

ONE HUNDRED TWENTY-SIXTH ANNUAL REPORT
NORTH CAROLINA BOARD OF PHARMACY

October 1, 2006 – September 30, 2007

MEMBERS AND ORGANIZATION

COMMISSIONED BY HIS EXCELLENCY THE GOVERNOR OF NORTH CAROLINA

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

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, 2008

Governor Michael F. Easley
Raleigh, North Carolina

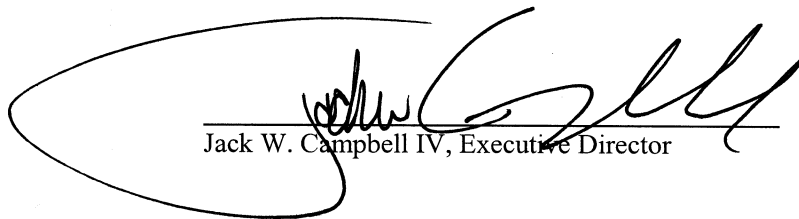
Dear Governor Easley:

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-Six Annual Report of the North Carolina Board of Pharmacy. This report contains the proceedings of the Board for the fiscal year ending September 30, 2007

Respectfully yours,

NORTH CAROLINA BOARD OF PHARMACY

by:

A large, stylized handwritten signature in black ink, appearing to read 'Jack W. Campbell IV', is written over a horizontal line. The signature is enclosed within a large, hand-drawn oval shape.

Jack W. Campbell IV, Executive Director

Introduction

The Board of Pharmacy's fiscal year spanning October 1, 2006 to September 30, 2007 was again an active one. The Board spearheaded a number of initiatives (described more fully below) aimed at improving the public health and safety including: increased regulatory and disciplinary oversight of Internet-based pharmacies and compounding pharmacies; implementation of pilot projects designed to study increased training requirements and job responsibilities for pharmacy technicians; resolution of long-running litigation with the North Carolina Rules Review Commission; and implementation of new rules governing continuing education requirements.

Personnel Changes at the Board

Director of Operations

In the spring of 2007, Carol Smith, the North Carolina Board of Pharmacy's chief operating officer, announced her retirement effective December 31, 2007. Carol provided nearly thirty years of superlative service to the Board and the people of North Carolina. Any description of Carol's value and importance to the Board is bound to be an understatement. Carol was the backbone of Board staff and, very often, the Board's public face. North Carolina pharmacists and consumers could always count on Carol for professional, prompt, and thorough assistance. Board staff and members depended on Carol in a thousand ways to ensure that the Board's operations went smoothly.

Kristin Moore, a five-year Board staff member, was promoted to director of operations and took over responsibility for managing the day-to-day operations of Board staff.

Enforcement Activity

Specific statistics on the Board's enforcement activities are found below. Fiscal year 2007 saw continued emphasis on preventing illegitimate Internet-based pharmacies from threatening the citizens of North Carolina. Enforcement staff also placed particular emphasis on preventing unlicensed "compounding" pharmacies from providing dangerous products to North Carolina residents. Board staff emphasized in disciplinary proceedings the responsibility of the pharmacist-manager to ensure that a pharmacy operates lawfully, particular in cases involving the diversion of controlled substances by pharmacy technicians – a type of case that consumes more and more Board resources.

"Internet pharmacy" poses a serious risk to the public health and safety. While the Internet can be, and is, a medium that promises benefits to pharmacists and their patients in terms of communication and education, it has become the medium of choice for unscrupulous operators who seek to provide dangerous prescription medications

(including, predominately, controlled substances) to patients without any meaningful medical oversight.

Throughout fiscal year 2007 – and likely due in part at least to the Board’s 2006 shut downs of four “brick and mortar” Internet-based pharmacies operating illegally in North Carolina – Board staff became aware that some Internet-based operations are actively soliciting independent pharmacy owners to act as a dispensing clearinghouses for Internet-based prescriptions. The motivation is not difficult to discern. Internet operators are finding it increasingly difficult to maintain their own brick-and-mortar “pharmacies.” The sheer number of controlled substances distributed from such facilities makes it difficult to mask the operation for long. If, however, illegal Internet operators can “spread” their volume by engaging multiple pharmacies to fill a limited number of “prescriptions,” then the activity is more difficult to detect. And the financial inducements to pharmacy owners are significant.

