

# Pharmacy Resource Manual



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## Preface

The opportunities that exist in the profession of pharmacy are enormous and diverse. They are also evolving and changing the way the pharmacy practice is perceived by the community, other healthcare professionals, as well as its own practitioners. The continuity of pharmacy through these changes has always been the independent pharmacist. This has been due in part to the preservation of entrepreneurial spirit and the loyalty of the communities that they serve. Surviving the evolution of the competitive market place, today's independent pharmacist stands in a unique and valuable market position. GPhA recognizes the importance of the independent pharmacist and continues to support and represent them in their efforts.

Many believe that the future opportunities of independent pharmacy in the state of Georgia has never looked brighter. With that future in mind, The Pharmacy Resource Manual was created with hopes of aiding entrepreneurs in the establishment of an independent pharmacy practice. The creators of this manual envisioned it as a resource tool, to guide, answer questions, and streamline various applications and procedures necessary to open a new pharmacy. It is our intention to provide the most current information and resources in a concise and practical manner to maximize the manual's utility to the potential pharmacy owner.

Through the guidance and support of GPhA and the Academy of Independent Pharmacies, as well as the individual efforts of contributors, the Pharmacy Resource Manual will continue to be improved and updated to meet the needs and expectations of the independent practitioner. We count on the experience and expertise of pharmacy owners and invite any and all suggestions for the manual's improvement. We are especially interested in feedback as to how the manual has specifically been helpful or has aided you in your endeavor.

## Introduction

The construction of a manual to serve as a resource tool and guide to answer questions, and streamline various applications and procedures necessary to open a new pharmacy was initiated in the hopes of aiding entrepreneurs in the establishment of an independent pharmacy practice. This packet is a result of that endeavor. It represents a section of the ultimate manual that GPhA™ Academy of Independent Pharmacy envisions. This packet and future manual is designed for the state of Georgia to act as a companion to the NACP sponsored text *Effective Pharmacy Management; A comprehensive presentation of practical management techniques for pharmacists.*

It is our intention to provide the most current information and resources in a concise and practical manner to maximize the manual's utility to the potential pharmacy owner. Through the guidance and support of GPhA and the Academy of Independent Pharmacy, as well as the individual efforts of contributors, information will continue to be improved and updated to meet the needs and expectations of the independent practitioner. We count on the experience and expertise of pharmacy owners and invite any and all suggestions for the manuals improvement. We are especially interested in feedback as to how the manual has specifically been helpful or has aided you in your endeavor.



# I

## **GPhA™ Academy of Independent Pharmacy (AIP)**

*Advancing Pharmacy Care for the Economic Viability and Preservation of Independent Pharmacy*

The attrition of prescriptions and erosion of the customer base historically available to independent pharmacies, discriminatory pricing practices of pharmaceutical manufacturers, mail-order drug operations, contracts with unreasonable reimbursement levels and closed third party programs are increasingly squeezing the economic life-blood out of Independent Georgia Pharmacists.

The solution to the above stated problem is membership in the GPhA™ Academy of Independent Pharmacy. Independent Pharmacy must come together in their own forum:

- To advance the concepts of pharmacy care.
- To ensure the economic viability and severity of Independent Pharmacy.
- To provide a forum for Independent Pharmacy Owners to exchange information and develop strategies, goals, and objectives.
- To address the unique business and professional issues of Independent Pharmacy Owners.
- To develop and implement marketing opportunities for members of the Academy with emphasis on the third party prescription drug program/benefit market.
- To provide educational programs designed to enhance the managerial skills of Independent Pharmacy Owners and Managers.
- To establish and implement programs and services designed to assist Independent Pharmacy Owners and Managers.



## II

# REQUIREMENTS FOR APPLICATION AND RENEWAL OF REGISTERED PHARMACIST'S LICENSE

1. Application Requirements
2. Requirements for Foreign Pharmacy Graduates
3. License Transfer
4. Reciprocity License Requirements
5. Temporary License
6. License Fees
7. Name and/or Address Change
8. License Renewal

References: National Association of Boards of Pharmacy;

*Survey of Pharmacy of Pharmacy Law*

Rules of Georgia State Board of Pharmacy; Sections 480-2 thru 480-10

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### 1. Requirements to Apply for a Pharmacist License

- Submit an application for licensure with the required fee
- Submit proof of graduation from an approved School of Pharmacy.
- Complete 1500 internship hours prior to sitting for the examination. Hours must be received in Board office two (2) weeks prior to the examination date.
- The Board will accept up to 1000 school hours under the Doctor of Pharmacy program and up to 480 hours under the B.S. Pharmacy program.
- A minimum of 20 and a maximum of 50 internship hours per week are required.
- If the applicant desires to obtain these hours in a non-conventional setting such as a research lab, a chemical plant, etc., the applicant must seek prior approval from the Georgia State Board of Pharmacy by submitting his/her request in writing.
- No internship hours will be accepted if received prior to obtaining a Georgia intern license.
- If the applicant obtained his/her internship hours in another state, these hours must be transferred directly from the state board office in which the hours were obtained. These hours must also include hours worked while attending school.
- Each candidate submitting an application for a pharmacist license must take and pass the **Georgia Practical, MPJE, and NAPLEX**. The candidate must receive an overall passing score of 75% in each section with the exception of the GA Practical. The GA Practical consists of several parts in which the applicant must pass each section with a score of 60% or better and have an overall average of 75%.
- **Score Transfer** - The applicant must have taken and passed the NAPLEX examination in another state with the **exception of California**. The applicant must submit an application to the Georgia State Board of Pharmacy to take the Georgia Practical examination.
- Please allow **6-8 weeks** to receive a license number,
- **4-6 weeks** to receive your official results from the examination section and
- **2-4 weeks** for the Board office to review the results and issue a license.



## 2. Requirements for a Graduate of a Foreign School of Pharmacy

The applicant is required to take and pass the **FPEE (Foreign Pharmacy Equivalency Examination)** administered by the National Association of Boards of Pharmacy (NABP) prior to sitting for the examination.

## 3. License Transfer

The Georgia State Board of Pharmacy reciprocates with all states with the exception of **Florida** and **California**. Applicants licensed in those two states must sit for the complete pharmacy examination. If applicant graduated from a foreign school of pharmacy and is licensed in a state that did not require the **FPEE (Foreign Pharmacy Equivalency Examination)**, the applicant must complete the FPEE prior to obtaining licensure in Georgia.

## 4. Reciprocity Licensure requirements

- Submit an application and the required fee. **License transfer applications** are available via NABP. It may take up to six (6) weeks to process your application by the NABP. Once this process is complete the NABP will mail your official Georgia application to you.
- Contact the Georgia Board of Pharmacy for a **MPJE** application. **Submit** your completed **MPJE** application **directly** to the NABP with the required \$185 fee.
- Submit your official Georgia application with the required \$75 total fee in two (2) separate checks one for \$25 and one for \$50 (\$25 non-refundable application fee, and \$50 non-refundable decorative wall certificate fee.). **Again submit two (2) separate checks payable to the Georgia Board of Pharmacy one for \$25 and the other for \$50.**
- Applicant must reciprocate from a state in which he/she was licensed by examination.
- License must be current and in good standing.

## 5. Temporary Licenses

No temporary licenses are issued.

## 6. License Fees

Georgia issues several different types of licenses. Each type of license has a non-refundable application fee. The fees are as follows:

License Type	Fee
<i>Complete Pharmacy Exam</i>	\$175
<i>NAPLEX/MPJE (mail direct to NABP)</i>	\$600
<i>Score Transfer</i>	\$175
<i>MPJE (mail direct to NABP)</i>	\$185
<i>Intern License</i>	\$25
<i>Reciprocity/MPJE Exam</i>	\$75/\$185

## 7. Name and/or Address Change

The Board accepts address changes submitted online, via letter, or by fax at (478) 207-1632. A name change request must be submitted in writing accompanied by supporting legal documents.

## 8. License Renewal

You may complete the renewal application mailed to your address or renew your license online at the time of renewal. All licenses will expire on December 31<sup>st</sup> of every even numbered year. **The renewal fee is \$80.**

You must attain the required number of Continuing Education hours (see Georgia Board Rule 480-4-.06 for specific continuing education requirements).

All non-renewed licenses may be renewed late through January 31<sup>st</sup> of the year following the renewal year. However, a late penalty fee of \$40 is assessed, totaling \$120.00. After January 31<sup>st</sup> of the following year, the license is administratively revoked and requires reinstatement by the Board. Reinstatement requests shall be in writing to the Board.

Only those Pharmacists randomly selected for Continuing Education audit must submit proof of their continuing education credits along with their renewal application. You will receive specific instructions if you are chosen for an audit.

For more information about national licensing requirements, contact NABP:

**National Association of Boards of Pharmacy®**  
1600 Feehanville Drive Mount Prospect, IL 60056  
Tel: 847/391-4406 Fax: 847/391-4502  
[www.nabp.net](http://www.nabp.net)

For additional information and updates on Georgia licensure, contact the Georgia State Board of Pharmacy:

**Georgia State Board of Pharmacy**  
237 Coliseum Drive  
Macon, GA 31217-3858  
(478) 207-2440

<http://sos.georgia.gov/Plb/Pharmacy/>



### **III**

## **Business Structure and Organization**

- 1. Introduction**
- 2. Sole Proprietorships**
- 3. Partnerships**
- 4. Corporations**

**Reference:** *Effective Pharmacy Management*; A comprehensive presentation of practical management techniques for pharmacists. Chapter 7: Legal Structures of Business.

## **Business Structure and Organization**

### **Introduction**

When organizing a new business, one of the most important decisions to be made is choosing the structure of a business. There are many forms of legal structure you may choose for your business. The most common structures are Sole Proprietorships, General and Limited Partnerships, C and S Corporations and Limited Liability Companies. Each legal structure offers organizational options which are appropriate for different personal situations and which affect tax and liability issues. Research each legal structure thoroughly and consult a tax accountant and/or attorney prior to making your decision. This information is not all-inclusive and should not be considered a substitute for legal assistance from a qualified attorney. Also, since the requirements are subject to change, prospective business people should contact the individual departments for the latest information. To help you in identifying the necessary offices in state and county government to obtain the necessary licenses or permits can be found by contacting the First Stop Business Information Center. They have on-line services which allow for downloading of appropriate business forms. For additional questions contacting the State of Georgia Information line at 404/656-2000 may be beneficial.

### **Sole Proprietorships**

This is the easiest and least costly way of starting a business. A sole proprietorship can be formed by finding a location and opening the door for business. There are likely to be fees to obtain business name registration, a fictitious name certificate and other necessary licenses. Attorney's fees for starting the business will be less than the other business forms because less preparation of documents is required and the owner has absolute authority over all business decisions.

### **Partnerships**

There are several types of partnerships. The two most common types are general and limited partnerships. A general partnership can be formed simply by an oral agreement between two or more persons, but a legal partnership agreement drawn up by an attorney is highly recommended. Legal fees for drawing up a partnership agreement are higher than those for a sole proprietorship, but may be lower than incorporating. A partnership agreement could be helpful in solving any disputes. However, partners are responsible for the other partner's business actions, as well as their own. A Partnership Agreement should include the following; Amount of equity invested by each partner; Division of profit or loss; Partners compensation; Distribution of assets on dissolution; Duration of partnership; Provisions for changes or dissolving the partnership; Dispute settlement clause; Restrictions of authority and expenditures; and Settlement in case of death or incapacitation.

## Corporations

A business may incorporate without an attorney, but legal advice is highly recommended. The corporate structure is usually the most complex and more costly to organize than the other two business formations. Control depends on stock ownership. Persons with the largest stock ownership, not the total number of shareholders, control the corporation. With control of stock shares or 51 percent of stock, a person or group is able to make policy decisions. Control is exercised through regular board of directors' meetings and annual stockholders' meetings. Records must be kept to document decisions made by the board of directors. Small, closely held corporations can operate more informally, but record-keeping cannot be eliminated entirely. Officers of a corporation can be liable to stockholders for improper actions. Liability is generally limited to stock ownership, except where fraud is involved. You may want to incorporate as a "C" or "S" corporation.

### **Special Kinds of Corporations**

If you decide to operate your small business as a corporation, chances are you'll form either a regular corporation or an S corporation. But you should be aware of two other kinds of corporations: professional corporations and nonprofits. These less common corporate varieties may be just what you're looking for.

#### ***Professional Corporations***

Laws in every state permit certain professionals to form corporations known as "professional corporations" or "professional service corporations." In some states, some professionals have a choice of incorporating as either a professional corporation or a regular corporation (which can elect to be an S corporation). The list of professionals eligible to incorporate is different in each state. Usually, though, mandatory professional incorporation requirements apply to professionals such as pharmacists.

Typically, a professional corporation must be organized for the sole purpose of rendering professional services. All shareholders must be licensed to render that service. For example, in a medical corporation, all of the shareholders must be licensed physicians. Professional corporations aren't as popular as they used to be. The main reason for professionals to incorporate—favorable corporate taxation rules—has disappeared. Before 1986, professionals who incorporated could shelter more money from taxes than sole proprietors or partners could. This has all changed. Most professional corporations are classified as "personal service corporations" by the IRS, which means that their corporate income is taxed at a flat 35 percent. So there's no longer any advantage to be gained by the two tiered tax structure that allows ordinary corporations to save taxes on some retained earnings. Are there any reasons left for professionals to incorporate? Perhaps. Tax laws still give favorable treatment to fringe benefits for corporate employees. The other reason to consider incorporation is the limitation on personal liability. It's no secret that malpractice verdicts against professionals continue to climb.

Incorporating can't protect a professional against liability for his or her negligence, but it can protect against liability for the negligence of an associate.

### *Electing S Corporation Status*

For federal tax purposes, it's often best for a start-up company to elect to be an S corporation rather than a regular corporation. This is so even though recent changes in tax rates have made this decision a bit more complex. Still, to make sure an S corporation is best for you, speak to a knowledgeable accountant or other tax advisor. Starting as an S corporation rather than a regular corporation may be wise for several reasons:

Because income from an S corporation is taxed at only one level rather than two, your total tax bill will likely be less. (But be aware that the two-tier tax structure for regular corporations can sometimes be an advantage. See the discussion below on how a regular corporation can achieve tax savings through income splitting.)

Your business may have an operating loss the first year. With an S corporation, you generally can pass that loss through to your personal income tax return, using it to offset income that you (and your spouse, if you're married) may have from other sources. Of course, if you're expecting a profit rather than a loss—because, for example, you're converting a profitable sole proprietorship or partnership to a corporation—this pass-through for losses won't be an advantage to you.

Interest you incur to buy S corporation stock is potentially deductible as an investment interest expense. When you sell your S corporation business, your taxable gain on the sale of the business can be less than if you operated the business as a regular corporation. Your decision to elect to be an S corporation isn't permanent. If you later find there are tax advantages to being a regular corporation, you can easily drop your S corporation status, but timing is important. Because income from an S corporation is taxed at only one level rather than two, your total tax bill will likely be less. (But be aware that the two-tier tax structure for regular corporations can sometimes be an advantage. See the discussion below on how a regular corporation can achieve tax savings through income-splitting.) Your business may have an operating loss the first year. With an S corporation, you generally can pass that loss through to your personal income tax return, using it to offset income that you (and your spouse, if you're married) may have from other sources. Of course, if you're expecting a profit rather than a loss—because, for example, you're converting a profitable sole proprietorship or partnership to a corporation—this pass-through for losses won't be an advantage to you. Interest you incur to buy S corporation stock is potentially deductible as an investment interest expense. When you sell your S corporation business, your taxable gain on the as a regular corporation. Your decision to elect to be an S corporation isn't permanent. If you later find there are tax advantages to being a regular corporation, you can easily drop your S corporation status, but timing is important.





## **IV**

### **Meeting Legal Requirements for Starting a New Business**

- 1. Introduction**
- 2. Obtaining a Local Business License**
- 3. Obtaining a Certificate of Occupancy**
- 4. Obtaining Tax Information**
- 5. Obtaining Trade Name Registration**
- 6. Obtaining a Corporation License**
- 7. Obtaining a Federal Employer Identification Number**
- 8. Obtaining a Georgia Sales Tax Number**
- 9. Obtaining a Department of Labor Account Number**
- 10. Obtaining Workers' Compensation Insurance**
- 11. Obtaining Federal and State Labor Law Postings**
- 12. Obtaining OSHA Information**
- 13. Obtaining Business Insurance**

**Reference:** *Effective Pharmacy Management*; A comprehensive presentation of practical management techniques for pharmacists.

## **Meeting Legal Requirements for Starting a New Business**

### **Introduction**

Almost any kind of business activity you engage in will require a city or county business license, which is usually fairly simple to obtain. With respect to opening a pharmacy, a state pharmacy license is required in addition to a business license. Pharmacy licenses are discussed in another packet entitled *Requirements for Opening a Pharmacy*. Finding out other legal requirements of the state and federal government can be difficult, since it means talking to several different agencies at the federal, state and local levels. In addition to the federal and state licensing requirements, certain local city or county permits may have to be obtained. For example, if you will be in the food business, you may have to get a license from the county health department; or, if your business would like to do any construction or remodeling, you might have to get approval from your local planning commission. This information is not all-inclusive and should not be considered a substitute for legal assistance from a qualified attorney. Also, since the requirements are subject to change, prospective business people should contact the individual departments for the latest information. To help you in identifying the necessary offices in state and county government to obtain the necessary licenses or permits can be found by contacting the First Stop Business Information Center. They have on-line services which allow for downloading of appropriate business forms. For additional questions contacting the State of Georgia Information line at 404/656-2000 may be beneficial.

***First Stop Business Information Center***  
*Suite 315, West Tower 2 Martin Luther King, Jr. Drive*  
*Atlanta, Georgia 30334*  
*404/656-7061*  
*800/656-4558*  
<http://www.sos.state.ga.us/firststop/default.htm>

### **Obtaining a Local Business License**

There are many types of licenses. You need one to operate legally almost everywhere. If the business is located within an incorporated city limits, a license must be obtained from the city; if outside the city limits, then from the county.

### **Obtaining a Certificate of Occupancy**

If you are planning on occupying a new or used building for a new business, you may have to apply for a Certificate of Occupancy from the appropriate city or county zoning department.

### **Obtaining Trade Name Registration**

Businesses that use a name other than the owner's must register the fictitious name with the county as required by the Trade Name Registration Act. . This registration requirement does not apply to corporations doing business under their corporate names or to those practicing any profession under a partnership name. For information contact the Clerk of the Superior Court for the county in which the business is located.

### **Obtaining Tax Information**

Business owners are required by law to withhold the following from the wages paid to employees: federal income taxes, state income taxes and FICA (Social Security) Insurance. Income taxes will also be levied by the federal and state governments on earnings of any business. Therefore, each business must file an income tax return with both agencies. Businesses may be required to file estimated tax returns and pay estimated taxes on a quarterly basis. If you are self-employed, your Social Security contribution is made through the self-employment tax. You will need to calculate how best to report earnings and pay your business taxes.

#### **For federal tax information:**

U.S. Internal Revenue Service  
275 Peachtree Street, N.E.  
Atlanta, Georgia 30303  
(404) 522-0050, ext. 5

#### **For State tax information:**

Georgia Department of Revenue  
Georgia Income Tax Division  
Post Office Box 38067  
Atlanta, Georgia 30334  
(404) 656-4071

### **Obtaining a Corporation License**

Incorporating a business allows a firm to take advantage of the limited liability of a corporation. A corporation is usually a taxpayer separate from its owners, unless the company decides it wants to be an "S" corporation for special tax consideration. Contact an attorney or accountant for information on just what each designation can mean to the firm. Legal assistance will be needed to incorporate. Basically, this involves checking with the Secretary of State to see if the name chosen for the business is available. Typed Articles of Incorporation must then be submitted, along with a fee. Additionally, a notice of incorporation must be published in the official legal newspaper for the county. There is also a fee for this printing. Each business must submit a consent from a person who will act as registered agent for service of process on the corporation. This consent must be filed along with the Articles of Incorporation. The articles must name at least three

directors, unless the corporation will have two or fewer shareholders. For more information, contact:

*Secretary of State, Corporations Division*  
*306 West Tower, Floyd Building*  
*Two Martin Luther King Jr. Drive, S.E.*  
*Atlanta, Georgia 30334*  
*(404) 656-2185*

### **Obtaining a Federal Employer Identification Number**

The IRS has a number of publications that are available upon request to small businesses. One of the most helpful is "Your Business Tax Kit", which includes data and forms for a Federal Employer Identification Number and a tax guide for small businesses that can be ordered by calling Forms and Publications at 1-800-829-3676 or through a visit to the IRS office.

