

NORTH CAROLINA VETERINARY MEDICAL BOARD

**Financial Statements for the
Years Ended June 30, 2004 and 2003 and
Independent Auditor's Report**

NORTH CAROLINA VETERINARY MEDICAL BOARD

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BOARD MEMBERS (2004)

Herbert A. Justus, DVM, President

Amy J. Lewis, DVM, Vice President

David T. Marshall, DVM, Secretary-Treasurer

Amy J. Edwards

Richard W. Hawkins, DVM

J. Linwood Jernigan, DVM

Kenneth R. Padgett, DVM

Nancy K. Robinson, RVT

EXECUTIVE OFFICER

Thomas M. Mickey, Executive Director

LEGAL COUNSEL

George G. Hearn

NORTH CAROLINA VETERINARY MEDICAL BOARD

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NORTH CAROLINA VETERINARY MEDICAL BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Board's financial report represents Management's analysis of the Board's financial performance during the years ending June 30, 2004 and 2003. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

During 2004, the Board's net assets increased by \$129,889, or 21.1%, due primarily to an increase in operating revenues. During 2003, the Board's net assets increased by \$56,951, or 10.2%, due primarily to an increase in operating revenues.

During 2004, the operating revenues of the Board increased by \$157,788, or 31.9%, due primarily to an increase in fees charged for renewals during the calendar year 2003. During 2003, the operating revenues of the Board increased by \$107,072, or 27.6%, due primarily to an increase in fees charged for renewals during the calendar year 2003.

During 2004, the non-operating revenues of the Board decreased by \$7,553, or 59.8%, due to a fall in interest rates. During 2003, the non-operating revenues of the Board decreased by \$15,551, or 55.1%, due to the use of cash on hand to purchase land and construct an office building, and due to a fall in interest rates.

During 2004, the operating expenses of the Board increased by \$77,297, or 17.1%, due primarily to an increase in employee related expenses, board members expenses and contributions to the impairment fund. During 2003, the operating expenses of the Board increased by \$37,124, or 9.0%, due primarily to an increase in employee related expenses, legal costs and insurance costs.

Overview of the Financial Statements

This financial report consists of two sections: Management's Discussion and Analysis and the Financial Statements. The Board has no other supplementary information required by GASB 34. The Financial Statements also include notes to the financial statements that provide detail of the information included in the financial statements.

Basic Financial Statements

The financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board.

The Statements of Net Assets present the current and long-term portions of assets and liabilities separately.

The Statements of Revenues, Expenses, and Changes in Net Assets present information on how the Board's assets changed as a result of its operations.

The Statements of Cash Flows present information on how the Board's cash changed as a result of its financial activities.

NORTH CAROLINA VETERINARY MEDICAL BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following presents condensed financial information on the operations of the Board:

	Current Year as of and for the year ended June 30, 2004	Current Year as of and for the year ended June 30, 2003
Current assets	\$ 322,830	\$ 341,186
Capital assets	712,493	646,218
Total assets	<u>\$ 1,035,323</u>	<u>\$ 987,404</u>
Current liabilities	\$ 271,719	\$ 354,958
Long-term liabilities	16,942	15,673
Total liabilities	<u>\$ 288,661</u>	<u>\$ 370,631</u>
Invested in capital assets	\$ 712,493	\$ 646,218
Unrestricted	34,169	(29,445)
Total net assets	<u>\$ 746,662</u>	<u>\$ 616,773</u>
Operating revenues	\$ 653,083	\$ 495,295
Operating expenses	528,275	450,978
Operating income	124,808	44,317
Non-operating revenues	5,081	12,634
Change in net assets	<u>\$ 129,889</u>	<u>\$ 56,951</u>

Events Affecting Future Operations

The Board has indicated it has no significant events affecting future operations which are reportable pursuant to GASB 34.

Contacting the Board's Management

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional information, contact: North Carolina Veterinary Medical Board, PO Box 37549, Raleigh, NC 27627.

Shelton L. Hawley, CPA, PA
Certified Public Accountant

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Angier, North Carolina 27501-1545	

INDEPENDENT AUDITOR'S REPORT

Members of the Board
North Carolina Veterinary Medical Board
Raleigh, North Carolina

We have audited the accompanying financial statements as listed in the table of contents of the North Carolina Veterinary Medical Board (the "Board"), an agency of the State of North Carolina, as of June 30, 2004 and 2003, and 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Veterinary Medical Board as of June 30, 2004 and 2003, and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Board adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of July 1, 2002. This results in a change in the format and content of the financial statements.

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

Shelton L. Hawley, C.P.A., P.A.

