334
Total number of “no action” decisions after investigation	126
Total number of “no action” decisions due to Board having no jurisdiction over complaint	24
Total number of staff letters* issued post pre-hearing conference or by informal administrative disposition	Letters of Caution 17 Letters of Concern 18 Letters of Warning 51
Total number of cases resulting in consent orders	20
Total number of cases resulting in full board hearings	7
Pharmacist licenses revoked	2
Pharmacist licenses suspended	9
Pharmacist licenses surrendered	17
Pharmacy Permit Revocations	0
Pharmacy Permit Suspensions	1
Pharmacy Permit Surrender	1
DME Permit Suspensions	1

* A “staff letter” is not deemed a formal disciplinary action.

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

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

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

The Board of Pharmacy does not anticipate any request to the General Assembly to amend the Pharmacy Practice Act in fiscal year 2009.

(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 fiscal year 2009:

(i) Amending the rules governing the requirements for, and methods of, counseling patients by pharmacists on medication therapy.

(ii) Amending the rules governing the authority of pharmacy technicians with advanced training and education.

(iii) Amending the rules governing pharmacist administration of vaccinations to broaden the number and type of vaccinations that pharmacists may administer.

(iv) Promulgating rules concerning donation and receipt of previously-dispensed prescription drugs to free and charitable clinics.

NORTH CAROLINA BOARD OF PHARMACY

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
SEPTEMBER 30, 2008 AND 2007**

CONTENTS

	<u>PAGES</u>
Independent Auditor's Report	2
Management's Discussion and Analysis	3-5
Exhibits:	
"A" Statements of Net Assets	6
"B" Statements of Revenues, Expenses and Changes in Net Assets	7-8
"C" Statements of Cash Flows	9
Notes to Financial Statements	10-19

BLACKMAN & SLOOP, CPAs, P.A.

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

INDEPENDENT AUDITOR'S REPORT

To the Board Members
North Carolina Board of Pharmacy

We have audited the accompanying statements of net assets of the North Carolina Board of Pharmacy (a nonprofit organization) as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Board of Pharmacy as of September 30, 2008 and 2007, and its changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Blackman + Sloop

Chapel Hill, North Carolina
January 16, 2009

NORTH CAROLINA BOARD OF PHARMACY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the North Carolina Board of Pharmacy (the Board), for the fiscal years ended September 30, 2008 and 2007. 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 includes 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 presents the revenues earned and expenses incurred during the fiscal year.

The Statements of Cash Flows reports 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, 2008 and 2007. The Statements provide information on current and noncurrent assets and liabilities. The data provides information on assets available to continue operations; amounts due to vendors and lending institutions; and the net assets available for expenditure by the Board.

NORTH CAROLINA BOARD OF PHARMACY
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Statements of Net Assets (continued)

The following table summarizes the Board's assets, liabilities and net assets at September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets	\$ 2,253,015	\$ 1,532,299
Capital assets, net	1,892,217	1,971,878
Total Assets	<u>\$ 4,145,232</u>	<u>\$ 3,504,177</u>
Liabilities and Net Assets:		
Current liabilities	\$ 82,800	\$ 1,214,761
Noncurrent liabilities	1,165,301	82,926
Total Liabilities	<u>1,248,101</u>	<u>1,297,687</u>
Net Assets		
Invested in capital assets - net of related debt	752,204	782,026
Unrestricted	2,144,927	1,424,464
Total Net Assets	<u>2,897,131</u>	<u>2,206,490</u>
Total Liabilities and Net Assets	<u>\$ 4,145,232</u>	<u>\$ 3,504,177</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 current and increase in noncurrent liabilities is due to the refinancing of the mortgage note in July 2008. Due to the original note being owed in full in July 2008, the entire balance on the mortgage is shown as a current liability at September 30, 2007. The new refinanced agreement term is 15 years, and therefore the majority of it is shown as a noncurrent liability.