Vigilance by Board staff and, in particular, independent pharmacy owners in North Carolina has been successful in blunting these efforts. Independent pharmacy owners have alerted the Board regularly when these solicitations begin, allowing Board investigative staff to run down the source of the solicitations and take appropriate action – including issuing cease and desist orders, initiating litigation, and cooperating with the United State Drug Enforcement Agency. Board staff also posts the solicitors’ identities on the Board’s website to alert pharmacists.

Of course, the Internet is not an inherently illegal or inappropriate health care tool. The Internet can be a useful communications tool allowing pharmacists and prescribers to improve the delivery of health care to patients. On April 1, 2008, the Board promulgated regulations adding new requirements to obtain or renew a North Carolina pharmacy permit when the pharmacy meets the regulatory definition of “Internet pharmacy.” Chief among these requirements is obtaining Verified Internet Pharmacy Practice Site (“VIPPS”) status from the National Association of Boards of Pharmacy. The VIPPS program is a stringent certification process designed to ensure that a pharmacy using Internet-based models of practice does so in compliance with all relevant rules and regulations. At present, only three states (North Carolina, Kentucky, and Nevada) have implemented this requirement.

Issues concerning pharmacy “compounding” were on the forefront in fiscal year 2007. Much discussion was generated by a draft bill (never introduced) co-sponsored by, among others, Senator Richard Burr, that would have federalized many aspects of the regulation of compounding by pharmacies. This draft bill began circulating after two highly publicized incidents (occurring in other states) in which pharmacy-compounded medications caused patient deaths. Without question, compounding by pharmacists – when done appropriately and safely – is a benefit to patients. When compounding is not performed appropriately – as where a pharmacy essentially “manufactures” unapproved prescription drug products or compounds in an unsuitable environment – the public health and safety is threatened.

The North Carolina Board has been, and continued to be, active in policing pharmacy compounding. A significant disciplinary hearing established that compounding pharmacies who are supplying compounded products to a physician's office have a duty to ensure that such products are not being resold in violation of North Carolina law. The Board took action against a number of compounding pharmacies who were shipping compounded products, for both human and veterinary use, to North Carolina patients even though the pharmacies were not permitted in North Carolina.

Diversion of controlled substances – either for personal use or for trafficking – by pharmacy technicians continues to be a growing percentage of the Board's investigative and disciplinary docket. Whether technician diversion is increasing or is simply reported more often is difficult to ascertain. In any case, the Board has worked closely with local law enforcement agencies to investigate and, where appropriate, mete out discipline. Board staff has also disciplined supervising pharmacist-managers found to be negligent in their oversight of technicians or implementation of security to deter diversion. Staff has also focused significant effort on educating pharmacist-managers on their responsibilities in this area.

Other Issues of Note

Conclusion of Litigation Against the Rules Review Commission. In 1998, the Board promulgated a rule stating that pharmacists could not be compelled to work more than 12 continuous hours in a work day, and requiring a 30-minute meal break and an additional 15-minute work break for pharmacists working more than six continuous hours in a workday. This rule stemmed from concern that pharmacists working overly long shifts without breaks increased the risk of dispensing errors, and thus harm to the public health and safety. The North Carolina Rules Review Commission ("RRC") rejected the rule on the stated basis that the Board lacked the statutory authority to promulgate any rules affecting pharmacist working conditions.

The Board filed suit against RRC in 1999, seeking a declaration that the rule was within the Board's statutory authority and an injunction ordering RRC to publish the rule. In 2004, the Wake County Superior Court ruled in RRC's favor. The Board appealed and in October 2005, a divided panel of the North Carolina Court of Appeals affirmed. Judge Steelman, in dissent, would have held that the rule is plainly linked to the Board's authority to ensure safety in prescription drug dispensing and ordered the rule published. Judge Steelman's dissent created a right of appeal to the North Carolina Supreme Court.