October 12, 2004

NORTH CAROLINA VETERINARY MEDICAL BOARD
STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

	June 30, 2004	June 30, 2003
	Proprietary- Enterprise Fund	Proprietary- Enterprise Fund
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 322,359	\$ 337,392
Accrued interest receivable	471	643
Prepaid expenses		3,151
Total current assets	322,830	341,186
Property and equipment (Note 1):		
Land and office building	\$ 685,658	\$
Land and construction in progress		628,198
Furniture and office equipment	26,835	18,020
Total property and equipment - net of depreciation	712,493	646,218
TOTAL ASSETS	\$ 1,035,323	\$ 987,404
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 17,559	\$ 13,452
Due to other state agencies	382	1,180
Due on construction of office building		92,583
Accrued vacation - current portion (Note 1)	4,778	3,918
Deferred revenue (Note 3)	249,000	243,825
Total current liabilities	271,719	354,958
Long-term debt:		
Accrued vacation - long-term portion (Note 1)	16,942	15,673
Total long-term debt	16,942	15,673
TOTAL LIABILITIES	288,661	370,631
NET ASSETS (NOTE 4)		
Invested in capital assets - net of related debt	712,493	646,218
Unrestricted net assets	34,169	(29,445)
TOTAL NET ASSETS	746,662	616,773
TOTAL LIABILITIES AND NET ASSETS	\$ 1,035,323	\$ 987,404

See notes to financial statements.

NORTH CAROLINA VETERINARY MEDICAL BOARD
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
	Proprietary- Enterprise Fund	Proprietary- Enterprise Fund
OPERATING REVENUES:		
License and renewal fees (including late fees)	\$ 509,780	\$ 380,725
Examination fees	83,275	76,090
Hospital inspection fees	44,175	27,225
Reinstatement fees	900	575
Temporary permits	1,550	1,600
Service verifications	1,930	2,190
Corporate registration and application fees	2,600	2,550
Recovery of costs awarded	6,750	3,450
Miscellaneous income	2,123	890
Total operating revenues	\$ 653,083	\$ 495,295
OPERATING EXPENSES:		
Salaries - staff (including accumulated leave)	\$ 111,598	\$ 100,173
Salaries - inspections (including accumulated leave)	31,973	18,437
Salaries - investigations (including accumulated leave)	43,671	43,146
Payroll taxes	14,324	12,374
Retirement contributions (Note 6)	7,259	6,029
Employee insurance	9,593	7,255
Board members and meeting expenses	27,955	16,256
Travel - staff	1,792	2,901
Travel - investigations	19,283	23,499
Travel - hospital inspections	13,709	7,696
Investigation expenses	1,796	3,601
Office rent (Note 5)		15,079
Telephone	8,334	6,763
Building operating expenses	9,441	3,920
Depreciation	7,571	5,585
Examination expenses	37,900	35,975
Impairment fund expenses	37,500	

NORTH CAROLINA VETERINARY MEDICAL BOARD
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
	Proprietary- Enterprise Fund	Proprietary- Enterprise Fund
OPERATING EXPENSES (CONTINUED):		
Office equipment rental and maintenance expenses	3,074	4,322
Office and computer supplies	5,350	3,351
Printing	5,254	2,563
Postage and shipping	9,329	8,729
Insurance and bonding	14,122	11,623
Dues and subscriptions	500	500
Legal, audit, and other professional fees	106,482	110,605
Miscellaneous expenses	465	596
Total operating expenses	\$ 528,275	\$ 450,978
Operating income	\$ 124,808	\$ 44,317
NON-OPERATING REVENUES (EXPENSES):		
Interest income	5,081	12,634
Total non-operating revenues	\$ 5,081	\$ 12,634
Change in net assets	\$ 129,889	\$ 56,951
Net assets - beginning of year (Note 9)	616,773	559,822
Net assets - end of year	\$ 746,662	\$ 616,773

See notes to financial statements.

NORTH CAROLINA VETERINARY MEDICAL BOARD
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
	Proprietary- Enterprise Fund	Proprietary- Enterprise Fund
Cash flows from operating activities:		
Cash received from fees and other income	\$ 658,258	\$ 615,845
Cash payments to employees for services (including benefits)	(216,289)	(180,982)
Cash payments for operating expenses	(388,409)	(179,251)
Net cash provided by operating activities	\$ 53,560	\$ 255,612
Cash flows from investing activities:		
Interest on investments	\$ 5,253	\$ 13,378
Net cash provided by investing activities	\$ 5,253	\$ 13,378
Cash flows from capital and related financing activities:		
Transfer of certificate(s) of deposit to operating account	\$	\$ 99,100
Acquisition and construction of capital assets	(73,846)	(631,394)
Net cash used in capital and related financing activities	\$ (73,846)	\$ (532,294)
Net increase (decrease) in cash	\$ (15,033)	\$ (263,304)
Cash - beginning of year	337,392	600,696
Cash - end of year	<u>\$ 322,359</u>	<u>\$ 337,392</u>