### **Obtaining a Georgia Sales Tax Number**

In Georgia there is a 4 percent sales and use tax which applies to the retail purchase, retail sale, rental, storage, use or consumption of tangible personal property and certain services. Sales tax must be collected on just about every tangible item sold, except for the exempt categories of *prescription drugs, eyeglasses and contact lenses*. In addition, some counties have exercised local option issues to increase their sales and use tax to pay for certain projects. A sales tax number is required for each business before opening. The number plus instructions for collection, reporting and remitting the money to the state on a monthly basis can be obtained from:

*Georgia Department of Revenue*  
*Sales and Use Tax Division*  
*Registration Section*  
*310 Trinity-Washington Building*  
*Atlanta, Georgia 30334*  
*(404) 656-4060*

### **Obtaining a Georgia Department of Labor Account Number**

Businesses are required by the state to pay unemployment insurance tax if the company has one or more employees for 20 weeks in a calendar year, or it has paid gross wages of \$1,500 or more in a calendar year. The taxes are payable at a rate of 2.7 percent on the first \$8,500 in annual wages of an employee. Unemployment insurance must be reported and returns made to the state. New employers wanting to start payroll need to fill out forms DOL 1-A and DOL 4. For additional information contact:

**Georgia Department of Labor**  
*Adjudication Section, Sussex Place*  
*148 International Boulevard, Suite 850*  
*Atlanta, Georgia 30303-1751*  
*(404) 656-5590*

**Obtaining Workers' Compensation Insurance**

Workers' compensation insurance must be carried to provide protection to those injured on on-the-job accidents if a business has three or more employees. Compensation insurance can be acquired through private providers. The State Board of Workers' Compensation aids people who need claim assistance. For information contact:

**State Board of Workers' Compensation**  
*270 Peachtree Street N.W.*  
*Atlanta, Georgia 30303-1299*  
*(404) 656-3875*

**Obtaining Federal and State Labor Law Postings**

Legislation requires an employer to post both federal and state labor laws so that they are viewable for the employee's. Most employers will post this information in area such as the break-room or by the time-clock. Currently, federal law requires the posting of Federal Equal Opportunity Employment, OSHA Regulations, the Polygraph Protection Act, the Fair Labor Standards Labor Act, and the Family Medical Leave Act. The State of Georgia requires that labor law dealing with fair employment, workers' compensation, unemployment insurance, and vacation unemployment be posted. Posters can be purchased that include these federal and state requirements. Companies also may provide an additional update service to automatically alert you of any changes in current posting law.

**Posting Law Supplier**

g.Neil Companies  
720 International Parkway  
Sunrise, FL 33325  
Sales: 800/999-9111  
[www.gneil.com](http://www.gneil.com)

**Certified Labor Law**

Federal/State Package.....\$99.99  
Annual Service.....\$39.99

Information on these laws and other federal laws pertaining to labor, may be obtained from:

***U.S. Department of Labor  
Wage and Hour Division  
Daniel Bremer, District Director Room 668  
1375 Peachtree Street, N.E.  
Atlanta, Georgia 30367  
(404) 347-4258***

### **Obtaining OSHA Information**

The Federal Occupational Safety and Health Administration (OSHA) outlines specific health and safety standards employers must provide for the protection of employees. Employers with 10 or fewer employees in traditionally low-hazard industries are exempt from keeping records OSHA-specified records of individual incidence reports. For the purposes of the small employer exemption, the employment figure refers to the calendar year immediately preceding the year for which records will be kept. Also, the test for the small employer exemption is the number of employees in the entire firm, not the number in an individual establishment. Therefore (except for employers discussed in section 2 below), a firm with two establishments, each of which had six employees during the previous calendar year, has to keep OSHA injury and illness records during the current year because the total employment of the firm was greater than 10. Partners, self-employed, and family members on a farm are not considered employees. For more information contact:

***U.S. Department of Labor  
Occupational Safety & Health Administration  
Office of Public Affairs - Room N3647  
200 Constitution Avenue  
Washington, D.C. 20210  
202/693-1999  
[www.osha.gov](http://www.osha.gov)***

### **Obtaining Business Insurance**

Like home insurance, business insurance protects the contents of your business against fire, theft and other losses. Contact your insurance agent or broker. It is prudent for any business to purchase a number of basic types of insurance. Some types of coverage are required by law, other simply make good business sense. The types of insurance listed below are among the most commonly used and are merely a starting point for evaluating the needs of your business.

Liability Insurance -- Businesses may incur various forms of liability in conducting their normal activities. One of the most common types is product liability, which may be incurred when a customer suffers harm from using the business product. There are many other types of liability, which are frequently related to specific industries. Liability law is constantly changing. An analysis of your liability insurance needs by a competent professional is vital in determining an adequate and appropriate level of protection for your business.

Property -- There are many different types of property insurance and levels of coverage available. It is important to determine the property you need to insure for the continuation of your business and the level of insurance you need to replace or rebuild. You must also understand the terms of the insurance, including any limitations or waivers of coverage.

Business Interruption -- While property insurance may pay enough to replace damaged or destroyed equipment or buildings, how will you pay costs such as taxes, utilities and other continuing expenses during the period between when the damage occurs and when the property is replaced? Business Interruption (or "business income") insurance can provide sufficient funds to pay your fixed expenses during a period of time when your business is not operational.

"Key Man" -- If you (and/or any other individual) are so critical to the operation of your business that it cannot continue in the event of your illness or death, you should consider "key man" insurance. This type of policy is frequently required by banks or government loan programs. It also can be used to provide continuity in operations during a period of ownership transition caused by the death or incapacitation of an owner or other "key" employee.

Automobile -- It is obvious that a vehicle owned by your business should be insured for both liability and replacement purposes. What is less obvious is that you may need special insurance (called "non-owned automobile coverage") if you use your personal vehicle on company business. This policy covers the business' liability for any damage which may result for such usage.

Office and Director -- Under some circumstances, officers and directors of a corporation may become personally liable for their actions on behalf of the company. This type of policy covers this liability.

Home Office -- If you are establishing an office in your home, it is a good idea to contact your homeowners' insurance company to update your policy to include coverage for office equipment. This coverage is not automatically included in a standard homeowner's policy.





## V

### **Requirements for Opening a Pharmacy**

1. **Obtaining a Pharmacy License**
2. **Obtaining a Controlled Substance License**
3. **Obtaining a NCPDP Provider Number**
4. **Obtaining a NPI Provider Number**
5. **Obtaining Medicaid Provider Information/CMO Enrollment**
6. **Obtaining Pharmacy Equipment Mandated by the State Board**
7. **Obtaining a Wholesale Drug Contract**
8. **General Audit Information**
9. **Pharmacy Bill of Rights**

*References: Rules of Georgia State Of Pharmacy: Sections 480-6 thru 480-10*

<http://rules.sos.state.ga.us/docs/480/6/01.pdf>

<http://rules.sos.state.ga.us/docs/480/10/12.pdf>

*Georgia State Board of Pharmacy*

237 Coliseum Drive

Macon, GA 31217-3858

(478) 207-2440

<http://sos.georgia.gov/Plb/Pharmacy/>

*Georgia Law: TITLE 26. FOOD, DRUGS, AND COSMETICS  
CHAPTER 4. PHARMACISTS AND PHARMACIES*

[http://sos.georgia.gov/acrobat/PLB/laws/03\\_Pharmacy\\_26-4.pdf](http://sos.georgia.gov/acrobat/PLB/laws/03_Pharmacy_26-4.pdf)

*State of Georgia Drugs and Narcotics Agency*

40 Pryor Street, S.W.

Suite 2000

Atlanta, Georgia 30303

(404) 656-5100 or (800) 656-6568 (404) 651-8210 (fax)

[www.gdna.georgia.gov](http://www.gdna.georgia.gov)

*DEA Pharmacy Manual*

[http://www.deadiversion.usdoj.gov/pubs/manuals/pharm2/pharm\\_manual.htm#p3](http://www.deadiversion.usdoj.gov/pubs/manuals/pharm2/pharm_manual.htm#p3)

*NCPDP National Council for Prescription Drug Programs, Inc.*  
9240 E. Raintree Dr.  
Scottsdale, Arizona 85260-7518  
(480) 477-1000  
(480) 767-1042 - Fax  
[www.ncdp.org](http://www.ncdp.org)

*NPI National Provider Identifier Standards*  
<https://nppes.cms.hhs.gov/NPPES/StaticForward.do?forward=static.npistart>

## **OVERVIEW**

The process for obtaining pharmacy and controlled substance licenses, NCPDP and NPI provider numbers as well as signing contracts with third parties could take several months. In order to be ready for the opening date, it is recommended that the process is started approximately 6 months in advance.

The Board of Pharmacy requires an inspection of the pharmacy prior to the issuance of a license. After the completed application is received by the Georgia State Board of Pharmacy, the request for inspection is made by the board to the Drugs and Narcotics Agency. The license will not be issued by the board until receipt of a favorable report from the Drugs and Narcotics Agency and approval of the application. The DEA license can only be obtained AFTER the Georgia Pharmacy License has been granted. The NPI and NCPDP numbers will also need to be obtained. If you do not have your pharmacy license when applying for the NCPDP, upload a copy of your temporary license/inspection report. Once you receive your pharmacy license, log back into the NCPDP website and update the record with the license information. Also, upload a copy of the pharmacy license.

### **1. Obtaining a Georgia Pharmacy License**

<http://www.sos.georgia.gov/plb/pharmacy/#>

- Applications for a retail license must be filed in duplicate with the Georgia State Board of Pharmacy located at 237 Coliseum Drive in Macon, Georgia 31217, along with the required fee. <http://sos.georgia.gov/acrobat/PLB/03%20Retail%20Application.pdf>
- Application for the licensing of a pharmacy will be considered on the basis of the application filed and an approval letter received from the director of the Georgia Drugs and Narcotics Agency certifying the pharmacy possesses the necessary facilities and equipment for a license.
- The application fee shall NOT be refundable.
- Every pharmacy shall be under the direct charge of a registered pharmacist whose name shall appear on the license. In the event such pharmacist whose name shall appear on said license shall no longer be in charge of a pharmacy, the Board shall be notified

immediately and shall be notified, at the same time, of the successor registered pharmacist.

- Licenses shall not be transferable. Licenses become null and void upon the sale, or change of mode of operation of the business.
- Licenses shall be renewed every two years and expire on June 30th of each odd year and may be renewed upon the payment of the required fee and the filing of an application for renewal. If the application for renewal is not made and the fee paid before September 1st of the odd year, the license shall lapse and shall not be renewable except by application for a new license.

## **2. Obtaining a Controlled Substance License**

### **Registration Requirements**

Every pharmacy which dispenses any controlled substance must be registered with the DEA. Since DEA does not register pharmacists, they must obtain their license to practice pharmacy from their state regulatory authority. To obtain a DEA registration, a pharmacy can request a DEA Form-224 from the DEA Registration Field Office-

#### **ATLANTA FIELD DIVISION**

75 Spring Street, SW, Room 800  
Atlanta, GA 30303

Diversion Number: (404) 893-7165  
Diversion Fax: (404) 893-7095 (Diversion)  
Diversion Program Manager Fax: (404) 893-7138

or from the DEA Headquarters Registration Unit in Washington, D.C. at 1-800-882-9539 (Registration Call Center). DEA Form 224 is also available online and in PDF format at [www.DEAdiversion.usdoj.gov](http://www.DEAdiversion.usdoj.gov)

Direct Link: [http://www.deadiversion.usdoj.gov/drugreg/reg\\_apps/onlineforms\\_new.htm](http://www.deadiversion.usdoj.gov/drugreg/reg_apps/onlineforms_new.htm)

The DEA Form 224 is fully interactive, including the acceptance of electronic credit card payments.

The completed DEA Form-224 must be submitted to:

Drug Enforcement Administration  
Registration Unit  
Central Station  
P.O. Box 28083  
Washington, D.C. 20038-8083

Pharmacy registrations must be renewed every three years. The cost of the registration is annotated on the application form. The certificate of registration must be maintained at the registered location and kept available for official inspection. If a person owns and operates more than one pharmacy, each place of business must be registered.

Every pharmacy currently registered with DEA will receive a renewal application approximately 45 days before the registration expiration date. The renewal application will be sent to the address listed on the current registration certificate. If the renewal form is not received within 30 days before the expiration date of the current registration, the pharmacy should contact the DEA registration unit, Atlanta Field Office, 404-763-5861, for a renewal registration form.

An affidavit system for expediting pharmacy applications may be used to obtain a DEA registration number for a new pharmacy or for transferring ownership of an existing pharmacy. If the pharmacy has been registered by the state licensing agency, the applicant may include an affidavit: [http://www.deadiversion.usdoj.gov/pubs/manuals/pharm2/appendix/appdx\\_p.htm](http://www.deadiversion.usdoj.gov/pubs/manuals/pharm2/appendix/appdx_p.htm)

to verify the existence of the state license with their application.  
[http://www.deadiversion.usdoj.gov/21cfr/cfr/1301/1301\\_17.htm](http://www.deadiversion.usdoj.gov/21cfr/cfr/1301/1301_17.htm)

**References:**

*State of Georgia Drugs and Narcotics Agency*

40 Pryor Street, S.W.

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(404) 656-5100 or (800) 656-6568 (404) 651-8210 (fax)

[www.gdna.georgia.gov](http://www.gdna.georgia.gov)

*Office of Diversion Control*

[www.diversion.usdoj.gov](http://www.diversion.usdoj.gov)

### **3. Obtaining a NCPDP Provider Number**

A NCPDP number is what many people still refer to as a NABP number. The designation was changed and the two are now synonymous. Receiving a National Council for Prescriptions Drug Programs (NCPDP) number requires completion of an application which can be located on the NCPDP website: <http://ncdp.org/provider.asp>

Independent Pharmacies- Quick links:

- [User Guide](#)
- [Frequently Asked Questions \(FAQs\)](#)
- [Quick Reference Sheet](#)
- [Demonstration Guide \(unaffiliated\)](#)
- [Demonstration Guide \(w/PSAO affiliation\)](#)

You have two options when creating a new NCPDP Provider ID pharmacy profile. You can create an NCPDP Provider ID for a new location or create an additional NCPDP Provider ID for an existing location.

Documents you will need:

- State Pharmacy License
- Pharmacy DEA Registration
- Federal Tax ID documentation
- NPI Confirmation document
- EFIO Authorization (if EFIO permissions granted to NCPDP)

**You may be creating a new NCPDP Provider ID prior to receiving some of the above documentation.**

**For example, if you do not yet have your pharmacy license you can use the site visit/inspection report documentation. NCPDP will apply a temporary expiration date to any missing or substitute documentation. You will be alerted to update your documentation after the new NCPDP Provider ID is created.**

Reference: [www.ncdp.org](http://www.ncdp.org)

For complete information: FAQs: [https://www.ncdponline.org/Resources/Help/FAQs\\_Indy.pdf](https://www.ncdponline.org/Resources/Help/FAQs_Indy.pdf)

User Guide: [https://www.ncdponline.org/Resources/Help/UserGuide\\_Indy.pdf](https://www.ncdponline.org/Resources/Help/UserGuide_Indy.pdf)

## 4. Obtaining a NPI Number

The Administrative Simplification provisions of the *Health Insurance Portability and Accountability Act of 1996 (HIPAA)* mandated the adoption of a standard unique identifier for health care providers. The National Plan and Provider Enumeration System (NPPES) collects identifying information on health care providers and assigns each a unique **National Provider Identifier (NPI)**. You can apply for your provider NPI online:

<https://nppes.cms.hhs.gov/NPPES/StaticForward.do?forward=static.npistart>

NPI Application Instructions				
<p><b>Step 1:</b> Before you begin, make sure you have the following information.</p> <p>This information will be required to complete the NPI Application Form. You will not be able to save your work if you quit before you have completed the application form.</p>				
<ul style="list-style-type: none"> <li>• <b>Information Required for Individual Providers</b></li> <li>Provider Name</li> <li>SSN (or ITIN if not eligible for SSN) <sup>2</sup></li> <li>Provider Date of Birth</li> <li>Country of Birth</li> <li>State of Birth (if Country of Birth is U.S.)</li> <li>Provider Gender</li> <li>Mailing Address</li> <li>Practice Location Address and Phone Number</li> <li>Taxonomy (Provider Type) <sup>4</sup></li> <li>State License Information <sup>1</sup></li> <li>Contact Person Name</li> <li>Contact Person Phone Number and E-mail</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Information Required for Organizations</b></li> <li>Organization Name</li> <li>Employer Identification Number (EIN) <sup>3</sup></li> <li>Name of Authorized Official for the Organization</li> <li>Phone Number of Authorized Official for the Organization</li> <li>Organization Mailing Address</li> <li>Practice Location Address and Phone Number</li> <li>Taxonomy (Provider Type) <sup>4</sup></li> <li>Contact Person Name</li> <li>Contact Person Phone Number and E-mail</li> </ul>			
<p><sup>1</sup> (required for certain taxonomies only)</p> <p><sup>2</sup> (SSN or ITIN information should only be reported in the SSN or ITIN field)</p> <p><sup>3</sup> Do not report an SSN or IRS ITIN in the EIN field</p> <p><sup>4</sup> Provider Taxonomy codes can be obtained from <a href="http://www.wpc-edi.com/taxonomy">http://www.wpc-edi.com/taxonomy</a></p>				
<p>Online Help is available from each page of the Application / Update Form by clicking "Help" at the top right of the page. If you need additional help or have any questions concerning your application, contact the NPI Enumerator.</p>				
<p><b>NPI Enumerator Contact Information</b></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%; vertical-align: top;"> <p>By phone:</p> <p>1-800-465-3203 (NPI Toll-Free)</p> <p>1-800-692-2326 (NPI TTY)</p> </td> <td style="width: 33%; vertical-align: top;"> <p>By e-mail at:</p> <p>customerservice@npienumerator.com</p> </td> <td style="width: 33%; vertical-align: top;"> <p>By mail at:</p> <p>NPI Enumerator</p> <p>PO Box 6059</p> <p>Fargo, ND 58108-6059</p> </td> </tr> </table>		<p>By phone:</p> <p>1-800-465-3203 (NPI Toll-Free)</p> <p>1-800-692-2326 (NPI TTY)</p>	<p>By e-mail at:</p> <p>customerservice@npienumerator.com</p>	<p>By mail at:</p> <p>NPI Enumerator</p> <p>PO Box 6059</p> <p>Fargo, ND 58108-6059</p>
<p>By phone:</p> <p>1-800-465-3203 (NPI Toll-Free)</p> <p>1-800-692-2326 (NPI TTY)</p>	<p>By e-mail at:</p> <p>customerservice@npienumerator.com</p>	<p>By mail at:</p> <p>NPI Enumerator</p> <p>PO Box 6059</p> <p>Fargo, ND 58108-6059</p>		

## **5. Obtaining Medicaid Provider Information**

- a. **Fee-for-Service Medicaid(traditional):**  
Members include low income as well as aged, blind and disabled members not included in the Georgia Families Program
- b. **Georgia Families: CMO enrollment**  
Partnership between the Georgia Department of Community Health (DCH) and private Care Management Organizations (CMOs). Members include children enrolled in PeachCare for Kids™ and certain men, children, pregnant women and women with breast or cervical cancer covered by Medicaid.

### **Fee-for-Service Medicaid (traditional)**

***Provider Enrollment Application-*** available online at [www.ghp.georgia.gov](http://www.ghp.georgia.gov) > “Provider Tab”> “Become a provider”

If you have questions about your application, contact Customer Service Representatives Monday through Friday, 8:00 a.m. to 7:00 p.m.-1-800-766-4456 or send an inquiry at the contact page of the [Georgia Health Partnership Web Portal](#).

***Two common reasons enrollment is delayed:***

1. The owner(s) of the pharmacy does not sign the enrollment documentation and/or does not submit a letter giving the name and permission to the authorized representative of the business.
2. Not completing section F on the application

To review your application status: Go to: [www.ghp.georgia.gov](http://www.ghp.georgia.gov) > “Provider Information” > “View Application Status.”