In November 2006, the North Carolina Supreme Court adopted Judge Steelman's dissent, holding that the Board had the statutory authority to promulgate the rule. Though the Supreme Court also granted review to determine whether RRC is a constitutional body, it declined to address the issue. After some further procedural hurdles, RRC allowed publication of the rule, effective April 1, 2007. The Board granted employers a six-month grace period to come into compliance, and Board staff began enforcing the rule October 1, 2007.

Pharmacist Administration of Zoster Vaccine. The Pharmacy Practice Act authorizes pharmacists to administer (as opposed to dispense) prescription drugs pursuant to rules jointly agreed upon by the Pharmacy, Medical, and Nursing Boards. By rule, pharmacists may administer the influenza and pneumococcal vaccines to adults.

In March 2007, the Board approached the Medical and Nursing boards seeking to amend the immunization rules to allow pharmacist administration of the herpes zoster (also known as “shingles”) vaccine. This vaccine is indicated for all adults over age 60 and is highly effective in preventing and reducing the symptoms of “shingles.” Complications of shingles include post-herpetic neuralgia, a debilitating nerve pain condition that can persist for years. Owing to changes in Medicare reimbursement procedures, absent pharmacists’ ability to administer the vaccine, many North Carolina seniors would have to forgo the vaccine and risk infection and complication. Moreover, pharmacists in numerous other states administer the vaccine and no ill effects of such programs has ever been demonstrated.

The Nursing Board readily agreed to the amendment. Negotiations with the Medical Board proved far more difficult and lengthy. Ultimately, agreement was reached in September 2007 and the rule amended. Its implementation promises to benefit North Carolina seniors significantly.

Continuing Education Requirements. In 2007, the Board promulgated regulations implementing General Assembly-authorized changes in continuing education requirements for license renewal. Pharmacists must now obtain 15 hours of continuing education annually (up from 10), eight (8) of which must be live coursework (up from 5).

Electronic Recordkeeping. During the General Assembly session in 2007, the Board supported amendments to the Pharmacy Practice Act allowing pharmacies to store most prescriptions electronically. Federal barriers remain to full implementation, but this amendment promises to improve the quality of recordkeeping by pharmacists, with resultant benefit to patients.

Technician Pilot Program. In 2007, the Board approved a pilot study to be conducted at Broughton State Hospital in Morganton to assess the safety and effectiveness of increasing pharmacy technician roles in a hospital pharmacy setting. This assessment is coupled to increased technician training. This pilot program has attracted national attention and could point the way for changes in the way pharmacy technicians are regulated.

National Recognition. Board Members and staff continue to be viewed as national leaders on issues of pharmacy practice and regulation. Members or staff presented talks at the American Pharmacists Association annual meeting, the National Association of Boards of Pharmacy annual meeting, the NABP District III annual meeting, and the MALTAGON annual meeting. Executive Director Jay Campbell was elected president of the American Society for Pharmacy Law.

North Carolina Board of Pharmacy
Census of Registrants
Fiscal Year 2007

PHARMACISTS

Total number of active pharmacists licensed as of September 30, 2007.....	11,444
Total number of active pharmacists residing in North Carolina	8,967
Inactive pharmacists residing in North Carolina.....	1,524
Total number of active pharmacists residing outside of North Carolina.....	2,477
Total number deceased in FY 2007	20

Breakdown of Employment Settings In-State

Retail Pharmacy – Chain.....	3,090
Retail Pharmacy – Independent	1,348
Hospital Pharmacies.....	1,950
Nursing Homes	126
Government, Health Departments and Teaching	159
Pharmaceutical Manufacturing and Wholesale Sales	142
Other	1,156
Sales and Research.....	119
Unknown Position.....	876

Age and Gender of Active Pharmacists in North Carolina

Under 30 years of age	1,069
30 – 39 years of age	2,670
40 – 49 years of age	2,168
50 – 59 years of age	1,808
60 – 65 years of age	654
Over 65 years of age	598
In-state Pharmacists – Female.....	4,876
In-state Pharmacists – Male	4,091

PHARMACIES

Total in-state Pharmacy permits on roster as of September 30, 2007	2,311
Retail Pharmacy – Chain.....	1,131
Retail Pharmacy – Independent	593
Hospital Pharmacies.....	174
Nursing Homes	38
Health Departments.....	89
Free Clinics	38
IV Infusion	37
Auto Dispensing Systems	12
Others.....	199
Total out-of-state Pharmacy permits on roster as of September 30, 2007	349