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 of the fiscal years ended September 30, 2008 and 2007, are presented as follows:

NORTH CAROLINA BOARD OF PHARMACY
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Statements of Revenues, Expenses and Changes in Net Assets (continued)

	<u>2008</u>	<u>2007</u>
Operating Revenue	\$ 3,191,870	\$ 3,203,620
Operating Expenses	<u>2,580,319</u>	<u>2,614,940</u>
Operating Income	<u>611,551</u>	<u>588,680</u>
Nonoperating Revenue	<u>79,090</u>	<u>77,711</u>
Changes in Net Assets	690,641	666,391
Net Assets - Beginning of Year	<u>2,206,490</u>	<u>1,540,099</u>
Net Assets - End of Year	<u><u>\$ 2,897,131</u></u>	<u><u>\$ 2,206,490</u></u>

Operating revenue consists primarily of pharmacists and pharmacy renewals for the years ended September 30, 2008 and 2007. The consistency of the operating revenue is attributable to the unchanged fees and no major industry changes during the 2008 fiscal year. Nonoperating revenue consists primarily of investment income. Operating expenses are related to the operation of the Board, including personnel costs, investigative costs, professional fees, supplies, utilities, and depreciation. The decrease in operating expenses is primarily due to a decrease of approximately \$57,000 in legal fees. There were also increased expenditures in other areas, such as an approximate \$30,000 increase in bank service fees for the more frequent use of the internet and credit cards as a method to receive payments. The Board recorded depreciation expense of \$159,096 and \$171,194, for the years ended September 30, 2008 and 2007, respectively.

Contacting the Board's Financial Management

This financial report is designed to provide our state, pharmacists, and creditors with a general overview of the Board's finances and demonstrate accountability of all funds received. Additional financial information may be obtained by contacting the Board at 919-246-1050.

NORTH CAROLINA BOARD OF PHARMACY

STATEMENTS OF NET ASSETS

EXHIBIT A

September 30, 2008 and 2007

	<u>ASSETS</u>	
	<u>2008</u>	<u>2007</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,705,540	\$ 371,651
Investments	455,830	1,095,432
Accounts receivable	-	5,903
Note receivable - officer life insurance	10,183	-
Accrued interest	3,296	8,084
Related party receivable	11	423
Deposit	-	10,000
Prepaid expenses	78,155	40,806
TOTAL CURRENT ASSETS	<u>2,253,015</u>	<u>1,532,299</u>
NONCURRENT ASSETS:		
Capital assets, net	<u>1,892,217</u>	<u>1,971,878</u>
TOTAL ASSETS	<u>\$ 4,145,232</u>	<u>\$ 3,504,177</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES:		
Accounts payable	\$ 24,827	\$ 24,909
Current portion of note payable	<u>57,973</u>	<u>1,189,852</u>
TOTAL CURRENT LIABILITIES	<u>82,800</u>	<u>1,214,761</u>
NONCURRENT LIABILITIES:		
Note payable, less current portion	1,081,040	-
Accrued vacation	<u>84,261</u>	<u>82,926</u>
TOTAL NONCURRENT LIABILITIES	<u>1,165,301</u>	<u>82,926</u>
TOTAL LIABILITIES	<u>1,248,101</u>	<u>1,297,687</u>
NET ASSETS:		
Invested in capital assets - net of related debt	752,204	782,026
Unrestricted	<u>2,144,927</u>	<u>1,424,464</u>
TOTAL NET ASSETS	<u>2,897,131</u>	<u>2,206,490</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,145,232</u>	<u>\$ 3,504,177</u>

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

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

EXHIBIT B

Page 1 of 2

For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUE:		
Pharmacist renewals	\$ 1,545,996	\$ 1,473,852
Pharmacist reciprocity	142,800	154,800
Pharmacist exam fees	54,100	60,600
Pharmacist/manager changes	22,155	17,675
Pharmacist reinstatements	19,980	18,090
Pharmacy renewals	527,576	513,544
Pharmacy permits	130,500	265,100
Pharmacy reinstatements	2,800	800
Technician renewals	295,641	262,497
Technician registrations	104,835	101,100
Technician reinstatements	36,840	32,700
Device and DME permits and renewals	195,691	197,351
Dispensing physician renewals and permits	61,692	55,059
Dispensing PA/NP renewals and permits	19,605	17,187
Pharmacy/pharmacists, lists and labels	28,317	30,159
Law books	356	685
Miscellaneous	2,986	2,421
	<u>3,191,870</u>	<u>3,203,620</u>
TOTAL OPERATING REVENUE		
OPERATING EXPENSES:		
Salaries	1,147,455	1,137,465
Legal fees	209,974	266,790
Depreciation	159,097	171,194
Employee benefits	157,331	141,500
Pharmacist recovery network	130,000	130,000
Payroll taxes	84,203	83,223
Bank service charges	81,170	52,133
Consulting fees	80,831	79,507
Retirement contributions	70,439	55,429
Interest	53,965	55,529
Inspection expense	52,625	54,982
Auto expense	52,012	45,739
Special meetings and projects	48,472	24,580
Postage	28,171	28,979
Supplies	26,540	47,195
Executive director's expenses	22,527	24,218
Maintenance	18,073	11,176
Building dues and maintenance	17,002	19,212