***Resources for Georgia Medicaid Fee-For-Service Program-*** Updated quarterly: intra quarterly revisions may occur

1. **Billing Manual for Services-** This manual covers member eligibility, claims forms, third party liability, and the forms or referrals that apply. Go to [www.ghp.georgia.gov](http://www.ghp.georgia.gov) select the "provider information" tab to view the current Medicaid provider manual list on the GHP web site. Scroll down for ‘Part 1 Policy and Procedures/Billing
2. **Policies and Procedures Part 1 and Part II-** Information necessary to comply with Federal and State Laws and regulations governing the Medicaid Program. Part II deals specifically with Pharmacy Services. The information is updated quarterly so check often. Go to [www.ghp.georgia.gov](http://www.ghp.georgia.gov) select the "provider information" tab to view the current “Medicaid Provider Manual” list on the GHP web site. Scroll



down for 'Part 1 Policy and Procedures/Billing'. Click on Pharmacy Services for 'Part II Policy and Procedures/Pharmacy'.

**Part I direct link:**

[https://www.ghp.georgia.gov/wps/output/en\\_US/public/Provider/MedicaidManuals/2009-10\\_Part1\\_v2.pdf](https://www.ghp.georgia.gov/wps/output/en_US/public/Provider/MedicaidManuals/2009-10_Part1_v2.pdf)

**Part II direct link:**

[https://www.ghp.georgia.gov/wps/output/en\\_US/public/Provider/MedicaidManuals/2009-10\\_Pharmacy\\_v5.pdf](https://www.ghp.georgia.gov/wps/output/en_US/public/Provider/MedicaidManuals/2009-10_Pharmacy_v5.pdf)

3. **DESI – Design Efficacy Study Implementation**  
This list contains drug products identified by the FDA as having actual or potential bioequivalence problems. Georgia Medicaid does not cover DESI 5 & 6 category drugs.

[www.ghp.georgia.gov](http://www.ghp.georgia.gov) select Provider Information, then Pharmacy Overview, then "view full DESI list" in the Pharmacy Services box.

4. **Medicaid GMAC List – Georgia Maximum Allowable Cost (GMAC) List:** Products on this list will be reimbursed at the maximum allowable cost (MAC) by Medicaid. The GMAC applies if it is lower or if the product is listed on the GMAC list and not the federal list.

[www.ghp.georgia.gov](http://www.ghp.georgia.gov) select Provider Information, then Pharmacy Overview, then "view full GMAC list" in the Pharmacy Services box.

5. **Medicaid Rebateable Manufacturers List**  
Represents all participating manufacturers of drugs covered in the Medicaid Fee For Service Program. To locate this list, go to [www.ghp.georgia.gov](http://www.ghp.georgia.gov) select "Provider Information", then "Pharmacy Overview", then "view full Medicaid Rebateable Manufacturers list" in the Pharmacy Services box.

6. **Banner Messages**-updated and posted weekly. This document contains pertinent information about the program and should be reviewed **weekly**. To locate the banner message, [www.ghp.georgia.gov](http://www.ghp.georgia.gov) "Provider Information" > Banner Information > view full List> from the Banner Messages box select the pharmacy banner for the week.

7. **Medicare Part D**  
[www.ghp.georgia.gov](http://www.ghp.georgia.gov) select "Provider Information" then Pharmacy Overview >>Medicare Part D.

**Department of Community Health**  
**Division of Medical Assistance**  
**2 Peachtree Street, N.W.**

Atlanta, GA 30303-3159  
404-657-7241

Medicaid Fee-for-Service FAQ:

[http://dch.georgia.gov/vgn/images/portal/cit\\_1210/45/35/148869272GaMedicaidFFSFAQs24.pdf](http://dch.georgia.gov/vgn/images/portal/cit_1210/45/35/148869272GaMedicaidFFSFAQs24.pdf)

**CMO Enrollment Information** There are 3 CMOs in the State of Georgia.

1) Amerigroup Community Care

888-821-1108 PBM to contact for Contract: CVS/Caremark 866-488-4708

2) Peach State Health Plan

866-874-0633 PBM to contact for Contract: US Scripts 800-460-8988

3) WellCare

866-231-1821 PBM to contact for Contract: Walgreens. Send pharmacy information via fax or email to [provider.relations@walgreens.com](mailto:provider.relations@walgreens.com) 847-572-4160 (Fax) If you don't receive a response, contact Beth Zander, network pharmacy specialist at Walgreens at 847-964-7770.

For more information about Georgia Family, visit the website:

[www.dch.georgia.gov](http://www.dch.georgia.gov) > "Divisions" > "Managed Care and Quality" > "Georgia Families"

When speaking to the provider enrollment specialist, indicate that you would like a **contract for the Georgia Medicaid CMO plan**. Also, all CMOs may not be available in all regions. You will need to check about your specific area.

## **6. Obtaining Pharmacy Equipment Mandated by the State Board**

**The official Rules of the State Board of Pharmacy stipulate under Georgia Code certain minimum required equipment that a pharmacy must possess in order to engage in the practice of filling, compounding and dispensing prescriptions. The following are those requirements and may be found Rules of Georgia State Of Pharmacy: Section 480-10-.12:**

- Copies of and/or computer or electronic access to current reference materials appropriate to the individual pharmacy practice. These reference materials shall be authoritative on at least the topics of drug interactions; patient counseling; compounding and pharmaceutical calculations; and generic substitution.
- The telephone number of a poison control center. This number shall be conspicuously posted within the prescription department.

- Current copies of and/or computer or electronic access to the following:
  1. Georgia Pharmacy Practice Act, O.C.G.A. T. 26, Ch. 4
  2. Georgia Controlled Substances Act & Dangerous Drug Act, O.C.G.A. T. 16, Ch. 13
  3. Official Rules of the Georgia State Board of Pharmacy
  
- Equipment (appliances):
  1. Refrigerator in operating condition with a thermometer
  2. Sink in working condition with both hot and cold running water
  
- Weighing and labeling:
  1. Class A Balance, Class I or II Electronic Balance, or as approved in writing by the Board
  2. Assortment of weights: metric and apothecary, only if utilizing a Class A Balance
  3. Appropriate prescription labels consistent with the requirements of the Georgia Drug and Cosmetic Act, O.C.G.A. Title 26, Chapter 3
  4. Appropriate auxiliary labels that should be used in the pharmacist's professional judgment.
  
- Other equipment:
  1. Graduates of assorted sizes
  2. Two mortars and pestles of assorted sizes
  3. Two spatulas
  4. One pill counting tray
  5. Ointment slab, tile or ointment paper pad
  6. Stirring rods
  7. Typewriter, word processor or computer with label-printer
  8. Any other equipment necessary for a specialized practice setting where such a specialized practice takes place.
  
- Adequate supply of drugs most commonly prescribed (ONLY to be on hand after a permit has been issued by the Board).
  
- Assorted sizes and types of child-resistant dispensing containers.
  
- The pharmacist-in-charge of a facility may submit to the Georgia State Board of Pharmacy a typed request for a variance to these provisions relating to minimum equipment requirements. Stated reasons for application for variances must be included in submitted request. A variance may be granted by the Board only when, in the judgment of the Board, there are sound reasons for doing so which relate to the necessary or efficient delivery of health care.
  
- Any variance granted by the Board must be in writing, and this variance must be posted in the pharmacy next to the current Board issued permit/renewal certificate.

## **7. Obtaining a Wholesale Drug Contract**

The majority of independent pharmacies choose one full service wholesaler to supply their merchandise. Wholesalers can offer a number of services besides buying and assembling merchandise lines. Wholesalers provide storage, rapid delivery, financing credit, market information, and guarantees on goods sold. Other options include contracting with several wholesalers, speciality wholesalers, or dealing straight with the manufacturers. There is also the opportunity to join in a purchasing group or cooperative to receive Additional benefits like amassing greater buying power. The Academy of Independent Pharmacy (AIP) of the Georgia Pharmacy Association has formed individual partnerships with Wholesalers, manufacturers and service providers to create a buying advantage for its members. A list of those partners can be found under AIP's portion of the GPhA™ website ([www.gpha.org](http://www.gpha.org)) or by contacting AIP's director, Jeff Lurey.

**Georgia Wholesalers** (Please check our website for current detailed information)

AmerisourceBergen

Cardinal Health

H.D. Smith Wholesaler Drug

McKesson Drug

Morris Dickson

Smith Drug Company

## **8. General Audit Information**

### **Audit Tips**

Although not all PBMs (pharmacy benefit managers) have the same audit parameters, there seems to be some commonalities. This article is a reminder of everyday practices that can be used when processing prescriptions to lessen the possibility or amount of recoupments.

- 1) **The date, time, the person's name** who calls in the prescription and the **initials of the pharmacist/intern** who takes the prescription should be included on all phoned in prescriptions.
- 2) **Signature Log-** All paid claims are subject to signature log verification.
  - a. Per GA MEDICAID- Policy and Procedures Manual:  
Each Pharmacy must maintain a signature log for all claims in chronological order as prescriptions are received by the Member, including off-site delivery, with the following information:

**NAME OF PATIENT, FILL DATE, RX #, MEMBER ID, 3<sup>RD</sup> PARTY,  
SIGNATURE AND DATE PRESCRIPTION IS PICKED UP.**

Medication cannot be left at a door, in a mailbox or with a neighbor unless neighbor is authorized to sign for the medication.

- 3) Prescriptions with prescriber directions “**ud**” or “**prn**” need to be clarified. This includes insulin with a sliding scale sig. Document on the prescription what the patient or prescriber states as the directions with a maximum amount per day. Record the name of the person who verified this information as well as the pharmacist/intern at the pharmacy who validated the information.
- 4) Prescriptions for topical should include the area/part of body the product is being applied (for Georgia Medicaid).
- 5) Submit the **correct days supply**.
  - a. If the directions are 1 tablet tid, then dispense only 90.
  - b. Inhalers: The days supply should be calculated based on number of puffs per inhaler and the sig.
  - c. Eye drops: Most PBMs use 20 drops/ml although traditional Medicaid uses 16 drops/ml.
- 6) All prescriptions should be **dated**. If you receive one from the physician that hasn't been dated, make sure it is. Write the date and who verified it at the doctor's office on the prescription.
- 7) If there is a dosage or quantity change, document on the prescription who authorized the change and the date the change was made or make a new prescription.
- 8) Document on the original prescription if the patient requests brand name.
- 9) When receiving vacation or dosage change overrides, don't forget to document on the original if required by the PBM.
- 10) DEA must be included on front for controlled substances. Per Aetna's policy: “All licensed practitioners are required to add their DEA number to controlled prescriptions. If the DEA number is missing, the pharmacist should verify with the prescriber that it is authorized/legitimate, and must document that contact on the prescription”.
- 11) Per Medco: Prescriptions are only allowed to be refilled for 1 year from date written **not** from 1<sup>st</sup> fill date. Refilling a prescription over 1 year from the date written, can result in full charge back for the claim
- 12) Per Medco: Prescription splitting is a common discrepancy identified in Medco audits. If a prescription is written by the prescriber for a quantity of 90 for a 90-day supply, the pharmacy should dispense 90.  
Example- Lipitor 10mg #90 1 tablet daily 2 refills  
A quantity of 90 should be dispensed not #30 with adjusted refills.
- 13) Per Medco: Authorized refills should **not** be combined with the initial quantity written by the prescriber.  
Example- Lipitor 10mg #30 1 tablet daily 2 refills  
The correct amount to dispense would be #30. Dispensing #90 with 0 refills could result in a recoupment of payment for the prescription.

Most importantly, **respond to every audit within the time frame listed**. Often the discrepancy will be reversed with proper documentation. However, if the deadline date has passed and no documentation is received by the PBM, your right to an appeal is forfeited.

Each plan has its own policy and procedure's manual. Register on-line to access a copy of the Policy and Procedures for each plan and periodically check for changes.

Below are links to a few of the larger PBMs. After becoming a registered user, you will then be able to view the policy manual which includes complete audit information.

Express Scripts: <https://pharmacy.express-scripts.com/pharmacyweb/userLogin.sf>

Medco: [www.medcohealth.com](http://www.medcohealth.com)

Aetna : [www.aetnapharmacists.com](http://www.aetnapharmacists.com)

Caremark: [https://www.caremark.com/wps/portal/FOR\\_HEALTH\\_PROS\\_HOME?cms=CMS-2-012705](https://www.caremark.com/wps/portal/FOR_HEALTH_PROS_HOME?cms=CMS-2-012705)

## **9. Pharmacy Audit Bill of Rights**

§ 26-4-118. Pharmacy Audit Bill of Rights; recoupment of disputed funds; appeals process for unfavorable reports; final audit report; investigative audits based on criminal offenses

(a) This Code section shall be known and may be cited as "The Pharmacy Audit Bill of Rights."

(b) Notwithstanding any other law, when an audit of the records of a pharmacy is conducted by a managed care company, insurance company, third-party payor, the Department of Community Health under Article 7 of Chapter 4 of Title 49, or any entity that represents such companies, groups, or department, it shall be conducted in accordance with the following bill of rights:

(1) The entity conducting the initial on-site audit must give the pharmacy notice at least one week prior to conducting the initial on-site audit for each audit cycle;

(2) Any audit which involves clinical or professional judgment must be conducted by or in consultation with a pharmacist;

(3) Any clerical or record-keeping error, such as a typographical error, scrivener's error, or computer error, regarding a required document or record may not in and of itself constitute fraud; however, such claims may be subject to recoupment. No such claim shall be subject to criminal penalties without proof of intent to commit fraud;

(4) A pharmacy may use the records of a hospital, physician, or other authorized practitioner of the healing arts for drugs or medicinal supplies written or transmitted by any means of communication for purposes of validating the pharmacy record with respect to orders or refills of a legend or narcotic drug;

(5) A finding of an overpayment or underpayment may be a projection based on the number of patients served having a similar diagnosis or on the number of similar orders or refills for similar drugs; however, recoupment of claims must be based on the actual overpayment or underpayment unless the projection for overpayment or underpayment is part of a settlement as agreed to by the pharmacy;

(6) Each pharmacy shall be audited under the same standards and parameters as other similarly situated pharmacies audited by the entity;

(7) A pharmacy shall be allowed at least 30 days following receipt of the preliminary audit report in which to produce documentation to address any discrepancy found during an audit;

(8) The period covered by an audit may not exceed two years from the date the claim

was submitted to or adjudicated by a managed care company, insurance company, thirdparty payor, the Department of Community Health under Article 7 of Chapter 4 of Title 49, or any entity that represents such companies, groups, or department;

(9) An audit may not be initiated or scheduled during the first seven calendar days of any month due to the high volume of prescriptions filled during that time unless otherwise consented to by the pharmacy;

(10) The preliminary audit report must be delivered to the pharmacy within 120 days after conclusion of the audit. A final audit report shall be delivered to the pharmacy within six months after receipt of the preliminary audit report or final appeal, as provided for in subsection (c), whichever is later; and

(11) The audit criteria set forth in this subsection shall apply only to audits of claims submitted for payment after July 1, 2006. Notwithstanding any other provision in this subsection, the agency conducting the audit shall not use the accounting practice of extrapolation in calculating recoupments or penalties for audits.

(c) Recoupments of any disputed funds shall only occur after final internal disposition of the audit, including the appeals process as set forth in subsection (d) of this Code section.

(d) Each entity conducting an audit shall establish an appeals process under which a pharmacy may appeal an unfavorable preliminary audit report to the entity. If, following the appeal, the entity finds that an unfavorable audit report or any portion thereof is unsubstantiated, the entity shall dismiss the audit report or said portion without the necessity of any further proceedings.

(e) Each entity conducting an audit shall provide a copy of the final audit report, after completion of any review process, to the plan sponsor.

(f) This Code section shall not apply to any investigative audit which involves fraud, willful misrepresentation, or abuse including without limitation investigative audits under Article 7 of Chapter 4 of Title 49, Code Section 33-1-16, or any other statutory provision which authorizes investigations relating to insurance fraud.

**HISTORY:** Code 1981, § 26-4-118, enacted by Ga. L. 2006, p. 198, § 1/HB 1371.





## VI Location Analysis

1. Introduction
2. Primary Factors
3. Secondary Factors
4. Score Sheet

**Reference:** *Effective Pharmacy Management*; A comprehensive presentation of practical management techniques for pharmacists.

## Location Analysis

### Introduction

The practice of community pharmacy presents many diversified decision situations to the pharmacy manager, but none affects his personal success more than the decision of where to locate the facility. Many times the success of a community pharmacy depends more on the decisions made before the actual practice has been started. Many scholars and business minds involved in community pharmacy and its management have often mentioned the phrase that three factors are foremost in the proper operation of a pharmacy. These three factors are location, location, and location. Although not the sole predictor of the success of a pharmacy, location does play a significant role.

The importance of a thorough and accurate location analysis assumes even greater stature when it is examined in the context of the pharmacy's total business and the subsequent marketing of that business. This is because the variables examined in the process of conducting the location analysis are the very same variables which will subsequently be used in managing the business after it is operational.

The proper approach to location, therefore, will supply the pharmacy manager with information that is vital to survival, i.e., the consumer mix of the area being studied and the competitive environment existing in that location. The knowledge of these elements can eventually shape the total efforts of the pharmacy.

The location decision can affect the overall marketing strategy. For example, prior knowledge of the consumers in the area and their behavior will present the pharmacy manager with a unique competitive advantage. Such a competitive advantage serves to increase the prospects of success, even though the pharmacy may be a new market entry.

Viewed from the marketing perspective, location analysis quickly changes from a traditionally static subject to a dynamic subject, in which the pharmacy manager can utilize the locational parameters as an input to the ongoing marketing management process and to reevaluation for purposes of growth.

In this context, location analysis becomes a prime factor in dictating prices, service levels, promotional activities and most other major objectives of the pharmacy. The pharmacy manager equipped with a good location analysis should be able to step beyond the traditional short-sighted question of "How many people live in the area?" to the much more valuable question of "What changes will occur in the area and how can I profitably adapt to those changes?"

When the specific location for the pharmacy is finally selected, the pharmacy manager will also have established an area from within which the store will draw its customers. The final location, therefore, defines both the consumer profile and the competitive profile of the practice.

In location analysis, the idea is to start with a study of the overall region. Then proceed in an over-narrowing progression to smaller geographical area. This means working from the region to the city, then to the area within the city and finally to a specific site. The first consideration in location analysis, therefore, is the determination of the overall region or city.

The selection of a city as a possible pharmacy location should involve various primary and secondary characteristics of the community. These characteristics will reflect the business situation in the city and will be useful in rating or evaluating one or more desirable locations. Such locations, incidentally, will receive more competitive attention as the competitive situation in pharmacy continues to expand.

### **Primary Factors**

The primary factors in determining the location for a pharmacy are: (1) population, (2) prescription buying power, (3) physician availability, (4) competition, and (5) community trends.

**Population** – Actually, this factor should involve much more than mere population figures. Additionally, it should involve the study of demographics (average age and income, purchasing power, level of education, percentage of minorities, degree of home ownership, and the size of the average family). If there are significant trends in any of these characteristics – a steady reduction of purchasing power over the past several years, for example – they should be studied for their possible impact on a new pharmacy enterprise.

**Prescription buying power** – This factor takes into consideration the interaction between purchasing power and the number of prescriptions utilized by the average family. The nature of the population's income sources must also be examined to determine the following: whether the income sources are blue-collar or white collar, whether they are seasonal or steady, the percentage of welfare recipients and the availability of third-party payment plans, both private and public.

**Physician availability** – Since prescription sales are a function of derived demand (they are dependent upon the number of prescriptions written by physicians) the number and type of physicians in the area must be determined in order to achieve some idea of the area's potential for pharmacy. The difference in prescribing medications between various physician specialties should also be seriously considered.

**Competition** – The existence of one or more pharmacies in the area obviously constitutes competition for the new pharmacy. But so does the existence of supermarkets, convenience stores and certain discount stores. Competition today in pharmacy takes the form of more than our traditional independent, chain or hospital outpatient pharmacies. Today we must look at HMO's, mail order, internet, and any other number of non-traditional competitors in the market place. This competition should be rated as to the

degree and extent of competitive impact of the individual units. Once again, trends should be studied, including both increases and decreases in competitive units.

**Community trends** – It is important to consider the entire community and its activities, including trends in school enrollments, businesses and new housing starts. The degree and type of civic and social attitude toward providing needed services and environmental improvements.