DEVICE AND MEDICAL EQUIPMENT

Total DME permits on roster as of September 30, 2007.....	725
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DISPENSING PHYSICIANS

Total Physicians registered to dispense as of September 30, 2007	689
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PHYSICIAN ASSISTANTS AND NURSE PRACTITIONERS

Total PA's and NP's registered to dispense as of September 30, 2007 227

PHARMCY TECHNICIANS

Total Pharmacy Technicians registered as of September 30, 2007..... 12,021

(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*

523 persons applied to the Board for licensure by examination in fiscal year 2007.

(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*

519 candidates sat for examination in fiscal year 2007. One (1) candidate withdrew from 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 452 licenses by examination in fiscal year 2007.

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

296 persons applied for licensure by reciprocity in fiscal year 2007.

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

259 persons were granted licensure by reciprocity in fiscal year 2007. Five (5) applicants were denied licensure by reciprocity for dishonesty on the reciprocity

application. Thirty-two (32) applicants did not complete the reciprocity process for reasons unknown to the Board.

(8) The Number of Licenses Suspended or Revoked in Fiscal Year 2007

Total number of complaints received	315
Total number of “no action” decisions after investigation	142
Total number of “no action” decisions due to Board having no jurisdiction over complaint	19
Total number of staff letters* issued post pre-hearing conference or by informal administrative disposition	Letters of Caution 31 Letters of Concern 20 Letters of Warning 66
Total number of cases resulting in consent orders	25
Total number of cases resulting in full board hearings	11
Pharmacist licenses revoked	1
Pharmacist licenses suspended	16
Pharmacist licenses surrendered	14
Pharmacy Permit Revocations	0
Pharmacy Permit Suspensions	2
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 2008.

(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 anticipates the following rule amendments in fiscal year 2008:

- (i) Amending the rule governing Board member elections to provide for electronic balloting.
- (ii) Creating a rule governing donation of prescription drugs to clinics serving needy populations.

NORTH CAROLINA BOARD OF PHARMACY

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
SEPTEMBER 30, 2007 AND 2006**

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BLACKMAN & SLOOP, CPAs, P.A.

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

INDEPENDENT AUDITOR'S REPORT

To the Board Members
North Carolina Board of Pharmacy

We have audited the accompanying statements of net assets of the North Carolina Board of Pharmacy (a nonprofit organization) as of September 30, 2007 and 2006, 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, 2007 and 2006, 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 the Governmental Accounting Standards Board. 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 8, 2008

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, 2007 and 2006. 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: Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and Statement 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 Statement 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 Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the fiscal year.

The Statement of Cash Flows reports cash from operating, capital financing, and investing activities, and is presented using the direct method.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the Board's financial position as of September 30, 2007 and 2006. The Statement provides 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)

Statement of Net Assets (continued)

The following table summarizes the Board's assets, liabilities and net assets at September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Assets:		
Current assets	\$ 1,532,299	\$ 865,230
Capital assets, net	1,971,878	2,051,947
Total Assets	<u><u>\$ 3,504,177</u></u>	<u><u>\$ 2,917,177</u></u>
 Liabilities and Net Assets:		
Current liabilities	\$ 1,214,761	\$ 121,774
Noncurrent liabilities	82,926	1,255,304
Total Liabilities	<u><u>1,297,687</u></u>	<u><u>1,377,078</u></u>
 Net Assets		
Invested in capital assets - net of related debt	782,026	811,947
Unrestricted	1,424,464	728,152
Total Net Assets	<u><u>2,206,490</u></u>	<u><u>1,540,099</u></u>
 Total Liabilities and Net Assets	<u><u>\$ 3,504,177</u></u>	<u><u>\$ 2,917,177</u></u>

Current assets consist primarily of cash and cash equivalents and short term investments, which increased in the current year due to the increase in number of licenses issued. The decrease in net capital assets is attributable to the recorded depreciation expense in the current year.