NORTH CAROLINA VETERINARY MEDICAL BOARD
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
	Proprietary- Enterprise Fund	Proprietary- Enterprise Fund
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 124,808	\$ 44,317
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 7,571	\$ 5,585
Changes in assets and liabilities:		
Prepaid expenses	3,151	(3,151)
Accounts payable	(89,274)	81,879
Deferred revenue	5,175	120,550
Other accrued liabilities	2,129	6,432
Total adjustments	\$ (71,248)	\$ 211,295
Net cash provided by operating activities	\$ 53,560	\$ 255,612

See notes to financial statements.

NORTH CAROLINA VETERINARY MEDICAL BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

Note 1 - Nature of Activities and Significant Accounting Policies

Description of Organization

The North Carolina Veterinary Medical Board (the "Board") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 90 of the North Carolina General Statutes. The Board is composed of eight members who are appointed by the Governor, the General Assembly and the Commissioner of Agriculture of the State of North Carolina.

The Board is established to maintain minimum standards for services provided by veterinarians.

The Board's operations are financed with self-generated revenues from fees charged to examinees and licensees.

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.

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

Reporting Entity

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of North Carolina because the State exercises oversight responsibility in that the Governor, the General Assembly and the Commissioner of Agriculture of the State of North Carolina appoint the Board members, and public service is rendered within the State's boundaries. The accompanying financial statements present only the activity of the North Carolina Veterinary Medical Board.

Basis of Accounting

In accordance with *Statement of Governmental Accounting Standards 34*, which the Board implemented for 2004 (and has restated for 2003 herein), the Board herewith presents Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets; and Statements of Cash Flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

NORTH CAROLINA VETERINARY MEDICAL BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

The Statements of Revenues, Expenses, and Changes in Net Assets demonstrate the degree to which the direct expenses of the Board are offset by examination and license fees.

The financial statements report all activities of the North Carolina Veterinary Medical 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 examination and license fees. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing activities and are classified as non-operating in the financial statements.

Cash and Cash Equivalents

This classification includes undeposited receipts, petty cash, checking accounts and time deposits (excluding certificates of deposit, which are considered investments for Balance Sheet presentation) held by the Board.

Property and Equipment

Property and equipment are stated at cost and are being depreciated over their useful lives on a straight-line basis. Summaries follow:

	Cost 06-30-03	Acquisitions	Disposals	Cost 06-30-04	Accumulated Depreciation	Net Amount
Land and Building	\$	\$ 686,776	\$	\$ 686,776	\$ 1,118	\$ 685,658
Land/Construction	628,198	-	628,198	0		0
Furniture/Equipment	91,273	15,267	9,094	97,446	70,611	26,835
	<u>\$ 719,471</u>	<u>\$ 702,043</u>	<u>\$ 637,292</u>	<u>\$ 784,222</u>	<u>\$ 71,729</u>	<u>\$ 712,493</u>

	Cost 06-30-02	Acquisitions	Disposals	Cost 06-30-03	Accumulated Depreciation	Net Amount
Land/Construction	\$ 4,104	\$ 624,094	\$ -	\$ 628,198	\$	\$ 628,198
Furniture/Equipment	87,571	7,300	3,598	91,273	73,253	18,020
	<u>\$ 91,675</u>	<u>\$ 631,394</u>	<u>\$ 3,598</u>	<u>\$ 719,471</u>	<u>\$ 73,253</u>	<u>\$ 646,218</u>

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in earnings for the period.

NORTH CAROLINA VETERINARY MEDICAL BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Vacation and Sick Leave

The vacation policy of the Board provides for the accumulation of vacation leave with such leave being fully vested when earned. Accumulated earned vacation payable at June 30, 2004 and 2003, consisted of the following:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current portion	\$ 4,778	\$ 3,918
Long-term portion	16,942	15,673
Total	<u>\$ 21,720</u>	<u>\$ 19,591</u>

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Deposits

At June 30, 2004, the Board's operating fund deposits had a carrying amount of \$322,359 and a bank balance of \$342,312. Of the bank balance, \$105,573 was covered by federal depository insurance, and \$236,739 was uninsured and uncollateralized.