### **Secondary Factors**

These primary factors should be carefully evaluated in selecting the individual city or town and they should be supplemented by other information in order to make an informed and logical location decision. This other information, termed secondary factors, should not be discounted. Many of these factors will have a direct bearing on the actual day-to-day operation of the pharmacy. In some ways, the secondary factors can affect the practice even more than the city or town location decision. Among these factors are the following:

**Media sources** – Determine the types of media available for advertising and the degree to which they are utilized by other pharmacies in the area.

**Supplier services** – Find out the degree of services offered by suppliers in general and the availability and time of delivery service by pharmacy wholesalers in particular.

**Capital and credit** – Look into the accessibility and willingness of financial institutions and government agencies offering capital or credit for expansion or improvements.

**Legal restrictions** – Check to see if there are any restrictions or regulations affecting small businesses, such as the existence of zoning restrictions and local health and safety regulations. Make sure to know about any restriction or requirements applying specifically to the practice of pharmacy, with particular attention to the legalities not normally found in state or federal statutes. See if there are any regulations such as those requiring price-posting, the maintenance of patient profiles and the extent of counseling requirements.

**Manpower availability** – Determining the status of the labor market for store personnel (clerks, stockers, and sales people) and for professionally orientated personnel (pharmacists, interns, externs, and technicians).

**Inventory services** – Inventory will have to be managed quite close in the early days of the practice. We have to know the nature of the distribution system for inventory available to our practice, and which suppliers will offer support service for our inventory needs.

**Communication** – In this area we need to have media available to promote the practice and our availability to service consumer needs

It is possible to expand this list of secondary factors to include virtually any aspect of community life and business. Indeed, the pharmacy manager who is serious about conducting an effective location analysis should consider as many different factors as possible. The more information an individual can gather about a prospective location, the easier it will be to arrive at a suitable decision. The information required to base such judgments is usually easy to obtain from local business agencies, local libraries, and other private and public sources.

### **Score Sheet**

To help choose your location use some type of "score sheet" in evaluating different sites. See the following suggested score sheet. Depending upon your situation some factors will have more importance than others. You may wish to eliminate some factors listed in the sample and add others. But some sort of score sheet is essential to choosing your business location wisely.

Time and effort devoted to the selection of (a) the town or city, (b) the area within the town or city, and (c) the particular site for the location of your business can well mean the difference between success and failure.

### **Score Sheet on Sites**

Grade each factor: "A" for excellent, "B" for good, "C" for fair, and "D" for poor.

1. Centrally located to reach my market
2. Physical suitability of building
3. Type and cost of lease
4. Provision for future expansion
5. Overall estimate of quality of site in 10 years
6. Adequacy of utilities (sewer, water, power, gas)
7. Parking facilities
8. Transportation availability and rates
9. Nearby competition situation
10. Traffic flow
11. Taxation burden
12. Quality of police and fire protection
13. Environmental factors (schools, cultural, community activities, enterprise of business people)
14. Quantity of available employees
15. Prevailing rates of employee pay
16. Housing availability for employees
17. Merchandise or raw materials readily available



**VII**  
**Owner's Checklist for Starting a New Pharmacy**

CHECKLIST

***1. Background Work***

- Assess your strengths and weaknesses
- Establish business and personal goals
- Assess your financial resources
- Identify the financial risks
- Determine the start-up costs
- Decide on your business location
- Do market research
- Identify your customers
- Identify your competitors
- Develop a marketing plan

***2. Business Transactions***

- Select a lawyer
- Choose an entity (proprietorship, partnership, or corporation, for example)
- Create your business (register your name, incorporate the business, etc.)
- Obtain your business License

- Obtain a Certificate of Occupancy (if necessary)
- Select an accountant
- Prepare a business plan
- Select a banker
- Get financing
- Establish a line of credit
- Select an insurance agent
- Obtain a federal employer identification number
- Obtain a GA sales tax number
- Obtain a GA Department of labor Account number
- Obtain Workers Compensation Insurance
- Obtain Federal and State Labor Law Postings
- Obtain Business Insurance

### ***3. Pharmacy Transactions***

- Get Pharmacy License
- Obtain necessary furniture and required pharmacy equipment
- Obtain controlled substance license
- Obtain Medicaid Provider Identification
- Obtain NCPDP (NABP) Provider Number
- Obtain NPI
- Obtain Wholesale Drug Contact



#### **4. *First Steps***

- Get business cards
- Obtain a lease
- Review local building codes
- Send off for federal and state tax forms
- Join a Professional organization
- Line up suppliers
- Set a starting date



## **VIII**

### **Requirements for Buying or Selling an Existing Pharmacy**

- 1. Making The Decision To Buy Or To Sell A Pharmacy**
- 2. Preparing The Pharmacy For Sale**
- 3. Finding Buyers And Sellers**
- 4. Evaluating The Business**
- 5. Balance Sheet**
- 6. Financing The Purchase**
- 7. Pricing the Business**
- 8. The Role of Advisors**
- 9. Making and Evaluating Offers**
- 10. Closing the Transaction**

## **Requirements for Buying or Selling an Existing Pharmacy**

The decision to buy or sell a pharmacy requires careful consideration of the many factors involved. If you are a seller, these factors include preparing your pharmacy for sale and finding buyers. If you are a buyer, they include pricing and financing your purchase. This guide presents an outline to buying and selling factors as well as the necessary procedures for structuring transactions, negotiations and settlements.

### **Making The Decision To Buy Or To Sell A Pharmacy**

#### **The Decision to Sell**

Owners choose to sell for a variety of reasons:

- Retirement
- Partnership dispute
- Diminished interest in the business due to boredom or frustration
- Illness or death of one of the principals
- Sales and earnings have plateaued because the company lacks the working capital or management resources to grow.
- Losing money

Selling a business is different than selling any other asset one owns, because a business is more than an income earning asset. It is a lifestyle as well. Therefore, the decision to part with it can be emotional. Personal ambitions should be weighed against economic consequences to achieve a properly balanced decision to sell or not to sell.

It is said that timing is everything, and certainly that old axiom is true as applied to the decision to sell a pharmacy. Intelligent business owners carefully plan out the decision to sell. They recognize that a business should be sold only after proper preparation and not because of sudden personal frustration or a short-term downturn in business.

#### **The Decision to Buy**

It is imperative that a potential pharmacy buyer carefully think through his motives for considering the purchase of a pharmacy and his criteria in selecting one. A buyer should consider his experience - both vocational and avocational - what he is good at and what he enjoys. If a buyer is interested in a pharmacy that has a product or service that is outside his area of expertise, then he should make certain that key employees will stay on after the change in ownership or that similar expertise can be hired.

It is equally important that a buyer identify the desired location(s) and the amount of money willing to be invested. If the money to be used is not in liquid form, the buyer should assess what the realistic possibilities are of obtaining the funds from outside sources. One should also decide on the size of the pharmacy in terms of sales, profits, and the number of employees.

It is important to determine if the desired pharmacy is to be one that is profitable and stable or one that is losing money and in need of new management. The more profitable and stable a business, the more it is likely to cost.

### **Preparing The Pharmacy For Sale**

Nearly every privately-held business is operated in a manner that minimizes the seller's tax liability. Unfortunately, the same operating techniques and accounting practices that minimize tax liability also minimize the value of a business. As a result, there is often a conflict between running a business the way an owner wants and preparing the business for sale. Although it is possible to reconstruct financial statements to reflect the actual operating performance of the business, this process may also put the owner in a position of having to pay back income taxes and penalties. Therefore, plans to sell a business should be made years in advance of the actual sale. This will permit the time required to make necessary changes in accounting practices that demonstrate a 3 to 5 year track record of maximum profits.

Audited statements are the best type of financial statements because they are most easily verified by the buyer. However, it is not uncommon for a business's financial statements to be reviewed or compiled. Good financial statements don't eliminate the need for making the business esthetically pleasing. The business should be clean, the inventory current, and the equipment in good working order.

Next, a valuation report should be prepared. The valuation report eliminates guesswork and the painful trial and error method of pricing that so many owners rely on. Finally, a business presentation package should be prepared. All facets of the business should be addressed in this document. They include:

- A history of the business.
- A description of how the business operates.
- A description of the facilities.
- A discussion of suppliers.
- A review of marketing practices.
- A description of the competition.
- A review of personnel including an organizational chart, description of job responsibilities, rates of pay, and willingness of key employees to stay on after the sale.
- Identification of the owners.
- Explanation of insurance coverages.
- Discussion of any pending legal matters or contingent liabilities.
- A compendium of 3 to 5 years' financial statements.

### **Finding Buyers And Sellers**

The first step is to find a pharmacy to buy or find a buyer for the pharmacy.

#### **Print Advertising**

pharmacy opportunity classified ads are a viable way to advertise a business for sale. Many ads are placed by intermediaries, but some are placed directly by business owners. Pharmacy opportunity ads, whether for small or large pharmacies, usually describe the pharmacy in several short phrases, keeping its identity anonymous, and list a phone number to call or post office box for reply. The ad should be worded to demonstrate the pharmacy's best qualities, (both financial and non-financial) and many include a qualifying statement describing the kind of cash investment or experience required. A telephone number in the ad will draw more responses than a post office box number, but may not permit the anonymity of a post office box.

#### **Trade Sources**

Trade sources can be a viable source of information on pharmacies for sale. Key people within the industry or in companies on the periphery of the industry, such as suppliers, often know when pharmacies come up for sale and may be aware of potential buyers. Trade associations (such as GPhA and NCPA) and trade association publications can do a good job of communicating the sale of a pharmacy.

#### **Business Broker**

Business brokers charge a fee usually as a percent of the purchase price. In exchange, the business broker performs some tangible service such as preparing a presentation package for prospective buyers and a valuation report. Although it is sometimes paid by the buyer, it is more common for the seller to pay the broker's fee.

An experienced broker can offer assistance in (1) pricing the pharmacy, (2) setting the terms, (3) compiling a comprehensive presentation package, (4) professionally marketing the pharmacy, (5) screening potential buyers, (6) negotiating and evaluating offers, (7) making certain that proper legal steps are taken. The result can be a considerable saving of the pharmacy owner's or pharmacy buyer's time and effort.

### **Evaluating The Business**

The first step a buyer must take in evaluating a pharmacy for sale is that of reviewing its history and the way it operates. It is important to learn how the pharmacy was started, how its mission may have changed since its inception and what past events have occurred to shape its current form. A buyer should understand the pharmacy's methods of acquiring and serving its customers and how the functions of sales, marketing, finance and operations interrelate.

The pharmacy's financial statements, operating documents, and practices should be reviewed. A summary of the items to be reviewed follows.

### **Balance Sheet**

### Accounts Receivable

1. Obtain an accounts receivable aging schedule and determine if there is concentration among a few accounts.
2. Determine the reasons for all overdue accounts.
3. Find out if any amounts are in dispute.
4. Are any of the accounts pledged as collateral?
5. Is the reserve for bad debt sufficient and how was it established?
6. Review the pharmacy 's credit policy.

### Inventory

1. Make sure the inventory is determined by physical count and divided by finished goods, work in progress and raw materials.
2. Assess the method of valuation and why it was used. (LIFO, FIFO, etc.).
3. Determine the age and condition of the inventory.
4. How is damaged or obsolete inventory valued?
5. Is the amount of inventory sufficient to operate efficiently and for how long?
6. Should an appraisal be obtained?

### Real Estate

1. Obtain a schedule of real estate owned.
2. Determine the condition and age of the real estate.
3. Establish the fair market value of each of the buildings and land.
4. Should appraisals be obtained?
5. Are repairs or improvements required?
6. Are maintenance costs reasonable?
7. Do any of the principals have a financial interest in the company(s) that perform(s) the maintenance?
8. Is the real estate required to operate the business efficiently?
9. How is the real estate financed?
10. Are the mortgages assumable?
11. Will additional real estate be required in the near future?
12. Is the real estate adequately insured?

### Machinery and Equipment

1. Obtain a schedule of machinery and equipment owned and leased.
2. Determine the condition and age of the machinery and equipment and the frequency of maintenance.
3. Identify the equipment and machinery that is state-of-the-art.
4. Identify the machinery and equipment that is obsolete.
5. Should an appraisal be obtained?
6. Will immediate repairs be required and at what cost?

### Accounts Payable

1. Obtain a schedule of accounts payable and determine if there is concentration among a few accounts.
2. Determine the age of the amounts due.
3. Identify all amounts in dispute and determine the reason.
4. Review transactions to determine undisclosed and contingent liabilities.

### Accrued Liabilities

1. Obtain a schedule of accrued liabilities.
2. Determine the accounting treatment of:
  - unpaid wages at the end of the period
  - accrued vacation pay
  - accrued sick leave
  - payroll taxes due and payable
  - accrued income taxes
  - other accruals
3. Search for unrecorded accrued liabilities - Notes Payable and Mortgages Payable
  1. Obtain a schedule of notes payable and mortgages payable.
  2. Identify the reason for indebtedness.
  3. Determine terms and payment schedule.
  4. Will the acquisition accelerate the note or mortgage or is there a prepayment penalty?
  5. Determine if there are any balloon payments to be made and the amounts and dates due.

6. Are the notes or mortgages assumable?

Income Statement

The potential earning power of the pharmacy should be analyzed by reviewing profit and loss statements for the past 3 to 5 years. The business's earning power is a function of more than bottom line profits or losses. The owner's salary and fringe benefits, non-cash expenses, and nonrecurring expenses should also be calculated.

Financial Ratios

While analyzing the balance sheet and the income statement, sales and operating ratios should be calculated in order to point out areas requiring further study. Key ratios are the current ratio, quick ratio, accounts receivable turnover, inventory turnover and sales/accounts receivable. Look for trends in the ratios over the past 3 to 5 years.

Leases

1. What is the remaining term of the lease?
2. Are there any option periods, and if so, is the option exercised only by the choice of the tenant?
3. Is there a percent of sales clause?
4. What additional fees (such as a common area maintenance or merchants association dues) are paid over and above the base rent?
5. Is the tenant or landlord responsible for maintaining the roof and the heating and air conditioning system?
6. Is there a periodic rent increase called for to adjust the rent for changes in the consumer price index or for an increase in real estate tax assessments?
7. Is there a demolition clause?
8. Under what terms and conditions will the landlord permit an assumption or extension of the existing lease?

Personnel

1. What are the job responsibilities, rates of pay, and benefits of each employee?
2. What is each employee's tenure?
3. What is the level of each employee's skill in their position and are they employed under an employment contract?
4. Will key employees stay after the business is purchased?
5. Are any employees part of a union, or is any union organizing effort likely?

Marketing

1. Are any of the products proprietary?
2. Describe any new upcoming products and projected sales.
3. What is the business's geographic market area?
4. What is the business's percentage of market share?
5. What are the business's competitive advantages?
6. What are the business's annual marketing expenditures?

Patents

A list of trade names, trademarks, logos, copyrights and patents should be obtained, noting the period of time remaining before each expires.

Taxes

1. Are all tax payments current?
2. What was the date and the outcome of the last tax audit?

Legal issues

1. Are there any suits now or soon to commence?
2. What government registration requirements and regulations must be met and are they currently being met?
3. Are all local zoning requirements being met?
4. Review the articles of incorporation, minute books, bylaws, and/or partnership agreements.
5. Is the business a franchise? If so, review the franchise agreement.

Competitors

1. Who are the business's competitors?
2. What is their market share?
3. What are each competitor's competitive advantages and disadvantages?

All the factors identified in this section on evaluating a pharmacy have to be carefully scrutinized and weighed. Some factors will have a positive influence on the decision to buy. Others will have a negative influence. Seek out professional assistance if help is needed in interpreting the significance of the information. The important thing is to obtain all the information needed to make a decision. In most instances, all of the business records should be made available to the buyer. In some cases however, certain information may be withheld until a bona fide offer, contingent upon obtaining that information, has been made. If important information is unreasonably withheld, the likelihood of making the transaction work diminishes.

### **Financing The Purchase**

A buyer's source of financing depends in part on the size of the pharmacy being purchased. The vast majority of pharmacies are purchased with a significant portion of the purchase price financed by the owner. The buyer, however, still must make a down payment and be sure that adequate working capital sources are available.

If the funds needed for the down payment are not readily available, the buyer must look for financing from an outside source. To grant such financing, an institutional lender is almost certain to require personal collateral for the loan as well as a compendium of financial and operating data of the pharmacy to be acquired. It is rare to be granted a loan to purchase a smaller, privately-held business when the loan is secured only by the assets of the business. The most attractive types of personal collateral from the lender's point of view are real estate, marketable securities and cash value of life insurance. In addition to personal collateral, it must also be demonstrated to the lender that the buyer is of good character, has a clear source of repayment, and has a good business plan. The most common sources for such loans are financial institutions such as banks.

The chances of obtaining outside financing improve as the size of the business being acquired increases. Not only does the willingness of the lender to participate in the transaction increase, the number of potential lenders increases as well. Banks, insurance companies, commercial finance companies and venture capital companies all may be interested in lending money for an acquisition of some size. Again, the borrower must be of good character, have a clear source of repayment and have a good business plan. Lenders for larger transactions may or may not require personal collateral from the purchaser; however, they will require a personal guarantee. Collateral for larger loans generally will consist of a first lien security interest in the tangible assets of the business such as accounts receivable, inventory, equipment and real estate. The lender will set loan conditions and restrictions regarding certain activities of the pharmacy. In the case of insurance companies and venture capitalists, the lender may insist on an equity position in the business and a role in major management decisions. Commercial finance companies make loans on much the same basis as banks. While the interest rate such companies charge is usually higher than that charged by a bank, they are often willing to take more risk.

It is rare for a privately-held business to be acquired without leveraging the business's assets in some manner, pledging them as collateral for a loan made either by the owner of the business or an outside lender. The owner has a strong incentive to provide financing if he feels it is necessary to get the price he wants for the business and has confidence in the buyer. An outside lender must be convinced that the loan's risk of failure is minimal and represents a profitable transaction. Institutional lenders are generally conservative and concentrate rate primarily on repayment. To obtain outside financing it is important to be well prepared and have the information that a lender needs to make a decision.

### **Pricing the Business**

Determining the value of a pharmacy is the part of the buy-sell transaction most fraught with potential for differences of opinion. Buyers and sellers usually do not share the same perspective. Each has a distinct rationale, and that rationale may be based on logic or emotion.

The buyer may believe that the purchase will create synergy or an economy of scale because of the way the business will be operated under new ownership. The buyer may also see the business as an especially good lifestyle fit. These factors are likely to increase the amount of money a buyer is willing to pay for a business. The seller may have a greater than normal desire to sell due to financial difficulties or the death or illness of the owner or a member of the owner's family.



For the transaction to come to conclusion, both parties must be satisfied with the price and be able to understand how it was determined.

### Factors That Determine Value

The topic of business evaluation is so complex that any explanation short of an entire book does not do it justice. The process takes into account many, many variables and requires that a number of assumptions be made. Shannon Pratt, a noted business valuation expert, names six of the most important factors:

1. Recent profit history.
2. General condition of the company (such as condition of facilities, completeness and accuracy of books and records, morale and so on).
3. Market demand for the particular type of business.
4. Economic conditions (especially cost and availability of capital and any economic factors that directly affect the business).
5. Ability to transfer goodwill or other intangible values to a new owner.
6. Future profit potential.

The six factors named above determine the fair market value. However, businesses rarely change hands at fair market value. The reason is that three other factors often come into play in arriving at an agreed upon price. Pratt identifies them as follows:

1. Special circumstances of the particular buyer and seller.
2. Tradeoff between cash and terms.
3. Relative tax consequences for the buyer and seller, which depend on how the transaction is structured.

The definition of fair market value is the price at which property would change hands between a willing buyer and a willing seller, both being adequately informed of all material facts and neither being compelled to buy or to sell. In the market place, buyer and seller are nearly always acting under different levels of compulsion.

### The Role of Advisors

A variety of resources are available for those buyers and sellers wanting to obtain professional advice. These resources include pharmacy owners, industry consultants, professional intermediaries, business valuation experts, accountants and attorneys. Each of these resources can be of assistance and each has its limitations. Pharmacy owners, consultants, and intermediaries are the best source of industry information and operating suggestions. Pharmacy owners may be able to give free advice, and they are often the best source of information. No one knows more about an industry than someone who is successfully running a business in that industry. Business valuation experts can independently appraise a business's value. Bear in mind, however, that they rely on the representations of the seller. They render a conditional opinion based on the assumption that the financial statements are accurate and complete. They will attempt to independently verify only certain information.