The increase in current and decrease in noncurrent liabilities is due to the mortgage becoming payable in full in July 2008. Therefore, the balance on the mortgage is shown as a current liability at September 30, 2007.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets represents the Board's results of operations. The condensed statements of the fiscal years ended September 30, 2007 and 2006, are presented as follows:

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

(Unaudited)

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

	2007	2006
Operating Revenues	\$ 3,203,620	\$ 2,906,658
Operating Expenses	2,614,940	2,761,332
Operating Income	<u>588,680</u>	<u>145,326</u>
Nonoperating Revenues	<u>77,711</u>	<u>51,990</u>
Changes in Net Assets	666,391	197,316
Net Assets - Beginning of Year	<u>1,540,099</u>	<u>1,342,783</u>
Net Assets - End of Year	<u>\$ 2,206,490</u>	<u>\$ 1,540,099</u>

Operating revenues consist primarily of pharmacists and pharmacy renewals for the years ended September 30, 2007 and 2006. The increase in operating revenue is attributable to the buyout of Sears by Kmart and Eckerds by Rite Aid. New permits were issued under these buyouts. In addition there is an increase in the number of pharmacy and pharmacist licenses issued. 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 expense is primarily due to a decrease of approximately \$140,000 of legal fees. The Board recorded depreciation expense of \$171,194 and \$160,202, for the years ended September 30, 2007 and 2006, 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, 2007 and 2006

	<u>ASSETS</u>	
	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 371,651	\$ 454,970
Investments	1,095,432	400,909
Accounts receivable	5,903	-
Accrued interest	8,084	-
Related party receivable	423	-
Deposit	10,000	-
Prepaid expenses	40,806	9,351
TOTAL CURRENT ASSETS	<u>1,532,299</u>	<u>865,230</u>
NONCURRENT ASSETS:		
Capital assets, net	<u>1,971,878</u>	<u>2,051,947</u>
TOTAL ASSETS	<u>\$ 3,504,177</u>	<u>\$ 2,917,177</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES:		
Accounts payable	\$ 24,909	\$ 71,617
Current portion of note payable	1,189,852	50,157
TOTAL CURRENT LIABILITIES	<u>1,214,761</u>	<u>121,774</u>
NONCURRENT LIABILITIES:		
Note payable, less current portion	-	1,189,843
Accrued vacation	82,926	65,461
TOTAL NONCURRENT LIABILITIES	<u>82,926</u>	<u>1,255,304</u>
TOTAL LIABILITIES	<u>1,297,687</u>	<u>1,377,078</u>
NET ASSETS:		
Invested in capital assets - net of related debt	782,026	811,947
Unrestricted	1,424,464	728,152
TOTAL NET ASSETS	<u>2,206,490</u>	<u>1,540,099</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,504,177</u>	<u>\$ 2,917,177</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUE:		
Pharmacist renewals	\$ 1,473,852	\$ 1,420,043
Pharmacist reciprocity	154,800	154,800
Pharmacist exam fees	60,600	73,480
Pharmacist/manager changes	17,675	16,640
Pharmacist reinstatements	18,090	9,855
Pharmacy renewals	513,544	499,455
Pharmacy permits	265,100	125,800
Pharmacy reinstatements	800	1,200
Technician renewals	262,497	237,975
Technician registrations	101,100	76,035
Technician reinstatements	32,700	21,936
Device and DME permits and renewals	197,351	173,900
Dispensing physician renewals and permits	55,059	49,525
Dispensing PA/NP renewals and permits	17,187	16,000
Pharmacy/pharmacists, lists and labels	30,159	26,511
Law books	685	684
Miscellaneous	2,421	2,819
	<u>3,203,620</u>	<u>2,906,658</u>
TOTAL OPERATING REVENUE		
OPERATING EXPENSES:		
Salaries	1,137,465	1,191,208
Legal fees	266,790	361,194
Depreciation	171,194	160,202
Employee benefits	141,500	132,473
Pharmacist recovery network	130,000	130,000
Payroll taxes	83,223	88,017
Consulting fees	79,507	39,975
Retirement contributions	55,429	70,217
Interest	55,529	57,761
Inspection expense	54,982	50,493
Bank service charge	52,133	41,405
Supplies	47,195	29,222
Auto expense	45,739	52,391
Temporary office help	34,842	38,869
Special meetings and projects	24,580	34,173
Postage	28,979	34,097
Executive director's expenses	24,218	35,894
Building dues and maintenance	19,212	16,337