At June 30, 2003, the Board's operating fund deposits had a carrying amount of \$337,392 and a bank balance of \$372,328. Of the bank balance, \$111,343 was covered by federal depository insurance, and \$260,985 was uninsured and uncollateralized.

Note 3 - Deferred Revenue

The Board's fees are assessed and collected on both an annual and a biennial basis, some of which correspond with the Board's accounting period and some of which correspond with the calendar year. License renewal fees received in the latter part of the fiscal year are deferred and recognized as revenue over the periods to which they relate

NORTH CAROLINA VETERINARY MEDICAL BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

Note 4 - Net Assets

Invested in capital assets - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any loan proceeds that are attributable to the acquisition, construction, or improvement of those capital assets.

Restricted net assets - expendable - This component of net assets consists of net assets which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of *restricted or invested in capital assets*.

Note 5 - Operating Lease

The Board leased office space under an operating lease until June 30, 2003 when it moved into its new office building. Total rent expense charged to operations under the building lease agreement was \$15,079 in 2003. There were no rental commitments under noncancellable operating leases at June 30, 2004.

Note 6 - Pension Plan and Postemployment Benefits other Than Pensions

Simplified Employee Pension Plan

On April 14, 1997, the Board entered into a Simplified Employee Pension plan agreement on behalf of employees of the Board. The Board's payroll for employees covered by the plan for the year ended June 30, 2004 was \$145,180; the Board's total payroll was \$187,242. The Board's covered payroll for the year ended June 30, 2003 was \$120,580; total payroll was \$161,756. The Board's covered payroll for the year ended June 30, 2002 was \$94,740; total payroll was 149,655. The Board's pension contribution amounted to \$7,259 for 2004, \$6,029 for 2003 and \$4,737 for 2002. The Board assumes no liability for retiree benefits provided by this program other than its required contributions. The Board has no postemployment benefits other than pensions.

Note 7 - Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled by participation in state-administered risk programs and self retention of certain risks. Additionally, the Board protects itself from exposure to loss through the purchase of commercial insurance coverage.

NORTH CAROLINA VETERINARY MEDICAL BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

Note 8 - Contingencies

Disciplinary Hearings

The Board is involved in a number of disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management of the Board, the results of such actions during the years under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the years herein ended.

NC School Boards Association, Inc., et al v. Richard Moore, State Treasurer, et al

The North Carolina School Board Association and several county boards of education have filed an action against various state agencies, including several occupational licensing boards, to collect "fines and penalties" as defined under the State Constitution from these agencies. While not specifically named in the action, all state agencies (including occupational licensing boards) are implicitly included in this action. In the past, these fines and penalties have been reported as income by the Board. A ruling was entered in this case in the Superior Court of Wake County in December 2001 directing that monies collected by reason of late renewal of license constitutes a fine or penalty as defined under the State Constitution, and should be disbursed to the public schools. That order appeared to impact all years after 1995. The ruling further provided that the monies could be reduced by the amounts involved in the collection of the monies. The decision of the Superior Court of Wake County was appealed to the North Carolina Court of Appeals and in September 2003 the North Carolina Court of Appeals issued an opinion in which the decision of the Wake County Superior Court was affirmed in part and reversed in part. The North Carolina Court of Appeals expressly reversed the ruling of the Superior Court of Wake County as it relates to fees imposed for tardy license renewal, holding that such fees are remedial rather than punitive in nature, and that they are not fines and penalties within the contemplation of the North Carolina Constitution. The decision of the North Carolina Court of Appeals has been appealed to the North Carolina Supreme Court. While there is a possibility that the plaintiffs will obtain partial relief, the Board's intention is to vigorously contest this claim. At June 30, 2004 and June 30, 2003, no reasonable estimate of any potential liability can be made. In the opinion of management of the Board, the results of such actions during the years under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the years herein ended.

NORTH CAROLINA VETERINARY MEDICAL BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

Note 9 - Restatement of Beginning Net Assets

In connection with the implementation of GASB 34, the Board has changed from reporting its operating fund on a special revenue fund basis (modified accrual method) in 2002, to an enterprise fund basis (accrual method) for 2004 and 2003 (restated for 2003 herein). Further, the Board has changed from reporting its construction fund on a capital project fund basis in 2002, to an enterprise fund basis for 2004 and 2003 (restated for 2003 herein). No adjustment to the beginning net assets was required for the capital project fund change in reporting format.

In connection with this change, the beginning net assets have been restated as follows:

Special Revenue Fund Balance at June 30, 2002, as previously reported	\$	557,115
Recording capital assets, net of depreciation		15,866
Recording accrued vacation pay		(13,159)
Net Assets at June 30, 2002, as restated	\$	<u>559,822</u>