Accountants are best used to perform an audit (if one is needed), help interpret financial statements, or provide advice in structuring the transaction to minimize tax consequences for the buyer and seller. Probably the most often consulted advisor in the purchase or sale of a business is an attorney. Attorneys are asked to do everything from assessing the viability of a business and appraising its value to negotiating the purchase price and preparing the necessary documents. Attorneys, however, cannot assess the viability of a business undertaking. That is something only the buyer and seller can do. Attorneys also generally cannot value a business, but they can occasionally help negotiate a price between buyer and seller. The involvement of an attorney (or any individual other than the principals) can, however, strain the lines of communication between buyer and seller, so they should be allowed into the negotiation process only after careful consideration.

The primary function of an attorney is to prepare the purchase and sale documents as negotiated by the parties. It should include reasonable and balanced protections for both parties. Experience and reputation are important criteria when selecting an attorney. The attorney chosen should have experience handling similar transactions. It may make sense to choose one attorney to represent both buyer and seller. This avoids the adversarial relationship that opposing attorneys often adopt and improves the odds of successfully completing the transaction. It also eliminates some of the

emotion in the negotiation process, improves the lines of communication between the parties, expedites completion of the deal and is less expensive.

### Making and Evaluating Offers

Before making an offer, a buyer will typically investigate a number of businesses. At some point in the investigation process, it may be necessary to sign a confidentiality agreement and show the seller a personal financial statement. A confidentiality agreement pledges that the buyer will not divulge any information about the business to anyone other than immediate advisors.

A buyer should determine a range of value for the pharmacy. An appraisal of the pharmacy as is can be used to establish a pricing floor. A pricing ceiling can be established by using an appraisal that capitalizes projected future cash flows under new management.

A buyer should have access to all records needed to prepare an offer. If some information is lacking, the buyer must make a decision to either discontinue the transaction or make an offer contingent on receiving and approving the withheld information. The nature and amount of withheld information determines which course of action to take.

An offer may take the form of a purchase and sale agreement or a letter of intent. Purchase and sale agreements are usually binding on the parties while a letter of intent is often non-binding. The latter is more often used with larger businesses.

Regardless of which form of the agreement is used, it should contain the following:

- Total price to be offered.
- Components of the price (amount of security deposit and down payment, amount of bank debt, amount of seller financed debt).
- A list of all liabilities and assets that are being purchased. The minimum amount of accounts receivable to be collected and the maximum amount of accounts payable to be assumed may be specified.
- The operating condition of equipment at settlement.
- The right to offset the purchase price in the amount of any undisclosed liabilities that come due after settlement and in the amount of any variance in inventory from that stated in the agreement.
- A provision that the pharmacy will be able to pass all necessary inspections.
- Warranties of clear and marketable title, validity and assumability of existing contracts if any, tax liability limitations, legal liability limitations and other appropriate warranties.
- A provision (where appropriate) to make the sale conditional on lease assignment, verification of financial statements, transfer of licenses, obtaining financing or other provisions.
- A provision for any appropriate prorations such as rent, utilities, wages and prepaid expenses.
- A non-competition covenant. This document is sometimes part of the purchase and sale agreement and is sometimes a separate exhibit to the purchase and sale agreement.
- Allocation of the purchase price.
- Restrictions on how the pharmacy is to be operated until settlement.
- A date for settlement.

The purchase and sale agreement is a complex document and it is a good idea to get professional help in its drafting.

#### Evaluating the Offer

The seller should look for all the same provisions in an offer that were enumerated in the section on making the offer. The types of offers a seller is likely to receive depend in some measure on the size of the business. A seller should ask for a resume and financial statement from an individual buyer and an annual report if the buyer is another company. Find out what attributes the buyer brings. Sometimes, a buyer with a commitment to the work ethic is all that is needed. In other cases, successful related work experience may be important. If the acquirer is another company, look for the logic behind the acquisition. Perhaps some kind of synergy or an economy of scale is created. A buyer should prepare and show the seller a post-acquisition business plan.

One final note - carefully study offers to determine what assets and liabilities are being purchased. An offer for the assets of a pharmacy may be worth considerably less than an offer for its stock even though the price offered for the assets is higher.

## Closing the Transaction

### Meeting Conditions of Sale

After buyer and seller have entered into a binding contract, there may be several conditions to be met before the sale may be closed. Such conditions often address issues like assignment of the lease, verification of financial statements, transfer of licenses, or obtaining financing. There is usually a date set for meeting the conditions of sale. If a condition is not met within the specified time frame, the agreement is invalidated.

### Types of Settlements

Business settlements or closings, as they are also called, are usually done in one of two ways.

1. **An attorney performs settlement.** In this procedure, the attorney for the buyer, or an independent attorney acting on behalf of both buyer and seller, draws up the necessary documents for settlement. Buyer and seller meet with the settlement attorney at a predetermined time (after all conditions of sale have been met). Documents are signed at the meeting by buyer and seller.

A good settlement attorney is also a good problem solver. He can help find creative ways to resolve differences of opinion. The settlement attorney holds money in escrow and disburses it when all the appropriate documents are signed.

2. **Escrow.** In an escrow settlement, the money to be deposited, bill of sale and other documents are placed in the hands of a neutral third party or escrow agent. The escrow agent is usually an escrow company or the escrow department of a financial institution. Buyer and seller sign escrow instructions that name the conditions to be met before completion of the sale. Once all conditions are met, the escrow agent disburses previously executed documents and disburses funds. There usually is no formal final meeting at which the signing of the documents takes place. Buyer and seller usually sign them independently of one another.

A lien search is also performed by the attorney or escrow agent. This determines if any liens against the business's assets have been filed in the records of the local courthouse.

### Documents

A number of documents are required to close a transaction. The purchase and sale agreement is the basic document from which all the documents used to close the transaction are created. The documents most often used in closing a transaction are described below. Other documents not described below may also be needed depending on the particulars of the transaction.

**Settlement Sheet:** Shows, as of the date of settlement, the various costs and adjustments to be paid by or credited to each party. It is signed by buyer and seller.

**Escrow Agreement:** Is used only for escrow settlements. It is a set of instructions signed by buyer and seller in advance of settlement that sets forth the conditions of escrow, the responsibilities of the escrow agent, and the requirements to be met for the release of escrowed funds and documents.

**Bill of Sale:** Describes the physical assets being transferred and identifies the amount of consideration paid for those assets. It must always be signed by the seller and is often also signed by the buyer.

**Promissory Note:** Used only in an installment sale, it shows the principal amount and terms of repayment of the debt by the buyer to the seller. It specifies remedies for the seller in the event of default by the buyer. It is signed by the buyer and the buyer often must personally guarantee the debt.

**Security Agreement:** Creates the security interest in the assets pledged by the buyer to secure the promissory note and underlying debt. It also sets forth the terms under which the buyer agrees to operate those assets which constitute collateral. It is used only in an installment sale. It is signed by both parties.

**Covenant not to compete:** Protects the buyer and his investment from immediate competition by the seller in his market area for a limited amount of time. The scope of this document must be reasonable in order for it to be legally enforceable. The covenant not to compete is sometimes included as a part of the purchase and sale agreement and is sometimes written as a separate document. It is signed by both parties. It is not required in every transaction.

**Employment Agreement:** Specifies the nature of services to be performed by the seller, the amount of compensation, the amount of time per week or per month the services are to be performed, the duration of the agreement and often a method for discontinuing the agreement before its completion. Employment agreements are not required in all transactions, but they are used with great frequency. It is not uncommon that the seller remain involved with the business for periods of as little as a week or as much as several years. The length of time depends on the complexity of the pharmacy and the experience of the buyer. For periods of more than 2-4 weeks, the seller is often compensated for his services. It is signed by both the buyer and the seller.

### Contingent Liabilities

Contingent liabilities must be taken into account and provided for when a business is sold. They most often occur because of pending tax payments, unresolved lawsuits or anticipated but uncertain costs of meeting regulatory requirements. Contingent liabilities can be handled by escrowing a portion of the funds earmarked for disbursement to the seller. The sum escrowed then can be used to pay off the liability as it comes due. Any remaining money can then be disbursed to the seller.



## IX

### Georgia Workers' Compensation

December, 2003 (Revised July, 2009)

- **Introduction**
- **Documentation**
- **Billing Procedures**
- **Freedom of Choice**
- **Timely Payment**
- **Dispute Resolution**
- **Patient Rights**
- **Exclusion to Patient Information Release (HIPAA)**
- **Approved Forms**
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#### Introduction

This report is provided to help Georgia Pharmacists effectively participate in the Workers' Compensation system. Medications and patient education toward safe and effective use are essential components of health restoration. The details involved to prevent adverse medication events, and to prevent problems in the claims process rest as a responsibility of every pharmacist. An orderly system of documentation is essential toward patient care. The intent of this report is to provide a tool for patient care and the documentation process.

*It has been 89 years since the Georgia Legislature enacted the Workers' Compensation Act. The law created an organization called the Industrial Commission, the forerunner of today's State Board of Workers' Compensation, to encourage safety and assure benefits for injured employees.*

Prior to the passage of the Workers' Compensation Act, an employee who was injured on the job could not expect benefits from the employer. Men, women, and children were often subjected to harsh and oppressive working conditions with little or no recourse for work-related injuries. Courts often denied recovery to employees by holding that employees assumed risks in taking the job, were negligent, or were barred from recovery by the negligence of a fellow employee. Filing a suit in court was also unsatisfactory because trials were expensive and often lengthy. This posed a problem to an employee who needed money immediately to pay for medical expenses and replace lost wages. A successful suit could also force a small company out of business.

Today, the workers' compensation law provides for specific benefits to be paid to employees for injuries arising out of and in the course of employment, without regard to negligence or fault, and at the same time, provides the employer with limited liability. In Georgia, employers obtain worker's compensation coverage through private insurers or programs of self-insurance. The rights granted an employee under the law preclude any other legal remedies against an employer by an employee due to a work-related injury.

The law is applicable to all employers, including public corporations and nonprofit organizations that **have at least three full-time or part-time employees.**

There are several categories of workers who are specifically exempted from the workers' compensation law: federal government employees, railroad employees, farmers and farm laborers, and domestic servants, to name a few.

Established in 1920 by the Georgia Legislature, the State Board of Workers' Compensation serves over 187,000 employers and 4,088,008 employees. The State Board of Workers' Compensation is funded by assessments from insurance companies and self-insured employers. An employee injured on the job, covered by the law, may become eligible for replacement of a portion of lost wages, medical payments, vocational rehabilitation services, and other benefits.

## **MISSION STATEMENT**

To provide superior access to the Georgia Workers' Compensation program for injured workers and employers in a manner that is sensitive, responsive, and effective...to ensure efficient processing and swift resolution of claims...while encouraging workplace safety and return to work...and protecting the employer from tort liability.

## **VALUES**

We are committed to being a service-oriented organization that:

- Treats people with respect
- Is responsive and sensitive to client needs
- Listens carefully
- Communicates clearly and openly
- Acts honestly and fairly
- Strives for excellence through innovation, personal initiative, teamwork, and staff development
- Manages resources effectively to achieve positive results.

© Georgia State Board of Workers' Compensation

## DOCUMENTATION

Pharmacists participating as providers in the Workers' Compensation system must retain and submit appropriate documentation for the review of claims. A best practice is to obtain authorization for treatment with the initial prescription order presented by an injured worker. Subsequent prescriptions from differing physicians and referrals will require additional authorization for approval.

Key Points in the Documentation Process;

1. Provide an initial patient interview to note the nature of the injury and assure that a first report of injury has been filed with the employer. **Obtain the employee's social security number.** *(The date of injury and the social security number are used for patient identification with the Workers' Compensation Board and claims processing throughout the system.)*
2. Screen the patient for current medication use including all prescription as well as over the counter medications.
3. Screen the patient for all medical conditions, both chronic as well as acute.
4. Screen the patient for past adverse medication related events, including allergies, intolerance, and food allergies.
5. Contact the employer/insurer to **obtain authorization** before providing service. Professional judgement for the need of immediate treatment and service rest with the Pharmacist in the event that an authorizing authority is not available.  
*(Note: The injured worker may have paperwork and contact information with them to aid in authorization)*
6. Note the authorizing individual on the back of the prescription.
7. Obtain the **billing address** for submission of claims. Note telephone as well as fax numbers for future contact and claim submission.
8. **Create a separate patient file** relating to the injury claims for established patients. Link the patient to their health file for cross-reference and screening.
9. Obtain a **medical information release** from the patient to file claims on their behalf.  
*(Note: Signature of receipt is important in the documentation process. Individual paper claims should include a statement under signature; "I authorize UGA's Pharmacy to release any and all*



*information relevant to this claim on my behalf.” A general release of information form should be obtained and filed for the electronic transmission of claims. Rules specific of the release to Workers’ Compensation information are addressed in subsequent sections of this briefing} Board Form WC-207 may be used & retained.*

## **Billing Procedures**

Claim forms are acceptable, provided that they include all pertinent information required for effective claims processing.

Currently, The State Board of Workers’ Compensation (SBWC) does not require a claimant to utilize specific networks of pharmacies for the provision of pharmaceutical services. The SBWC does recognize certified Managed Care Organizations (MCOs) as administrators of claims in the workers’ compensation system. The MCOs may have contract arrangements with employers, third party administrators (TPAs), re-pricing firms, and Pharmacy Benefit Managers (PBMs). Pharmacies may elect to participate in negotiated contract arrangements with TPAs, PBMs, or third party vendors for processing of Georgia Workers’ Compensation claims. Contract arrangements for Workers’ Compensation pharmacy services must be separate and outside the contracts for health benefits. This does not preclude a pharmacy from submitting authorized claims to the employer or designated claim agent for processing and payment.

Employers may establish arrangements for billing and the assignment of claims for injured workers with pharmacies in the area.

### **All Claims Must Include:**

- **Employee Name** and pertinent demographic information.  
*(Date of Injury, Authorizing Agent, Type of Injury, & related information pertinent to process the claim)*
- **The Employee Social Security Number**  
*(The Social Security Number is Essential for Documentation in the Workers’ Compensation system)*
- **The Name of an Authorized Treating Physician**
- **The Name and NDC Number** of the Medication or Device Dispensed
- **The Quantity (Metric)** and Days Supply of the Medication Dispensed
- **The Fee for Service;** *(The upper limit for Pharmaceutical Claims, as established by The State Board of Workers’ Compensation is: “The AWP of the Product a Dispensing fee of \$4.00 for Brands & AWP + a Dispensing Fee of \$6.00 for Generics”)*
- **The Pharmacy’s Federal I.D. Number** for identification
- **A Signature** of receipt by the claimant, or authorized agent  
**Electronic Claims:** Pharmacies electing to utilize electronic transmission of claims should submit under the NCPDP **Format 3.2 (b)**. Format (b) requires the insertion of the **Date of Injury** for claims adjudication.

Pending NCPDP **Format 5.1** will require **Date of Injury** as well as additional information for claims adjudication processing. Electronic claims requirements and problem resolution should be referred to the pharmacy’s software vendor or the pharmacy benefit management company.

**Generic Substitution:** Effective April 1, 2009 the fee schedule requires the use of a Generic equivalent product when available. “All prescription drugs **must** be dispensed when an Orange Book rated therapeutic equivalent (**GENERIC**) is available unless designated in the doctor’s own handwriting on the face of the prescription, in accordance with O.C.G.A. §26-4-81, that “Brand Medically Necessary” or “Brand Necessary” is required” Claimants no longer have a choice to select a Brand medication.

## **Freedom of Choice**

Injured workers under the Georgia workers’ compensation system do have choices with restrictions as to their medical service provider. An important point for pharmacists to recognize is that prescriptions must be issued by a physician authorized to treat the injured worker.

Every Georgia employer must post a panel of at least six (6) physicians authorized to treat injured workers. The panel must include at least one orthopedic specialist. The injured worker has the choice to select a medical provider from the panel in the event of injury.

It is imperative that the injured worker file notice of injury with the employer. The employer must file a report of injury with The Workers’ Compensation Board. The worker may have a copy of the injury report of other documentation for treatment. The form(s) provides useful information as to the nature of the injury as well as contact numbers to seek authorization.

### **O.C.G.A.-34-9-124.2.**

(a) A policy, plan, or contract of workers’ compensation insurance issued under this chapter may not be issued, delivered, issued for delivery, or renewed on or after July 1, 1990, and a certificate of authority for a group self-insurance fund under Article 5 of this chapter may not be issued or renewed on or after July 1, 1990, if such policy, plan, contract, or fund requires that recipients of benefits thereunder obtain pharmacy services, including but not limited to prescription drugs, from an out-of-state mail order pharmacy or which requires that such recipients who do not utilize an out-of-state mail order pharmacy must pay a copayment fee or have imposed any other condition for the receipt of pharmacy services when that payment or condition is not imposed upon those recipients who utilize an out-of-state mail order pharmacy for those services.

(b) An employer who provides workers’ compensation benefits as a self-insurer under this chapter may not require that any recipient of benefits under that self-insurance plan who becomes an employee of that employer on or after July 1, 1990, and who obtains pharmacy services under that plan, including but not limited to prescription drugs, must obtain those services from an out-of-state mail order pharmacy or must pay a copayment fee or have imposed any other condition for the receipt of pharmacy services when that payment or condition is not imposed upon those recipients who utilize an out-of-state mail order pharmacy for those services.

Patients should not be coerced into using a particular network of pharmacies, or as outlined in 34-9-124.2, an out of state mail order pharmacy in particular. Pharmacies retain the right to participate in PBM sponsored programs, third party billing arrangements, or accept assignment of authorized claims for payment. Assignment of claims carries the risk of loss in the event of a contested or fraudulent claim as determined by administrative procedure and the Workers' Compensation Board.

## Timely Payment

Timely payment of claims is essential for the business viability of a Pharmacy. The State Board of Workers' Compensation rules state that undisputed claims must be paid within thirty (30) days of receipt. Penalties are established for claims not processed and made payable beyond the thirty (30) day limit. Providers (i.e. Pharmacies) do not have standing with The Board to file complaint or action for payment of outstanding claims. The responsibility to file complaint with The Board for outstanding medical bills rest with the claimant and his or her attorney representative. Pharmacies do have the right to file a *Party of Interest (WC 206)* form with The Board for notification of hearings and proceedings related to the claim. The Form is included in the forms section of the briefing.

### O.C.G.A § 34-9-203.

(a) The pecuniary liability of the employer for medical, surgical, hospital service, or other treatment required, when ordered by the board, shall be limited to such charges as prevail in the State of Georgia for similar treatment of injured persons of a like standard of living when such treatment is paid for by the injured persons.

(b) The employer shall not be liable in damages for malpractice by a physician or surgeon furnished pursuant to this chapter, but the consequences of any malpractice shall be deemed part of the injury resulting from the accident and shall be compensated for as such.

→(c)(1) All reasonable charges for medical, surgical, hospital, and pharmacy goods and services shall be payable by the employer or its workers' compensation insurer within 30 days from the date that the employer or the insurer receives the charges and reports required by the board. The employer or insurer shall, within 30 days after receipt of charges for health care goods or services, mail to the provider of such health care goods or services payment of such charges or a letter or other written notice that states the reasons the employer or insurer has for not paying the claim, either in whole or in part, and which also gives the person so notified a written itemization of any documents or other information needed to process the claim or any portion thereof.

(2) The health care goods or services provider's failure to include with its submission of charges any reports or other documents required by the board shall constitute a defense for the employer's or insurer's failure to pay the submitted charges within 30 days of receipt of the charges. However, if the employer or insurer fails to send the health care goods or services provider the requisite notice indicating a need for further documentation within 30 days of receipt of the charges, the employer and insurer will be deemed to have waived the right to defend a claim for failure to pay such charges in a timely fashion on the grounds that the charges were not appropriately accompanied by required reports. Such waiver shall not extend to any other defense the employer and insurer may have with respect to a claim of untimely payment.

→(3) If any charges for health care goods or services are not paid when due, penalties shall be added to such charges and paid at the same time as and in addition to the charges claimed for the health care goods or services. For any payment of charges paid more than 30 days after their due date, but paid within 60 days of such date, there shall be added to such charges an amount equal to 10 percent of the charges. For any payment of charges paid more than 60 days after their due date, but paid within 90 days of such date, there shall be added to such charges an amount equal to 20 percent of the charges. For any charges not paid within 90 days of their due date, in addition to the 20 percent add-on penalty, the employer or insurer shall pay interest on that combined sum in an amount equal to 12 percent per annum from the ninety-first day after the date the charges were due until full payment is made. All such penalties and interest shall be paid to the provider of the health care goods or services.