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>2007</u>	<u>2006</u>
OPERATING EXPENSES (CONTINUED):		
Telephone	16,923	24,518
Meetings per diem	14,700	14,000
Board members' professional meetings	14,472	17,088
Janitorial service	13,180	14,810
Meeting expense	12,698	13,741
Renewal forms	11,983	14,365
Maintenance	11,176	10,337
Office utilities	9,075	8,681
Office rent and storage	8,760	11,160
Insurance	8,536	7,497
Printing	7,983	15,861
Audit fee	7,891	7,550
Office staff travel	6,834	6,621
Books, dues and subscriptions	4,636	4,595
Equipment lease	4,422	3,961
Educational expense	3,677	415
Moving expense	2,711	7,999
Exam expense	2,014	5,457
Exam per diem expense	400	900
Miscellaneous	352	2,064
Board members' election expense	-	5,259
Bad debt	-	525
	<u>2,614,940</u>	<u>2,761,332</u>
TOTAL OPERATING EXPENSES		
	<u>588,680</u>	<u>145,326</u>
OPERATING INCOME		
NONOPERATING REVENUE:		
Investment income	72,490	47,816
Unrealized gain on investments	469	-
Gain on sale of fixed assets	4,752	4,174
	<u>77,711</u>	<u>51,990</u>
NONOPERATING REVENUE		
	666,391	197,316
CHANGES IN NET ASSETS		
	<u>1,540,099</u>	<u>1,342,783</u>
NET ASSETS - BEGINNING OF YEAR		
	<u>\$ 2,206,490</u>	<u>\$ 1,540,099</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees	\$ 3,200,514	\$ 2,903,155
Other cash received	3,106	3,503
Cash payments to employees for services	(1,120,000)	(1,203,075)
Cash payments for operating expenses	<u>(1,394,774)</u>	<u>(1,379,788)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>688,846</u>	<u>323,795</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(97,120)	(119,951)
Proceeds from the sale of assets	4,752	4,174
Principal payments on note	<u>(50,148)</u>	<u>(47,915)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(142,516)</u>	<u>(163,692)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(3,064,290)	(1,852,318)
Proceeds from sale of investments	2,370,235	1,468,000
Proceeds from note receivable	-	69,994
Interest on investments	<u>64,406</u>	<u>47,816</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(629,649)</u>	<u>(266,508)</u>
NET DECREASE IN CASH AND EQUIVALENTS	(83,319)	(106,405)
CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>454,970</u>	<u>561,375</u>
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 371,651</u>	<u>\$ 454,970</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 588,680	\$ 145,326
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	171,194	160,202
Changes in assets and liabilities		
Accounts receivable	(5,903)	-
Related party receivable	(423)	-
Deposit	(10,000)	-
Prepaid expenses	(31,455)	(3,383)
Accounts payable	(40,712)	33,517
Accrued vacation	<u>17,465</u>	<u>(11,867)</u>
Total adjustments	<u>100,166</u>	<u>178,469</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 688,846</u>	<u>\$ 323,795</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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES
(CONTINUED)

C. Basis of Accounting (continued).

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

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

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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES
(CONTINUED)

G. Vacation and Sick Leave.

Board employees may accumulate up to thirty days earned vacation and 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. Since the Board has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

H. Net Assets.

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

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

I. Income Taxes.

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

J. Use of Estimates.

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

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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CASH AND CASH EQUIVALENTS

At September 30, 2007 and 2006, the carrying value of cash and cash equivalents totaled \$371,651 and \$454,970, respectively. Bank balances of \$100,000 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 does not have a formal policy on custodial credit risk. The Board considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

INVESTMENTS

Investments at September 30, 2007 and 2006, consisted of the following:

	2007		2006	
	Cost	Market	Cost	Market
Certificate of deposits	\$ -	\$ -	\$ 400,909	\$ 400,909
Fixed income securities	1,094,963	1,095,432	-	-
	<u>\$ 1,094,963</u>	<u>\$ 1,095,432</u>	<u>\$ 400,909</u>	<u>\$ 400,909</u>