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

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

EXHIBIT B

Page 2 of 2

For the Years Ended September 30, 2007 and 2006

	<u>2008</u>	<u>2007</u>
OPERATING EXPENSES (CONTINUED):		
Telephone	15,163	16,923
Printing	14,552	7,983
Meeting expense	12,643	12,698
Janitorial service	12,194	13,180
Equipment lease	10,887	4,422
Renewal forms	9,608	11,983
Meetings per diem	9,600	14,700
Insurance	9,462	8,536
Board members' professional meetings	9,227	14,472
Office utilities	8,773	9,075
Temporary office help	7,966	34,842
Audit fee	7,400	7,891
Office staff travel	7,054	6,834
Books, dues and subscriptions	3,132	4,636
Moving expense	1,932	2,711
Educational expense	449	3,677
Office rent and storage	390	8,760
Exam expense	-	2,014
Exam per diem expense	-	400
Miscellaneous	-	352
	<u>2,580,319</u>	<u>2,614,940</u>
TOTAL OPERATING EXPENSES		
	<u>611,551</u>	<u>588,680</u>
OPERATING INCOME		
NONOPERATING REVENUE:		
Investment income	74,744	72,490
Unrealized (loss) gain on investments	(429)	469
Gain on sale of fixed assets	4,775	4,752
	<u>79,090</u>	<u>77,711</u>
NONOPERATING REVENUE		
	<u>690,641</u>	<u>666,391</u>
CHANGES IN NET ASSETS		
	<u>2,206,490</u>	<u>1,540,099</u>
NET ASSETS - BEGINNING OF YEAR		
	<u>\$ 2,897,131</u>	<u>\$ 2,206,490</u>
NET ASSETS - END OF YEAR		

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

NORTH CAROLINA BOARD OF PHARMACY

STATEMENTS OF CASH FLOWS

EXHIBIT C

For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees	\$ 3,188,528	\$ 3,200,514
Other cash received	3,342	3,106
Cash payments to employees for services	(1,146,120)	(1,120,000)
Cash payments for operating expenses	<u>(1,294,883)</u>	<u>(1,394,774)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>750,867</u>	<u>688,846</u>
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(81,063)	(97,120)
Proceeds from the sale of assets	6,403	4,752
Proceeds from note payable	1,153,056	-
Principal payments on note	<u>(1,203,896)</u>	<u>(50,148)</u>
NET CASH USED BY CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	<u>(125,500)</u>	<u>(142,516)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(943,743)	(3,064,290)
Proceeds from sale of investments	1,591,000	2,370,235
Issuance of note receivable	(10,183)	-
Interest on investments	<u>71,448</u>	<u>64,406</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>708,522</u>	<u>(629,649)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,333,889	(83,319)
CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>371,651</u>	<u>454,970</u>
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 1,705,540</u>	<u>\$ 371,651</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	<u>\$ 611,551</u>	<u>\$ 588,680</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	159,097	171,194
Changes in assets and liabilities:		
Accounts receivable	5,903	(5,903)
Related party receivable	412	(423)
Deposit	10,000	(10,000)
Prepaid expenses	(37,349)	(31,455)
Accounts payable	(82)	(40,712)
Accrued vacation	<u>1,335</u>	<u>17,465</u>
Total adjustments	<u>139,316</u>	<u>100,166</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 750,867</u>	<u>\$ 688,846</u>

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

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

Page 1 of 10

NORTH CAROLINA BOARD OF PHARMACY

The North Carolina Board of Pharmacy, (the “Board”) was established under Chapter 90 of the North Carolina General Statutes to maintain minimum standards for the practice of pharmacy within the State of North Carolina. The Board’s operations are funded primarily through license renewals, permits, and license examination fees.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**A. Basis of Presentation.**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. The Board applied all applicable Financial Accounting Standards Board (FASB) pronouncements issued 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 and services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Reporting Entity.

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

C. Basis of Accounting.

In accordance with Statement of Governmental Accounting Standards 34, the Board presents a statement of net assets, a statement of revenues, expenses, and changes

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

Page 2 of 10

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES
(CONTINUED)

C. Basis of Accounting (continued).

in net assets, and a statement of cash flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

The statement of revenues, expenses, and changes in net assets demonstrates the degree to which the direct expenses of the Board are offset by license renewal fees and permits.