A copy of the statute may be useful for inclusion in letters directed toward payers for resolution of delayed payment issues. The statute can be copied to a Word file and is accessible at: [www.legis.state.ga.us/legis/2003\\_04/gacode/34-9-203.html](http://www.legis.state.ga.us/legis/2003_04/gacode/34-9-203.html)

## DISPUTE RESOLUTION

As with any claims process, discrepancies and dispute of claims arise from time to time. Accurate and complete claims information is essential to prevent costly delay in the processing of claims. Issues of timely payment, incomplete information, authorization for care, injury related medication therapy, correct fee pricing, and appropriate addresses for claims filing are the most common areas that contribute to dispute. It is compulsory that the Pharmacist assure all measures are met for clean and undisputed claims. These points are guidelines for Pharmacist to follow in the prevention of dispute and resolution of workers' compensation claims.

- Establish a policy and procedure for initial intake of information for the claimant.
- **Document** with date, time, and the name of the individual representative providing the initial authorization for treatment.
- Submit claims in a timely manner, with complete information to prevent payment delay.
- With questions of dispute, submit your request for resolution in writing. It is advised that your request be mailed **via certified mail** with supporting documentation for your claim.
- Request that a denial of a disputed claim request from telephone conversation, be sent in writing, i.e. a copy of the notice to **controvert the claim**.
- Unanswered request for authorization of treatment may be submitted using SBWC Form 205. A non-response to your **Form 205** request assumes authorization for treatment. Retain the form and any response for documentation of future issues or claims. Form 205 is included in the forms section of this briefing, or is available for download at the State Workers' Compensation web-site.
- For difficult and ongoing problems with an employee's claims, submit a notice to the State Board of Workers' Compensation to become a **Party of Interest**, **SBWC Form 206**. Sending notice will give the Pharmacy response from the Workers' Compensation Board of hearings and dispensation of the worker's claim.

- Issues and disputed claims that continue to be unresolved should be addressed with the claimant, the claimant's attorney of record, and as a last resort; the State Board of Worker's Compensation Medical Claims Coordinator. Claims in dispute submitted to the SWCB should be submitted in writing, with supporting documentation of evidence to resolve the issue.

## **HIPAA AND RELEASE OF INFORMATION EXEMPTION**

*Note: The attached notice of exemption from Judge William S. Cain, Jr. defines the relationship and certain exemptions to the release of information regarding Workers' Compensation Claims. The SBWC developed Form 207 as a general release of information to interested parties. Pharmacists should use professional judgement in the release of information. As a general rule, request for information should be made in writing via letter or Fax, and the response with the content of the information should be retained in a patient file. A release from the patient is always in good order.*

## **HIPAA AND WORKERS' COMPENSATION**

Due to numerous questions concerning the obtaining of medical records and the privacy regulations of HIPAA that went into effect on April 14, 2003, I want to point out that HIPAA provides an exception for workers' compensation.

§164.512(l) states "Standard Disclosure for Workers' Compensation. A covered entity may disclose protected by health information as authorized by and to the extent necessary to comply with the laws related to workers' compensation or other similar programs established by law that provide benefits for work-related injuries or illnesses without regard to fault."

OCGA §34-9-207(a) provides that "When an employee has submitted a claim for workers' compensation benefits or is receiving payment of weekly income benefits or the employer has paid any medical expenses, that employee shall be deemed to have waived any privilege or confidentiality concerning any communications related to the claim or history or treatment of injury arising from the incident that the employee has had with any physicians, including, but not limited to, communications with psychiatrists or psychologists. Notwithstanding any other provision of law to the contrary, when requested by the employer any physician who has examined, treated, or tested the employee or consulted about the employee shall provide within a reasonable time and for a reasonable charge all information and records related to the examination, treatment, testing, or consultation concerning the employee."

Therefore, as §164.512(l) provides for disclosure of medical records pursuant to Georgia workers' compensation law which states that employers are entitled to medical records if employee files a claim or is receiving income or medical benefits, a covered entity is permitted to disclose an individual's health information related to the claim. Since Form 207 is a medical release form provided by the State Board of Workers' Compensation, the Rules Committee is in the process of amending the 207 to add HIPAA compliant language. As soon as the new form is available, we will post it on our website. **SBWC FORM 207**

William S. Cain, Jr

Chief Administrative Law Judge

### **Contacts**

State Board of Workers' Compensation

270 Peachtree Street NW

Atlanta, Georgia 30309-1299

(404) 656-2048

<http://sbwc.georgia.gov>

SBWC Medical Claims Coordinator

(404) 463-0563

Georgia Pharmacy Association

50 Lenox Pointe NE

Atlanta, GA 30324

(404) 231-5074

[www.gpha.org](http://www.gpha.org)



## **Financial Planning for Independent Pharmacies: A Case Study**

The following case study has been prepared so that the manager will be able to use it as a guide in budget preparation for any specific pharmacy.

A brief review of the Income and Expense Statement and the Balance Sheet used in the case study indicate a net profit of \$15,000 was made during the previous year and the owner's investments at the end of the accounting period was \$125,000. Although this indicates that a greater return on investment should be made, a further investigation can be used to identify major problems creating the low net profit figure, other problems with which the manager is faced, and potential problems which should be solved.

Values obtained after calculating financial ratios for the sixth, seventh, and eighth years for this community pharmacy are included as components of the analysis. After the ratios in each major area are calculated, a brief report is included which describes those problems identified by the calculations. Those reports are used to develop specific financial objectives for the next year and a budget is prepared using these specific objectives.



**Health Care Pharmacy  
Anytown, USA**

**Income and Expense Statement  
(for 8th fiscal year)**

Sales:		
Prescription	\$ 840,000	80%
Other	<u>210,000</u>	20%
Total		\$1,050,000 100%
Cost of Goods Sold:		
Beginning Inventory	\$ 140,000	
Purchases	770,000	
Ending Inventory	160,000	
Total Cost of Goods Sold		<u>750,000</u> <u>71.4%</u>
Gross Margin		\$ 300,000 28.6%
Expenses:		
Proprietor's or Manager's Salary	\$ 50,000	
Employees's Wages	105,000	
Rent	30,000	
Utilities	10,000	
Accounting & Legal Fees	4,000	
Taxes & Licenses	14,000	
Insurance	11,000	
Interest Paid	6,000	
Computer	3,000	
Depreciation	5,000	
Miscellaneous	<u>47,000</u>	
Total Expenses		<u>285,000</u>
Net Profit Before Taxes		15,000
Add Proprietor's Withdrawals (Salary)		<u>50,000</u>
Total Income of Self-Employed Pharmacist		<u>\$ 65,000</u>

\*Charge Sales (including third-party) were \$500,000 during the past year.

Health Care Pharmacy  
Anytown, USA

Balance Sheet  
(for 8th fiscal year)

Assets

Current Assets

Cash	\$ 15,000
Accounts Receivable	75,000
Inventory	<u>160,000</u>

Total Current Assets \$250,000

Fixed Assets

Original Fixtures & Equipment Cost	\$ 45,000
Less: Accumulated Depreciation	<u>30,000</u>

Net Fixed Assets 15,000

Other Assets

Prepaid Expenses	<u>10,000</u>
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Total Assets \$275,000

Liabilities and Net Worth

Current Liabilities

Accounts Payable	\$ 60,000
Notes Payable (1 year)	30,000
Accrued Expenses	<u>10,000</u>

Total Current Liabilities \$100,000

Long-Term Liabilities

Notes Payable	50,000
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Net Worth 125,000

Total Liabilities and Net Worth \$275,000

**FINANCIAL RATIOS FOR A PHARMACY AFTER ITS  
6th, 7th AND 8th YEARS IN OPERATION**

<u>Solvency Ratios</u>	<u>6th</u>	<u>7th</u>	<u>8th</u>	<u>Usual Range</u>
1. Current Ratio	3.5	3.1		≥ 2
2. Acid Test	1.3	1.1		≥ 1
3. <u>Current Liabilities</u> Inventory*	.47	.55		<.50
4. <u>Total Liabilities</u> Net Worth	.85	.95		<1.0
5. <u>Fixed Assets</u> Net Worth	.37	.25		.25-.50
6. <u>Long Term Liabilities</u> N.W.C	.43	.38		<0.5

The current ratio is within the range but the trend indicates that (short-term) solvency is decreasing. The acid test ratio indicates that inventory should be decreased with regard to cash and accounts receivable. Current liabilities to inventory also indicates that short-term debt should be decreased. The total liabilities to net worth indicates that the total debt should be decreased with regard to net worth. A fixed assets to net worth value of .12 indicates that fixtures and equipment may need to be replaced. Long term liabilities seem to be in the safe range with regard to the immediate ability to pay (net working capital) and the trend is good.

<u>Efficiency Ratios</u>	<u>6th</u>	<u>7th</u>	<u>8th</u>	<u>Usual Range</u>
1. Inventory T.O.R.	5.3	5.2		4-8
2. <u>Net Sales</u> Inventory	7.5	7.3		5-12
3. Accts. Rec. coll. Per.**	55	53		30-40
4. Accts. Pay. coll. Per.	27	28		15-25
5. N.W.C. Turnover	6.6	6.8		5-12
6. Degree of Newness of Fixed Assets	55%	45%		>50%

\* All inventory ratios are calculated using "average inventory."

\*\* Charge Sales (including third-party) were \$500,000 during the past year.

## Efficiency Ratios Report

The inventory turnover rate could be significantly improved. If the *NCPA-Searle Digest* average rate of 6.3 could be achieved, the average inventory investment would decrease by \$30,953. Decreasing inventory this amount would significantly increase the net sales to inventory ratio.

An accounts receivable collection period of 53 to 55 days, together with earlier information concerning inventory and liquidity, indicates that both inventory and accounts receivable should be decreased and cash should be increased.

The accounts payable collection period indicates that cash discounts may have been missed because cash is not available when needed. The cost of goods sold as a percentage of sales and the bookkeeping-accounting system should be critically reviewed.

The trend for the net working capital turnover ratio indicates that funds have been utilized more rapidly during the past year. This is to be expected after reviewing the solvency ratios. To maintain an adequate balance in this area and satisfy the objectives stated in the area of solvency, the N.W.C. should be increased.

The degree of newness of fixed assets (and the fixed assets to net worth) ratios indicate that some fixtures and/or equipment might need to be replaced. The general appearance of the pharmacy and the general condition of the fixtures and equipment should be critically reviewed.

<u>Profitability Ratios</u>	<u>6th</u>	<u>7th</u>	<u>8th</u>	<u>Usual Range</u>
1. $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$	2.3%	2.0%		2-4%
2. Return on Net Worth	18%	16%		15%-25%
3. $\frac{\text{Net Profit}}{\text{Total Assets}} \times 100$	9.6%	7.8%		>10%
4 $\frac{\text{Net Profit}}{\text{Inventory}} \times 100$	15%	13%		>20%
5 $\frac{\text{Net Profit}}{\text{N.W.C.}} \times 100.$	15%	14%		20 – 30%

## Profitability Report

The profit on sales, return on investment, total assets, and inventory are below the desired level. Cost of goods sold and expenses should be critically reviewed in order to identify and solve the specific problems which occurred during recent years.

## Financial Objectives for the 9th Year

Based on the above discussion, the profit and loss statements available for this pharmacy, and the *NCPA-Searle Digest*, we will now prepare a budget for the ninth year using these specific objectives:

- (1) Project sales of \$1,100,000 (*NCPA-Searle Digest* increase was 5.6%).
- (2) Make Cost of Goods Sold 70% of Sales.
- (3) Make a Net Profit of 3% of Sales and increase the manager's salary to 5.7% of Sales.
- (4) Pay bills on time (decrease acct. pay. collection period to 25 days).
- (5) Project Personnel Expense at 9.4% of sales.
- (6) Decrease Inventory by \$24,000.
- (7) Decrease Accounts Receivable \$7,200
- (8) Don't purchase new fixtures until the tenth year.
- (9) Reinvest one-half of net profit in pharmacy.

**Health Care Pharmacy  
Anytown, USA**

**Income and Expense Statement  
(for 9th fiscal year)**

Sales:		
Prescription	\$ 880,000	80%
Other	<u>220,000</u>	20%
Total		\$1,100,000 100%
Cost of Goods Sold:		
Beginning Inventory	\$ 160,000	
Purchases	746,000	
Ending Inventory	136,000	
Total Cost of Goods Sold		<u>770,000</u> 70%
Gross Margin		\$ 330,000 30%
Expenses:		
Proprietor's or Manager's Salary	\$ 62,700	
Employees's Wages	103,400	
Rent	30,000	
Utilities	11,000	
Accounting & Legal Fees	4,400	
Taxes & Licenses	14,000	
Insurance	11,500	
Interest Paid	5,000	
Computer	3,000	
Depreciation	5,000	
Miscellaneous	<u>47,000</u>	
Total Expenses		<u>297,000</u>
Net Profit Before Taxes		33,000 3%
Add Proprietor's Withdrawals (Salary)		<u>62,700</u> 5.7%
Total Income of Self-Employed Pharmacist		<u>\$ 95,700</u> 8.7%

\*Charge Sales (including third-party) were \$550,000 during the past year.

Health Care Pharmacy  
Anytown, USA

Balance Sheet  
(for 9th fiscal year)

Assets

Current Assets	
Cash	\$ 53,700
Accounts Receivable	67,800
Inventory	<u>136,000</u>
Total Current Assets	\$257,500
Fixed Assets	
Original Fixtures & Equipment Cost	\$ 45,000
Less: Accumulated Depreciation	<u>35,000</u>
Net Fixed Assets	10,000
Other Assets	
Prepaid Expenses	<u>10,000</u>
Total Assets	<u>\$277,500</u>

Liabilities and Net Worth

Current Liabilities	
Accounts Payable	\$ 51,000
Notes Payable (1 year)	30,000
Accrued Expenses	<u>10,000</u>
Total Current Liabilities	\$ 91,000
Long-Term Liabilities	
Notes Payable	45,000
Net Worth	<u>141,500</u>
Total Liabilities and Net Worth	<u>\$277,500</u>

The next section has been included so that the manager may complete a financial analysis. The analysis and data provided on the financial statements will identify those areas that need additional improvement. After completing the financial ratio analysis reports for each major area, the manager may develop specific objectives and a budget for the tenth fiscal year. These budget values may be compared with those on the last two pages and the specific objectives prepared by the manager may be compared with those listed after the following reports.

<u>Solvency Ratios</u>	<u>7th</u>	<u>8th</u>	<u>9th</u>	<u>Usual Range</u>
1. Current Ratio	3.1	2.5		≥2
2. Acid Test Ratio	1.1	0.9		≥1
3. <u>Current Liabilities</u> Inventory	.55	.67		<.50
4. <u>Total Liabilities</u> Net Worth	.95	1.20		<1
5. <u>Fixed Assets</u> Net Worth	.25	.12		.25-.50
6. <u>Long Term Liabilities</u> N.W.C.	.38	.33		<.50

Solvency Ratios Report



<u>Efficiency Ratios</u>	<u>7th</u>	<u>8th</u>	<u>9th</u>	<u>Usual Range</u>
1. Inventory T.O.R.	5.2	5.0		4-8
2. <u>Net Sales</u> Inventory	7.3	7.0		5-12
3. Accts. Rec. Coll. Per.*	53	55		30-40
4. Accts. Pay. Coll. Per.	28	30		15-25
5. N.W.C. Turnover	6.8	7.0		3-8
6. Degree of Newness of Fixed Assets	.45	.33		>.50

\*Charge Sales (including third-party) for the 9th year were \$550,000.

#### Efficiency Ratios Report

<u>Profitability Ratios</u>	<u>7th</u>	<u>8th</u>	<u>9th</u>	<u>Usual Range</u>
1. <u>Net Profit</u> x 100 Net Sales	2.0%	1.4%		2-4%
2. Return on Net Worth	16%	12%		15%-25%
3. <u>Net Profit</u> x 100 Total Assets	7.8%	5.5%		>10%
4. <u>Net Profit</u> x 100 Inventory	13%	10%		>20%
5. <u>Net Profit</u> x 100 N.W.C.	14%	10%		20-30%

## Profitability Report

### Financial Objectives for 10th Year

Based on the analysis of these six areas, the profit and loss statements available for this pharmacy, and the *NARD-Lilly Digest* we will now prepare an operating budget for the tenth year of operation using these specific objectives.

1. Project sales of \$1,300,000.
2. Maintain cost of goods sold at 70% of sales.
3. Make a net profit of 3.5% of sales, while maintaining manager's salary at 5.7% of sales.
4. Project personnel expense at 9.2% of sales.
5. Decrease accounts receivable by \$3,6000.
6. Purchase \$30,000 of new fixtures for \$20,000 cash and \$10,000 on long term note.
7. Decrease inventory by \$12,000.
8. Reinvest one-half of the net profit in pharmacy.
9. Maintain accounts payable collection period at 25 days.

Health Care Pharmacy  
Anytown, USA

Income and Expense Statement  
(for 10th fiscal year)

Sales:		
Prescription	\$ _____	
Other	_____	
Total		\$ _____
Cost of Goods Sold:		
Beginning Inventory	\$ _____	
Purchases	_____	
Ending Inventory	_____	
Total Cost of Goods Sold		\$ _____
Gross Margin		\$ _____
Expenses:		
Proprietor's or Manager's Salary	\$ _____	
Employees's Wages	_____	
Rent	_____	
Utilities	_____	
Accounting & Legal Fees	_____	
Taxes & Licenses	_____	
Insurance	_____	
Interest Paid	_____	
Computer	_____	
Depreciation	_____	
Miscellaneous	_____	
Total Expenses		\$ _____
Net Profit Before Taxes		_____
Add Proprietor's Withdrawals (Salary)		_____
Total Income of Self-Employed Pharmacist		\$ _____

Health Care Pharmacy  
Anytown, USA

Balance Sheet  
(for 10th fiscal year)

Assets

Current Assets		
Cash	\$ _____	
Accounts Receivable	_____	
Inventory	_____	
Total Current Assets		\$ _____
Fixed Assets		
Original Fixtures & Equipment Cost	\$ _____	
Less: Accumulated Depreciation	\$ _____	
Net Fixed Assets		\$ _____
Other Assets		
Prepaid Expenses	\$ _____	
Total Assets		\$ _____

Liabilities and Net Worth

Current Liabilities		
Accounts Payable	\$ _____	
Notes Payable (1 year)	\$ _____	
Accrued Expenses	\$ _____	
Total Current Liabilities		\$ _____
Long-Term Liabilities		
Notes Payable		\$ _____
Net Worth		\$ _____
Total Liabilities and Net Worth		\$ _____



## **XI**

### **Pharmacy Valuation and Junior Partnership Establishment**

- 1. Determining An Equitable Selling Price**
- 2. Financial Analysis**
- 3. Other Factors Affecting Value**
- 4. Valuation Formulas**
- 5. Establishment of a Junior Partnership**
- 6. Figures**

# PHARMACY VALUATION and JUNIOR PARTNERSHIP ESTABLISHMENT

Richard A. Jackson, Ph.D.

## DETERMINING AN EQUITABLE SELLING PRICE

Today's business community is characterized by mergers and acquisitions. The pharmacy marketplace is no exception. Pharmaceutical companies are buying other pharmaceutical companies, retail pharmacy chains are buying other chains and independent community pharmacies. Independent pharmacy owners are being approached nationwide by chains interested in buying out their independent pharmacy. The proliferation of managed care, decreasing profit margins and the uncertainty of the future have caused many independent owners consider selling their pharmacies. Because many pharmacy chains are making offers to purchase independent pharmacies, it is very important that owner to be able to determine what the pharmacy is worth. This will assist the owner in making the appropriate decision to sell or to assure that a fair price is paid for the pharmacy should the owner decide to sell.

The determination of an equitable selling price for a community pharmacy is difficult for most pharmacy owners. For many, it is a once in a lifetime experience for which they have received little or no formal education or training. Moreover, the pharmacy owner may be placed in the situation of negotiating with representatives from a chain pharmacy whose primary function is negotiating the purchase of pharmacies, an activity which they may do several times a week. Therefore, because of a lack of experience, the pharmacy owner may find himself in a difficult situation and at a disadvantage. It, therefore, behooves the pharmacy owner to be as knowledgeable as possible regarding the factors associated with the determination of an equitable selling price.