As of September 30, 2007 and 2006, the aggregate market value of assets exceeded cost by \$469 and \$0, respectively. Net unrealized gains of \$469 and \$0, were recorded during the years ended September 30, 2007 and 2006, respectively, to properly state investments at market value. Investment income, net of investment fees, totaled \$72,490 and \$47,816, for the years ending September 30, 2007 and 2006, respectively.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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CAPITAL ASSETS

Capital asset activity for the Board for the year ended September 30, 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
Total at historical cost	<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
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

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CAPITAL ASSETS (CONTINUED)

Capital asset activity for the Board for the year ended September 30, 2006, was as follows:

	Cost 9/30/2005	Increases	Decreases	Cost 9/30/2006
Capital assets:				
Building	\$ 1,892,359	\$ -	\$ -	\$ 1,892,359
Building improvements	-	1,012	-	1,012
Furniture and fixtures	205,643	11,543	1,677	215,509
Equipment	444,039	38,371	45,732	436,678
Vehicles	217,003	75,019	77,447	214,575
Total at historical cost	<u>2,759,044</u>	<u>125,945</u>	<u>124,856</u>	<u>2,760,133</u>
Less accumulated depreciation for:				
Building	109,175	48,523	-	157,698
Building improvements	-	15	-	15
Furniture and fixtures	86,881	26,143	1,677	111,347
Equipment	324,609	54,808	45,732	333,685
Vehicles	152,175	30,713	77,447	105,441
Total accumulated depreciation	<u>672,840</u>	<u>160,202</u>	<u>124,856</u>	<u>708,186</u>
Total capital assets, net	<u>\$ 2,086,204</u>	<u>\$ (34,257)</u>	<u>\$ -</u>	<u>\$ 2,051,947</u>

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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NOTE PAYABLE

The Board borrowed \$1,384,000 during the 2003 fiscal year to purchase their current office condominium. The note has a fixed interest rate of 4.5% and requires 59 monthly installments of \$8,806, with final payment due of all unpaid principal and interest on July 2, 2008.

	<u>2007</u>	<u>2006</u>
Note payable at September 30,	\$ 1,189,852	\$ 1,240,000
Less current portion	<u>(1,189,852)</u>	<u>(50,157)</u>
Long-term portion at September 30,	<u>\$ -</u>	<u>\$ 1,189,843</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 and 2006, was \$7,200 and \$9,600, respectively.

The Board also leases a storage unit on a month to month basis. Rental expense under this lease for the year ended September 30, 2007 and 2006, was \$1,560 and \$1,560, respectively.

OPERATING LEASE

The Board leases a folding machine under an agreement that expires November 2009. Monthly rent is \$357. Rental expense for the years September 30, 2007 and 2006, was \$4,422 and \$3,961, respectively.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

Page 8 of 10

OPERATING LEASE (CONTINUED)

Future minimum lease payments are as follows:

<u>Year ending September 30,</u>	
2008	\$ 4,286
2009	4,286
2010	<u>714</u>
	<u>\$ 9,286</u>

RETIREMENT PLAN

A. North Carolina Licensing Boards Retirement Savings Plan.

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

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

Each participant's account is credited with their individual contributions, the Board's matching contributions and Plan earnings and forfeitures of terminated participants' non-vested accounts. Allocations are based on participant earnings and account balances, as defined. Each participant is entitled to the benefit, which can be provided from the participant's account.

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

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RETIREMENT PLAN (CONTINUED)

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, 2007 and 2006, totaled \$119,661 and \$111,928, which consisted of \$45,537 and \$50,371, from the Board and \$74,124 and \$61,557, 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 6.82% of payroll as of September 30, 2007. 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, 2007 and 2006, totaled \$18,005 and \$37,159, which consisted of \$9,892 and \$19,846, from the Board and \$8,113 and \$17,313, from employees, respectively.

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.

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

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RECLASSIFICATIONS

Certain items in the September 30, 2006, report have been reclassified to conform to current year classifications. Such reclassifications have no effect on previously reported net assets.