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

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of license renewal fees and permits. 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.

D. Cash and Cash Equivalents.

Cash and cash equivalents consist of money on deposit with banks, and money invested in money market accounts, all of which are considered available for current use.

E. Investments.

Marketable and debt securities are stated at fair market value based on readily available published values. Any donated investments are initially recorded at fair value at the date of gift.

F. Capital Assets.

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

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

Page 3 of 10

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES
(CONTINUED)

G. Vacation and Sick Leave.

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

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

H. Net Assets.

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

Unrestricted net assets: Unrestricted net assets are not subject to externally imposed stipulations pertaining to their use. Unrestricted net assets are used for the general operations of the Board and may be used at the discretion of the governing board to meet current expenses for any purpose. The Board has reserved \$200,000 of the unrestricted net assets to cover potential litigation costs.

I. Income Taxes.

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

J. Use of Estimates.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

Page 4 of 10

CASH AND CASH EQUIVALENTS

At September 30, 2008 and 2007, the Board has cash balances at financial institutions that exceed the Federal Deposit Insurance Corporation limit by approximately \$727,000 and \$319,000, respectively. Bank balances of \$250,000 and \$100,000 as of September 30, 2008 and 2007, respectively are fully insured with the federal depository insurance coverage, thus amounts held in deposit greater than insured balances are subject to credit risk.

The Board also has cash equivalents invested with a financial institution that is insured by the Securities Investor Protection Corporation. Balances of \$100,000 are fully insured with the securities investor protection insurance coverage, thus amounts held that are greater than insured balances are subject to credit risk. Uninsured amounts total approximately \$643,000 and \$587,000 at September 30, 2008 and 2007, respectively. The Board does not have a formal policy on custodial credit risk. The money market fund is unrated.

INVESTMENTS

Investments at September 30, 2008 and 2007, consisted of the following:

	2008		2007	
	Cost	Market	Cost	Market
Fixed income securities	\$ 455,790	\$ 455,830	\$ 1,094,963	\$ 1,095,432

As of September 30, 2008 and 2007, the aggregate market value of assets exceeded cost by \$40 and \$469, respectively. Net unrealized losses of \$429 and gains of \$469 were recorded during the years ended September 30, 2008 and 2007, respectively, to properly state investments at market value. Investment income, net of investment fees, totaled \$74,744 and \$72,490, for the years ending September 30, 2008 and 2007, respectively.

Board investment policies are in line with the State Treasurer under N.C.G.S. § 147-69.1 regarding investment options. At September 30, 2008, investments in fixed income securities consist of \$246,145 in corporate bonds, maturing within three months, and \$209,685 in the Federal National Mortgage Association, maturing within 5 years. At September 30, 2007, investments in fixed income securities consist of \$395,000 in corporate bonds, maturing within six months, and \$700,432 in the Federal National Mortgage Association and Federal Home Loan Bank, maturing within 5 years.

At September 30, 2008 and 2007, the Board investments exceed the Securities Investor Protection Corporation limit by approximately \$56,000 and \$598,000, respectively, and thus are subject to credit risk.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

Page 5 of 10

NOTE RECEIVABLE – OFFICER LIFE INSURANCE

The Board owns a life insurance policy jointly with the Executive Director. The amount recorded as note receivable – officer life insurance, represents the Board's equity in the policy, which totaled \$10,183 at September 30, 2008.

CAPITAL ASSETS

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

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

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

Page 6 of 10

CAPITAL ASSETS (CONTINUED)

Capital asset activity for the Board for the year ended September 30, 2007, was as follows:

	Cost 9/30/2006	Increases	Decreases	Cost 9/30/2007
Capital assets:				
Building	\$ 1,892,359	\$ 8,200	\$ -	\$ 1,900,559
Building improvements	1,012	1,160	-	2,172
Furniture and fixtures	215,509	24,619	5,601	234,527
Equipment	436,678	26,016	18,154	444,540
Vehicles	214,574	31,130	42,525	203,179
	<u>2,760,132</u>	<u>91,125</u>	<u>66,280</u>	<u>2,784,977</u>
Less accumulated depreciation for:				
Building	157,697	48,771	-	206,468
Building improvements	15	68	-	83
Furniture and fixtures	111,347	28,692	5,601	134,438
Equipment	333,685	52,973	18,154	368,504
Vehicles	105,441	40,690	42,525	103,606
	<u>708,185</u>	<u>171,194</u>	<u>66,280</u>	<u>813,099</u>
Total accumulated depreciation	<u>708,185</u>	<u>171,194</u>	<u>66,280</u>	<u>813,099</u>
Total capital assets, net	<u>\$ 2,051,947</u>	<u>\$ (80,069)</u>	<u>\$ -</u>	<u>\$ 1,971,878</u>