Further exacerbating the situation is the fact that many pharmacy owners tend to set an unrealistically high selling price for their pharmacy. This comes about because most owners let emotion play too much of a role in selling price determination. This is somewhat understandable when one considers that for many owners the pharmacy is not unlike a member of the family. It was "created" by the owner and has been a part of the owner's life for decades.

Another confounding factor is associated with fact that many business owners tend to sell their business at the wrong time. Few businesses are offered for sale at a time when the business is profitable and economic trends are optimistic. Most decisions to sell occur when the profit margins of the business are poor or decreasing and future economic projections are less than favorable. Consequently, many businesses, including pharmacies, are sold for less than optimal prices.

## FINANCIAL ANALYSIS

This fiscal condition of the business is an important consideration in the determination of an equitable selling price. Although there are formulas, which will be discussed later, which can provide one with a good indication of the selling price for an "average" pharmacy, the value must be adjusted up or down depending on the financial condition of the business. The situation is similar to the determination of the value of a used car. We are all familiar with the use of the "blue book" value for used automobiles. This book contains values for the "average" used car. However, the value listed in the "blue book" would be adjusted up or down depending on the physical condition of the auto. Included in this determination would be such things as the condition of the interior and exterior, mileage, condition of the motor, etc. In a similar manner, the fiscal condition of a business would affect its selling price, therefore, a complete financial analysis should always be performed in conjunction with formulas to determine an equitable selling price.

In addition to providing financial information related to the valuation of the pharmacy, a favorable financial analysis will assist the seller in the negotiation process. By pointing out those aspect of the business, such as profitability, solvency, efficiency, etc., the seller may be able to negotiate a better selling price. To be certain, an astute purchaser would be quick to point out negative financial statistics in an attempt to negotiate a lower purchase price.

## OTHER FACTORS AFFECTING THE VALUE

In addition to the financial analysis, there are several subjective factors which would affect the value of a business. An assessment of each of the following would be important in adjusting the valuation of a pharmacy as determined by various formulas described later in this monograph. Important factors include:

1. **Physical Appearance and Condition of the Pharmacy** (Are certain fixed assets in need of repair or replacement?)
2. **Cash Flow** (Examine past cash flow and make future projections)
3. **Competition** (How aggressive are pharmacy and other non-drug outlets and is expansion planned?)
4. **Inventory Composition and Condition** (Does inventory reflect needs and demands of physicians and customers and is it saleable or shopworn?)
5. **Economic Trends in the Community** (Is the community stable with high employment?)
6. **Future Projections for Retail Pharmacy** (Are other pharmacies stable?)
7. **Manage Care** (What percentage of prescriptions are third party and what is the outlook for the future?)
8. **Lease Terms**
9. **Location**
10. **Image of the Pharmacy in the Community**
11. **Terms of Sale**



## Valuation Formulas

The value of a business is usually determined through a process of negotiation between the buyer and the seller. It goes without saying that the eventual selling price will lie somewhere between the initial price asked by the seller (usually too high) and the price the purchaser is willing to initially pay (usually too low). The valuation of a business is not an exact science. It is based on the assessment of facts about the business, informed judgement and some aspects of common sense. In the final analysis, the valuation is subjective, however, several formulas have been developed to estimate the equitable selling price of a business. The valuations derived from these formulas may then be adjusted according to the financial analysis and those subjective factors described above to arrive at a valuation that is equitable.

There is no single formula that is best for all pharmacies. Many formulas should be used, providing for a range of valuations. Each formula provides for an assessment of the valuation of the business from several perspectives, e.g., profitability, net worth, sales, etc. The use of the formulas provides for a range of values that serves as a valid indication of the value of the pharmacy. Based upon the financial analysis and other factors described above, one may more precisely assess the value of the pharmacy. To illustrate the use of these formulas, a pharmacy with approximately \$1,300,000 in annual sales will be used. The income statement and balance sheet for this example pharmacy appear in Figures 1 and 2. The example pharmacy filled 34,331 prescriptions annually.

Inasmuch as space is limited, a complete financial analysis is not provided in this monograph. The financial analysis of this pharmacy reveals the pharmacy to be approximately "average", thereby not necessitating any significant adjustment in the values provided by the formulas.

It should be pointed out that some adjustments may need to be made in the data provided on the financial statements before being utilized in the valuation formulas. For example, some of the formulas use net profit in their calculation. In some situations, an owner may be taking an unusually large salary, thereby resulting in an inordinately small net profit. In this case the owner's salary would need to be adjusted to a more "realistic" figure and the net profit adjusted upward for use in the valuation formulas. Other adjustments from "book values" to more realistic figures may be necessary.

In addition, since depreciation is not an "out of pocket" expense, it is usually added to the net profit in those formulas wherein net profit is used in calculation of the selling price.

The following valuations using formulas do not include accounts receivable or accounts or notes payable. The accounts receivable may be negotiated separately by the buyer and seller. The accounts and notes payable would be handled by the seller.

### 1. Sales Projection Method

One valuation method that relates to a simple percentage of sales should be mentioned since it has been used for many years to estimate the value of a pharmacy. The traditional formula of one-third of annual sales is no longer applicable due to shrinking profit margins and would result in an overstating of the value of the pharmacy. A more appropriate "rule of thumb" in today's competitive community pharmacy marketplace would be closer to 25%-28% of sales. Using 26.5% this gives us a value of \$349,914.

### 2. Return (Net Profit) on Investment (Purchase Price)

Another method uses the return on investment as an indicator of the value of the pharmacy. The "return" is the net profit per year and the "investment" is the selling price of the pharmacy. If a return on investment of 20% were desired, the selling price would be  $(.20) (\text{selling price}) = \text{Net Profit}$  or \$61,137. Therefore, the selling price = \$305,685.

### 3. Summation of Relevant Factors

A third method of valuation involves selection of "relevant factors" from the balance sheet. These factors include assets, liabilities and net worth as well as "goodwill" to assess the purchase price.

Before using these figures in the valuation calculation, it may be necessary to adjust them. The value of the inventory on the balance sheet may not be an accurate figure. The inventory may contain unsalable items or outdated items that have not been removed from stock. It is best to have an outside inventory service do a complete inventory, the cost of which should be shared by the buyer and the seller. The value of fixtures and equipment should be determined by a disinterested third party such as an individual who sells fixtures and equipment who could give an accurate appraisal of how much new fixtures of similar condition would cost.

The fourth component in the summation of relevant factors is "goodwill". Goodwill is the intangible asset associated with the positive reputation that the pharmacy enjoys. An estimation of the value of goodwill is approximately one year's net profit for an "average" pharmacy and two years net profit for an "above average" pharmacy.

In the example pharmacy, the net profit before tax. Using the data in Figures 1 and 2, the value of the pharmacy is estimated to be \$254,626.

Assets	\$298,607
-Liabilities	<u>-78,118</u>
Net Worth	220,489
+Goodwill	<u>+61,137</u>
Purchase Price	\$281,626

#### 4. Direct Assessment (Bank of America)

A fourth method involves a direct assessment that has been established by the Bank of America. It is outlined in Figure 3. In the example, the inventory investment is \$143,926 and fixtures and equipment are \$29,049, which totals \$172,975. This is the value of the tangible assets of the business. The next item, earning power, represents the amount that might be earned by investing the \$172,975 in something other than the purchase of a pharmacy. Assuming a 10 percent return, this means that the earning power of \$172,975, if not invested in a pharmacy, would be \$17,297.

The next item lists the salary that the prospective owner might make if he or she were a manager elsewhere. This is estimated to be about \$60,000. Therefore, if instead of purchasing the pharmacy, the prospective owner invested the \$172,975 and went to work as a manager somewhere else, he or she could expect to have a total income of \$77,297 (\$17,297 + \$60,000).

The total income that could be expected if the prospective purchase actually purchased the pharmacy would be \$61,133 in net profit from the pharmacy plus the owner's salary of \$63,280, which totals \$124,517.

The next item, the extra earning power, is calculated by subtracting the earning power and salary if employed elsewhere (\$77,297) from the income of the pharmacist if he or she were to purchase the pharmacy. This would be \$47,220 in the example.

The next line, in Figure 3, intangible assets, is calculated by multiplying the extra earning power times an item that is known as the years-of-profit factor. The years-of-profit factor is a number varying from one to five that indicates the approximate number of years it would take a newly opened pharmacy to get to the financial position of the pharmacy under consideration. A value of 1 would be used for a pharmacy that was not very profitable and a value of 5 would be used for a pharmacy that was extremely profitable and stable. If we assume that our pharmacy is average, we would use a years-of-profit factor of three. Multiplying this factor times the extra earning power yields a value of \$141,660.

The final calculation of the purchase price involves adding the tangible and intangible assets together. The total for this example is \$314,635.

**5. Percentage of Sales Plus Inventory**

The fifth method involves taking 15% of sales and adding that to inventory giving a value of \$341,990.

$$(0.15)(\text{Sales}) + \text{Inventory}$$
$$(0.15)(\$1,320,431) + \$143,926 = \$341,990$$

**6. Net Income Approach**

The net income approach involves doubling the net profit and owner's salary and adding the value of the inventory. This yields a value of approximately \$378,960.

$$2(\text{Net Profit} + \text{Owner's Salary}) + \text{Inventory}$$

$$\begin{array}{r} \$ 61,132 \text{ Net Profit} \\ \div 63,380 \text{ Owner's Salary} \\ \hline 124,517 \\ \hline \times 2 \\ \hline 249,034 \\ \hline \underline{143,926} \text{ Inventory} \\ \hline \$392,960 \end{array}$$

**7. Asset Approach**

The asset approach simply involves adding two times the net profit to the net worth. This yields a value of approximately \$308,763.

$$\text{Net Worth} + 2(\text{Net Profit})$$
$$\$220,489 + 2(\$61,137) = \$342,763$$

**8. Owner's Equity Approach**

The owner's equity method is arrived at by multiplying the net worth by 1.5 yielding a value of \$300,733.

$$1.5(\text{Net Worth})$$
$$1.5(\$220,489) = \$330,733$$

## 9. Net Profit Approach

The net profit approach involves multiplying the net profit by a factor of 5-7 (we will use 6) providing a value of \$324,822.

$$\begin{aligned} &6 \text{ (Net Profit)} \\ &6(\$61,137) = \$366,822 \end{aligned}$$

## 10. Owner's Cash Flow Method

This formula involves multiplying net profit by a factor between 2 and 4 depending on the financial condition of the business. The better the condition, the higher is the number with an average pharmacy assigned a value of 3. To this is added current assets and liabilities are subtracted. This mathematical manipulation yields a value of approximately

$$\begin{aligned} &2-4(\text{Net Profit}) + \text{Current Assets} - \text{Liabilities} \\ &\text{Use 3:} \\ &3(\$61,137) + \$251,636 - \$78,118 = \$356,929 \end{aligned}$$

## 11. Owner's Cash Flow Intangible Method

This formula is similar to the previous one. Net profit is multiplied by a factor between 1 and 2.5 depending on the condition of the business with 1.75 being average. The formula is as follows and yields a valuation of \$287,306.

$$\begin{aligned} &1-2.5(\text{Net Profit}) + \text{Current Assets} + \text{Fixed Assets} - \text{Liabilities} \\ &\text{Use 1.75:} \\ &1.75(\$61,137) + \$251,636 + \$39,049 - \$78,118 = \$319,556 \end{aligned}$$

## 12. Itemization

If one considers what is actually being purchased when the ownership is transferred, (inventory, fixtures and equipment and goodwill (estimated on year's net profit), equitable selling/purchase price may be estimated by adding the value of the three components. This yields a value of \$227,112.

$$\begin{aligned} &\text{Inventory} + \text{Fixtures and Equipment} + \text{Goodwill} \\ & \$143,926 + \$39,049 + \$61,117 = \$244,092 \end{aligned}$$

**13. \$3-\$7 per prescription filled annually + inventory**

This is a formula that is used by many chains in their estimation of a selling/purchase price.

Using \$5 per prescription for an average pharmacy produces a value of \$315,581.  
( $\$5$ ) (# prescriptions filled annually) + inventory  
( $\$5$ ) (34,331) + ( $\$143,926$ ) =  $\$315,581$

**14. \$10 times annual prescriptions**

Multiply \$10 times the number of prescriptions filled annually is also used by some chains, in a value of \$343,310.

( $\$10$ ) (34,331)  
( $\$10$ ) (34,331) =  $\$343,310$

**Summary of Valuation Formulas**

1. Sales volume: \$349,914
2. Return on Investment: \$305,685
3. Summation of Relevant Factors: \$281,626
4. Direct Assessment: \$314,635
5. Percentage of Sales Plus Inventory: \$341,990
6. Net Income Approach: \$392,960
7. Asset Approach: \$342,763
8. Owner's Equity Approach: \$330,733
9. Net Profit Approach: \$366,822
10. Owner's Cash Flow Method: \$356,929
11. Owner's Cash Flow Intangible Method: \$319,556
12. Itemization: \$244,092
13. \$Per prescription plus Inventory: \$315,584
14. \$Per prescription: \$343,310

The estimated range of the value of the pharmacy varies between approximately \$244,092 to \$392,960 with an average of \$329,042. The financial analyses will indicate whether the price should be at the upper, middle or lower range of the valuations provided by the formulas. Further, certain intangible, subjective factors described above such as the economy, competition, and the physical facility will provide insight as to whether the values should be adjusted upward or downward.

For the purposes of the junior partnership example, we shall assume that the selling/purchase price for this "average" example pharmacy has been negotiated and is \$330,000.

## ESTABLISHMENT OF A JUNIOR PARTNERSHIP

The establishment of a partnership or a "junior partnership" is an alternative to a direct and immediate sale. In this situation, the sale of the pharmacy occurs over several years, with the new owner acquiring a gradually increasing percentage of ownership in the pharmacy while increasing his or her share of the management.

For many owners the transfer of ownership to an individual rather than a chain is difficult because the prospective buyer may lack the necessary capital to make the purchase. It is this problem that causes many independent owners to sell to a chain rather than an individual. The junior partnership example described in this monograph provides the owner or potential buyer with a practical guide as to how the transfer of ownership of a community pharmacy may be accomplished in a situation wherein the buyer has little or no capital. Adjustments in the factors in the example such as the time frame, percentage of purchase per year and amount paid may be adjusted to meet special needs of the owner or purchaser.

To explain the establishment of a junior partnership, a case study has been developed in which the first 50 percent of the pharmacy is purchased over a six-year period at approximately 10 percent per year. After the sixth year, the junior partner could purchase the other 50 percent using a bank loan, owner financing, or the same procedure as for the first 50 percent. In our example, the junior partner pays for and receives the first 10 percent of the pharmacy after the second year of the agreement, which gives him two years to save for the purchase of the initial 10 percent. After years three through six of the agreement 10 percent is purchased per year based on the valuation of the pharmacy at that time.

All provisions of the junior partnership should be agreed upon in writing by both the owner and junior partner. This agreement may be drawn up by an attorney. The description of the current example may serve as a guide. Particular attention should be given to provisions that would allow the owner or the junior partner to terminate the agreement should particular situations develop. In the event a portion of the pharmacy had been purchased by the junior partner at the time of termination, provisions should be delineated to describe the disposition of the junior partner's share, i.e., would it be sold back to the owner and, if so, how would the purchase price be determined?

We will use the Jones Professional Pharmacy for this case study. The income statement and balance sheet for the pharmacy may be examined in Tables 1 and 2. It may be noted that the pharmacy has annual sales of approximately \$1.3 million. For the purpose of this example, it shall be assumed that the purchase price has been determined to be \$330,000. Adjustments will be made each year to reflect an increase in the value of the pharmacy. In the example the increase in the value has been assumed to be six percent. In terms of salary for the junior partner, the agreement calls for him to receive an annual salary of \$54,000 plus a \$6,000 bonus each year. This bonus is used as an incentive for the junior partner to remain with the pharmacy and continue to participate in the junior partnership. Salary increases would be provided each year as allowed for in the junior partnership agreement.

Ten percent of the ownership in the pharmacy will be transferred to the junior partner beginning at the end of the second year and continuing through the end of year six. Therefore, the junior partner will obtain 50 percent of the ownership of the pharmacy in six years. In this agreement, the junior partner will actually pay for only five percent of the pharmacy at the end of each year in which a payment is due. An additional five percent will be provided by the owner at no charge as an extra incentive for the junior partner.

### **Income to the Owner**

During the first six years of the junior partnership agreement wherein the junior partner purchases 50 percent of the pharmacy, the owner receives compensation in the form of his share of the net profit (line 5, Table 3) of the pharmacy and the payment from the junior partner (line 2, Table 3) for the incremental 10 percent of the business beginning at the end of year two. The total income of the owner from net profit and purchase payments is provided in (line 6, Table 3).

The net profit (line 3) and value (Top line of Table 3) of the business are projected to increase at six percent per year. Line 2, which is the payment from the junior partner, is determined as follows: the initial value of the pharmacy was established to be \$330,000. By the end of the first year the value of the pharmacy has increased to \$344,800 based on a 6 percent increase each year. The actual value may be recalculated each year. It should be remembered that the junior partner pays for five percent of the business, but actually receives 10 percent. At the end of the second year when the junior partner purchased the first 10 percent of the business, 10 percent of the value (\$370,788) is \$37,078, but the junior partner only pays for 5% of the business or approximately \$18,539.

By summing Line 2, it can be determined that the owner will receive \$104,513 in payments from the junior partner over six years for the purchase of 50% of the business at 10% per year after years two through six of the agreement.

The net profit of the pharmacy is estimated to increase 6% per year (See line 3). The owner's share of the net profit decreases 10 percent each year after the second year (See line 4). In years one and two of the agreement he still owns 100 percent of the business so all of the net profit accrues to him. In year three the junior partner owns 10% of the business so the junior partner receives 10% of the profits and the owner 90% or \$65,533 (See line 5). The total received by the owner from his share of the net profit over the six years of the junior partnership agreement is \$370,082 (The sum of line 5).

Assuming that the value of the pharmacy increases six percent per year, the remaining 50 percent of the pharmacy will be valued at approximately \$234,055 at the end of the six-year period. (50% of \$468,111). The junior partner may then agree to pay the remainder to the owner over a period of years through owner financing. He may choose to go to a lending institution and obtain a loan to purchase the remaining 50%. He would have 50% of the pharmacy to then use as collateral. Of course, the remaining 50% may be purchased by simply continuing the purchase agreement used in the first 50% in years seven through eleven.



As may be determined from Table 3, the total income for the owner at the end of six years, in terms of annual payments from the junior partner and his share of the net profit, would be approximately \$474,595 (The sum of line 6). The purchase of the remaining 50% is \$234,055. Assuming the junior partner obtained a loan from a lending institution at the end of 6 years and paid the \$234,055 the total amount received by the owner for the purchase of the entire pharmacy would be \$708,650, which is the sum of \$474,595 from payments from the junior partner and the owner's share of the net profit, and \$234,055 from the purchase of the remaining 50% of the business.

By comparison, let's consider the income to the owner if the pharmacy were sold outright for \$330,000 instead of entering into the junior partnership described above. If invested at six percent interest, this would yield about \$112,231 interest or a total of about \$442,231 for the six years of the junior partnership agreement example. The junior partnership example provided the owner with \$708,650 or a \$266,419 difference (\$708,650-\$442,231). Considering that the owner's share of profits and payments from the junior partner could also be invested, the \$386,750 figure from the junior partnership could be even larger. Therefore, it may be seen that the partnership yields a significantly greater financial dividend for the owner.

#### **Projected Payments of Junior Partner**

Figure 5 provides information concerning the junior partnership from the perspective of the junior partner. The income from net profit (column 2) is based on the junior partner's share of the net profit which increases each year beginning at the end of the second year. The last column represents the payments that the junior partner makes to the owner each year based on the purchase of 10% for which he pays only 5%. These numbers correspond to the figures in line 2 of Table 3. From Table 4, it is obvious that the junior partner would have to use little of his or her personal funds to make payments to the owner because payments are made primarily from the junior partner's share of the net profit and the bonus. By the time the junior partner makes the first payment, he or she would have received two bonus payments. Using these bonus payments plus saving \$272 per month from salary in the first two years the junior partner could make the payment. In year three, \$530 per month would need to be saved from the junior partner's salary plus the bonuses to make the payments. None of these amounts are unreasonable for a practicing pharmacist. Beyond year three, the payments could be made totally from the junior partner's bonus and share of the net profit.