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

Page 7 of 10

NOTE PAYABLE

The Board borrowed \$1,384,000 during the 2003 fiscal year to purchase their current office condominium. During the 2008 fiscal year, this note was paid in full, and the Board borrowed \$1,153,056 to refinance the condominium purchase. The new note has a fixed interest rate of 3.92% and requires 180 monthly installments of principal and interest of \$8,516, with the final payment of all unpaid principal and interest due on June 17, 2023.

	<u>2008</u>	<u>2007</u>
Note payable at September 30,	\$ 1,139,013	\$ 1,189,852
Less current portion	<u>(57,973)</u>	<u>(1,189,852)</u>
Long-term portion at September 30,	<u>\$ 1,081,040</u>	<u>\$ -</u>

Principal maturities are as follows:

<u>Year Ending September 30,</u>	
2009	\$ 57,973
2010	60,319
2011	62,761
2012	65,198
2013	67,940
Thereafter	<u>824,822</u>
	<u>\$ 1,139,013</u>

OFFICE SPACE LEASE

The Board leased office space in Newton, North Carolina, under a one-year operating lease which expired June 30, 2007. Rental expense for the year ended September 30, 2007, was \$7,200.

The Board also leases a storage unit on a month to month basis. Rental expense under this lease for the years ended September 30, 2008 and 2007, was \$1,690 and \$1,560, respectively.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

Page 8 of 10

OPERATING LEASES

The Board leases a folding machine under an agreement that expires November 2009. Monthly rent is \$357. During the current fiscal year, the Board began to lease a mailing machine on a quarterly basis. Monthly rent is \$491 plus usage fees. Total rental expense for the years ended September 30, 2008 and 2007, was \$10,887 and \$4,422, respectively.

Future minimum lease payments are as follows:

Year ending September 30,	
2009	\$ 10,180
2010	6,609
2011	5,894
2012	5,894
	\$ 28,577

Subsequent to year end, the Board leased a new copying machine under an agreement that expires November 2011. Annual rent is \$6,044.

RETIREMENT PLAN

A. North Carolina Licensing Boards Retirement Savings Plan.

The Board contributes to the North Carolina Licensing Boards Retirement Savings Plan ("Plan"), a 401(k) defined contribution plan. The Plan has been established to provide retirement benefits for employees of eight State boards or agencies who have not elected by resolution to cause their employees to be eligible to become members of the Teachers' and State Employees' Retirement System and for employees hired after July 1, 1983, by an electing board or agency. The Plan is administered by an administrative committee with authority to amend the Plan, comprised of the executive directors of the participating boards and agencies.

Participating employees must contribute at least six percent of their gross compensation and the Board matches those contributions 100%. The employees' contributions are immediately 100% vested; the Board's matching contributions are 100% vested after five years of credited service. For vesting purposes, an employee must complete 1,000 hours of service each Plan year.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

Page 9 of 10

RETIREMENT PLAN (CONTINUED)

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, 2008 and 2007, totaled \$148,147 and \$119,661, which consisted of \$63,168 and \$45,537, from the Board and \$84,979 and \$74,124, from employees, respectively.

B. Teacher's and State Employees' Retirement System.

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

Plan members are required to contribute 6% of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The rate was 8.14% and 6.82%, of payroll as of September 30, 2008 and 2007, respectively. The contribution requirements of plan members and the Board is established and may be amended by the North Carolina General Assembly. Contributions to the Plan for the years ended September 30, 2008 and 2007, totaled \$12,803 and \$18,005, which consisted of \$7,271 and \$9,892, from the Board and \$5,532 and \$8,113, from employees, respectively.

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

Page 10 of 10

RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board protects itself from exposures to loss through the purchase of commercial liability insurance. Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$5,000,000 public officers' and employees' liability insurance via contract with a private insurance company.

RECLASSIFICATIONS

Certain items in the September 30, 2007, report have been reclassified to conform to current year classifications. Such reclassifications have no effect on previously reported net assets.