From this example it may be determined that it is possible through the establishment of a junior partnership for an independent owner to transfer ownership to a prospective purchaser who may not have the necessary capital to purchase the pharmacy outright. The procedure is financially beneficial for both the owner and the junior partner. Most importantly for many independent owners, it provides a mechanism to transfer the ownership of the pharmacy and keep independent pharmacy independent.

**Figure 1**  
**Income and Expense Statement**

**Jones Professional Pharmacy**  
**Anytown, USA**  
**Income and expense statement**  
**for year ended December 31, 199x**  
**(NCPA-Searle Digest Average in Parentheses)**

<b>SALES</b>			
Prescription	\$1,047,102	79.3%	(79.9%)
Other	<u>273,329</u>	<u>20.7%</u>	<u>(20.1%)</u>
Total	\$1,320,431*	100.0%	
Cost of goods sold	<u>969,196</u>	<u>73.4%</u>	<u>(73.1%)</u>
Gross margin	\$ 351,235	26.6%	(26.9%)
<b>EXPENSES</b>			
• Proprietor's or manager's salary	63,380	4.8%	(5.7%)
• Employee's wages	102,595	7.8%	(7.9%)
• Rent	27,729	2.1%	(1.8%)
• Utilities	14,524	1.1%	
• Accounting, legal & other professional fees	5,281	0.4%	
• Taxes (except on buildings, income, and profit) and licenses	18,486	1.4%	
• Insurance (except on buildings)	13,204	1.0%	
• Interest paid	7,922	0.6%	
• Computer	3,961	0.3%	
• Miscellaneous	<u>33,016</u>	<u>2.5%</u>	
<b>TOTAL EXPENSE</b>	<u>\$ 304,090</u>	23.0%	(24.1%)
<b>NET PROFIT (before taxes)</b>	<b>\$ 61,137</b>	<b>4.6%</b>	<b>( 3.0%)</b>
<b>Add proprietor's withdrawals</b>	<b>\$ 63,380</b>	<b>4.8%</b>	
<b>Total income of self-employed proprietor (before taxes on income and profits) *1/3 are credit/third party</b>	<b>\$ 124,517</b>	<b>9.4%</b>	

**Figure 2**  
**Balance Sheet**

**Jones Professional Pharmacy**  
**Anytown, USA**  
**Balance Sheet, December 31, 199x**  
**(NCPA-Searle Digest Average in Parentheses)**

**ASSETS**

Current assets

Cash	\$ 39,612	3.0%	(3.0%)
Accounts receivable*	68,098	5.2%	(4.4%)
Inventory	<u>143,926</u>	<u>10.9%</u>	<u>(9.9%)</u>
Total current assets	\$251,636	19.1%	(17.3%)

**FIXED ASSETS**

Fixtures, equipment, leasehold improvements (net after reserve for depreciation)	\$ 39,049	3.0%	(2.2%)
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**OTHER ASSETS**

Prepaid expenses, deposits, etc.	<u>\$ 7,922</u>	<u>0.6%</u>	<u>(0.6%)</u>
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<b>TOTAL ASSETS</b>	<b>\$298,607</b>	<b>22.6%</b>	<b>(20.1%)</b>
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**LIABILITIES**

Current Liabilities

Accounts payable*	\$ 46,778	3.5%	(4.3%)
Notes payable (within 1 year)*	8,524	0.6%	(1.1%)
Accrued expenses	<u>3,204</u>	<u>0.2%</u>	<u>(1.0%)</u>

<b>TOTAL CURRENT AND ACCRUED LIABILITIES</b>	<b>\$ 58,506</b>	<b>4.4%</b>	<b>(6.4%)</b>
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<b>LONG-TERM LIABILITIES</b>	<b><u>\$ 19,612</u></b>	<b><u>1.5%</u></b>	<b><u>(3.0%)</u></b>
Notes payable			

<b>TOTAL LIABILITIES</b>	<b>\$ 78,118</b>	<b>5.9%</b>	<b>(9.3%)</b>
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<b>NET WORTH</b>	<b>\$220,489</b>	<b>16.7%</b>	<b>(10.8%)</b>
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<b>TOTAL LIABILITIES AND NET WORTH</b>	<b>\$298,607</b>		
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Figure 3

Direct Assessment (Bank of America)

I. Tangible Assets	
Inventory	\$143,926
Fixtures and equipment	<u>29,049</u>
Total	\$172,975
II. Earning Power @ 10%	\$ 17,297
III. Salary if Manager Elsewhere	\$ 60,000
IV. Net Profit (\$61,137) Plus Owner's Salary (\$63,380)	\$124,517
V. Extra Earning Power (IV minus III minus II)	\$ 47,220
VI. Intangible Assets: (V times "years-of-profit factor")*	\$141,660
VII. Purchase price:	
Tangible Assets	\$172,975
Intangible Assets	<u>141,660</u>
	\$314,635

\*Years-of-profit factor is an estimate of the number of years to get the profitability of a new pharmacy to the profitability under consideration. It varies from 1 to 5, with 3 being average.

Figure 4  
Income to Owner from Net Profit and Purchase Payments

	End of 1st Year	End of 2nd Year	End of 3rd Year	End of 4th Year	End of 5th Year	End of 6th Year	Total
Value of Pharmacy	\$349,800	\$370,788	\$393,035	\$416,617	\$441,614	\$468,111****	
1. Ownership share to junior partner	0	10%	20%	30%	40%	50%	
2. Payment from junior partner*	0	\$18,539	\$19,651	\$20,830	\$22,080	\$23,412	\$104,513
3. Net profit of pharmacy**	\$64,805	\$68,692	\$72,015	\$77,184	\$81,815	\$86,724	
4. Owner's share of pharmacy***	100%	100%	90%	80%	70%	60%	
5. Owner's share of profit***	\$64,805	\$68,693	\$65,533	\$61,747	\$57,270	\$52,034	\$370,082
6. Total	\$64,805	\$87,232	\$85,184	\$82,577	\$79,350	\$75,447	\$474,595

\*The value of the pharmacy is estimated to increase approximately 6 percent each year, so the payment for the incremental 10 percent share of the practice will increase proportionally.

\*\*Net profit is expected to increase approximately 6 percent each year.

\*\*\*Obtained by multiplying owner's share of the pharmacy during the year by net profit. At the end of the year, 10 percent of the pharmacy is transferred.

\*\*\*\*Value of remaining 50% of pharmacy = (.50) (\$468,111) = \$234,055 adding this to \$474,595 yields total of \$708,650. Original purchase price of \$330,000 invested for six years at 5% interest = \$442,231 or a difference of \$266,419 (\$708,650 - \$442,231).

Figure 5  
Income from Bonus and Profits and Projected Payments of Junior Partner

Year of transfer agreement	Income from net profit	Income from annual bonus	Net profit and annual bonus of jr. partner	End of Year Payment to current owner
1	0	\$ 6,000	\$ 6,000	0
2	0	\$ 6,000	\$ 6,000*	\$18,539*
3	\$ 7,281	\$ 6,000	\$13,281	\$19,651**
4	\$15,436	\$ 6,000	\$21,436	\$20,830
5	\$24,544	\$ 6,000	\$30,544	\$22,080
6	\$34,689	\$ 6,000	\$40,689	\$23,413

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\*Junior partner needs to save \$272 per month to avoid borrowing.

\*\*Junior partner needs to save \$530 per month to avoid borrowing.



## **XII**

### **Obtaining Certification for Pharmacy Technicians**

- 1. PTCB**
- 2. Eligibility requirements to take the Pharmacy Technician Certification Exam**
- 3. Procedures for applying to take the examination**
- 4. Examination schedule**
- 5. Examination sites**
- 6. Examination cost**
- 7. National exam development**
- 8. Preparing for the national examination**
- 9. Review course**
- 10. Questions about the exam, locations for the exam, scoring of the exam, or how to maintain certification**
- 11. Questions about buying books, taking the review course, or receiving the Candidate's Handbook and application**



## **Obtaining Certification for Pharmacy Technicians**

### **PTCB**

The Pharmacy Technician Certification Board (PTCB) was established in January 1995 to create one consolidated voluntary national certification program for pharmacy technicians. The PTCB will coordinate the actual testing and scoring and maintaining your certification. The PTCB is located in Washington, DC. Their phone number is (202) 429-7576.

### **Eligibility requirements to take the Pharmacy Technician Certification Exam**

The technician candidate must have a high school diploma or GED to be eligible to take the national Pharmacy Technician Certification Examination.

### **Procedures for applying to take the examination**

The Georgia Pharmacy Foundation will be coordinating the Pharmacy Technician Certification Program in the state. The Foundation has a participation agreement with the PTCB to provide these services to the technicians in Georgia.

The Candidate's Handbook contains the application and instructions for applying for the examination. The Handbook also includes the content outline for the examination. You may use this content outline to develop a plan to study by reviewing technician training textbooks and other reference courses.

Contact Beverly Black to request a copy of the Handbook.

The Handbook packet will be mailed to you as soon as possible. But, you should plan on it taking about 7-10 working days for your request to be filled and the application to be returned to you.

After you receive the Candidate's Handbook, you will need to complete the PTCB Application Form (bubble sheet) and send it to the Professional Examination Service (PES) in New York so that it is RECEIVED by the dates listed above. You will also need to send a payment of \$105 with your application form. If you return the notification post card in your application packet, PES will notify you by postcard that they received your application. Then, about 2 weeks before the exam, they will send you all of the information that you need to go to the exam.

**You need to send in your request for the Candidate's Handbook NOW. The deadlines for registering for the exams are about 2 months before the exams are given.**

### **Examination Schedule**

Professional Examination Service (PES), a testing agency under contract with PTCB administers and scores the examination and will send you your results. Contact them at 1-800-207-1962 for an updated testing schedule.

### **Examination Sites**

The established test centers in Georgia are located in Albany, Atlanta, Augusta, and Macon. Exams will be given on each date listed above at each of these centers. The addresses for these centers will be sent to you before the exam.

**To find out the exact location of the test site, you need to call 1-800-207-1962 about 3 weeks before your exam date.**

### **Examination Cost**

The current application fee for the Pharmacy Technician Certification Examination is \$105. This fee covers the cost of the development and administration of the examination and the ongoing cost of the certification program. Deadlines for registering for the exam are listed on this form and in the Candidate's Handbook. There is NO late registration allowed; your application MUST be at PES in New York by the posted deadline dates.

### **National Exam Development**

The national exam was developed from a task analysis of what technicians do regularly in their jobs. Observers watched technicians in their practice settings and listed their daily activities. Those tasks were then listed and compared to the questions from the old Illinois and Michigan technician tests. Some of the questions from those two exams were kept and will appear on the new exam. About 50-60% of the questions on the new national exam will come from the Illinois and Michigan tests.

Where technician tasks were not covered by questions from the existing exams, new questions were developed by a panel of technicians, pharmacists, and educators.

This exam has 125 true-false and multiple-choice questions; it will last about 3 hours.

The national certification test will contain questions for technicians who practice in all settings--retail, institutional, home care, etc. This test will be practical in nature because it is based on observed activities of technicians in their practice settings.

An outline of the sections on the national test is in the Candidate's Handbook, which you may request from the Georgia Pharmacy Foundation. The national exam will contain some questions about federal laws and regulations, but it will NOT have any questions about Georgia laws and regulations on it.

## Preparing for the National Examination

Candidates for the national exam should first request a copy of the Candidate's Handbook. It contains a content outline for the exam which candidates may use to develop a plan to review technician training texts and other reference sources.

Secondly, the Georgia Pharmacy Foundation has four books for sale that can be used to study for the exam. An order form for these books is included with this Information Bulletin. The books are:

A. *The Pharmacy Certified Technician Training Manual*. This book is a new edition that has been revised. It is a good general overview of information that you will need for the test. The calculations section of this book is very detailed and contains many formulas and problems, and it provides a good place to start studying for the calculations and also for other topic areas. This book costs **\$25.00**.

B. *The PCT Calculations Workbook*. This book was developed to be used with the Training Manual described above. It provides extra practice for the calculations section of the exam. This book costs **\$17.50**.

C. *The Pharmacy Technician Workbook*. This book is in a workbook format and was designed to help technicians study for the Illinois version of the certification exam. It is also a good general textbook and contains much of the same information as the Training Manual. This book costs **\$35.00**.

D. *Pharmacy Technician Certification: A Quick Study Guide*. This guide is in an outline format and is designed to help you organize the information that you need from other books. If you plan to take the Review Course, DO NOT order this book; it will be given to you at the Review Course. It costs **\$15.00**.

## Review Course

Georgia Pharmacy Foundation, with support from the Georgia Pharmacy Association and the Georgia Society of Health-System Pharmacists, will offer a review course to help study for the exam. The cost for the review course is \$55.00. Included with the review course registration is a copy of the book, *Pharmacy Technician Certification: A Quick Study Guide*.

The review course is designed to cover the 40-50% of the exam questions that will not be directly covered in the study books that are available. The course will cover calculations, pharmacology and federal laws.

The review course will be an all-day session and will be offered only in Macon. The review courses will be scheduled from 8:00 a.m. to 4:00 p.m.

A registration form for all of the review courses is included with this packet. The review courses will be given at Macon Technical Institute. You will be sent a detailed map in the registration confirmation packet that will be sent after you register. You will also be provided with a listing of nearby hotels where you might reserve a room for the night before the review course if you wish.

**Questions about the exam, locations for the exam, scoring of the exam, or how to maintain certification**

You should contact the following group:

Professional Examination Service  
475 Riverside Drive  
New York, NY 10115-0089  
1-800-207-1962

**Important Information on Technician Certification Examination:**

**Questions about buying books, taking the review course, or receiving the Candidate's Handbook and Application**

You should contact the following group:

Pharmacy Technician Certification  
Board--Georgia Affiliate P.O. Box 95527  
Atlanta, GA 30347  
404-231-5074 (X230)



## **XIII**

### **Obtaining Credentialing for Pharmacists**

- 1. Disease State Management (DSM) Credentialing for Pharmacists**
- 2. Frequently Asked Questions**

## Obtaining Credentialing for Pharmacists

### **Disease State Management (DSM) Credentialing for Pharmacists**

National Institute for Standards in Pharmacist Credentialing (NISPC)

P.O. Box 1910

Alexandria, VA 22313-1910

(703) 299-8790

Fax: (703) 683-3619

The issue of pharmacist credentialing in disease state management is among the pharmacy profession's top priorities and prompted the formation of the National Institute for Standards in Pharmacist Credentialing (NISPC). The NISPC was jointly established in June 1998 by NABP, NACDS and the NCPA to develop uniform standards for use in the credentialing of pharmacists in the management of disease states.

Since its formation, the NISPC has received many inquiries from practitioners, colleges of pharmacy, prescription drug manufacturers and payors about the disease state management standards and the credentialing process.

Both the Payer Advisory Panel and the Standards Board affirmed the need for and value of pharmacist credentialing and enthusiastically endorsed NISPC's efforts to expand the potential opportunities available to pharmacists who are credentialed in disease management.

The Payer Advisory Panel is composed of employer representatives, benefits managers, benefits consultants, regulators, and pharmacy practitioners. The Payer Advisory Panel was appointed to advise NISPC on the needs of the payer community as the credentialing process evolves. The panel affirmed the value of credentialing pharmacists in areas representing high-cost clinical conditions. Further, panelists recognized the importance of outcomes measurement, the need to clearly define the package of services credentialed pharmacists consistently provide, the growing need for a credentials database accessible to payers, and the need for collaborative involvement of physicians and other providers.

The Standards Board is composed of representatives from consumer, nursing, and medical-related organizations, pharmacy practitioners, academicians, and regulatory representatives. The Standards Board was appointed to advise NISPC on the standards development process, the approval of standards, and future areas for credentialing development. The Standards Board recommended that NISPC articulate a regular review and modification process for the standards and competency statements and also consider where in the credentialing process the clinical or practical skills assessment should reside. Additionally, the Standards Board recommended possible revisions to the standards to address pharmacists' collaborative work with physicians and other allied health professionals, consistency of standards elements, increased attention to nonpharmacologic therapies, pharmacist communication skills, and outcomes assessment.

The Institute's efforts represent a coordinated approach for creating the standards that form the foundation for examinations to credential pharmacists in specific disease states. NABP in turn utilizes the NISPC standards to create disease specific examinations to objectively and uniformly assess the knowledge of the pharmacist in the particular disease area.

To date, NISPC has focused its attention on outlining disease state management standards for anticoagulation, asthma, diabetes, and dyslipidemia. Each set of disease state management standards is created by a panel of experts composed of practitioners, academicians, pharmacy benefits managers, and board of pharmacy members. NISPC will investigate the development of additional disease management standards based upon the needs and recommendations of practitioners, schools of pharmacy, payers, and the general health care community.

NISPC will investigate the development of additional disease management standards based upon the needs and recommendations of practitioners, schools of pharmacy, payors and the general health care community.

#### For Further Information Contact

APhA, Tina Pugliese at (202) 429-7558

NABP, Jan Teplitz at (847) 698-6227

NACDS, Phil Schneider at (703) 549-3001

NCPA, Todd Dankmyer at (703) 683-8200

AIP, Joe Mengoni at (404) 237-8435

### **Frequently Asked Questions**

#### **What is disease state management (DSM) and how can pharmacists become credentialed in DSM?**

Disease state management is the provision of disease specific pharmaceutical care beyond the dispensing of medications. Pharmacists wishing to become credentialed in DSM can take one of the four National Association of Boards of Pharmacy (NABP) DSM exams. The DSM exams are offered to pharmacists as standardized assessment tools designed to measure the application of knowledge and judgment of pharmacists providing DSM services.

Pharmacists who successfully complete a disease specific DSM examination may at their discretion be listed on NABP's Pharmacist and Pharmacy Achievement and Discipline™ (PPAD™) database. The PPAD may be viewed on NABP's website [www.nabp.net](http://www.nabp.net) and is open to the public and third-party payers who may wish to verify a pharmacist's credentials.

Additionally, the National Institute for Standards in Pharmacist Credentialing (NISPC) will issue a certificate to pharmacists upon successful completion of each DSM exam.



## **What is the National Institute for Standards in Pharmacist Credentialing (NISPC)?**

The NISPC was developed to promote the value and encourage the adoption of the NABP disease specific examinations as the consistent and objective means of documenting the ability of pharmacists to provide DSM services. The governing body of NISPC includes the American Pharmaceutical Association (APhA), NABP, the National Association of Chain Drug Stores (NACDS) and the National Community Pharmacists Association (NCPA). The NISPC incorporates input from Expert Panels, the Standards Board, and the Payer Advisory Panel for the purpose of developing standards to serve as the basis for NABP created and administered exams. NISPC is the credentialing body for pharmacists seeking to be credentialed in the delivery of DSM services.

## **How do I prepare for the exams?**

Pharmacists are encouraged to participate in educational programs that will provide them the requisite knowledge to meet the NISPC standards in a specific disease state.

## **What DSM exams are available?**

Currently, there are four exams available:

- Anticoagulation
- Asthma
- Diabetes
- Dyslipidemia

## **Why take the DSM exams?**

The DSM exams will serve as the universally recognized credential for those who are prepared to participate in specific disease state management networks developed by payer groups.

## **Who is eligible to take the exams?**

Any pharmacist who possesses an active license to practice that is in good standing and has been issued by a board of pharmacy in a jurisdiction that administers the DSM examinations is eligible to take the exams. Check with your state board about exam availability.

## **How do I register to take the DSM exams?**

The credential fee is \$40, which includes the \$25 exam fee. For those pharmacists wishing to take more than one exam at a single sitting, the fee is \$25 for each additional disease state. Currently, only state boards of pharmacy administer the examinations. The registration deadline is three weeks before the examination date. Contact your state board of pharmacy for further information.

For the most current listing of examination dates and state boards offering the exam, visit the NABP web site at [www.nabp.net](http://www.nabp.net). Please send in the business reply card to obtain additional information about the exams.

**NISPC is advised by a broad coalition of professional and industry representation including:**

Boards of Pharmacy  
Interdisciplinary Health Professionals  
National Healthcare Associations  
Payers  
Pharmaceutical Manufacturers  
Practitioners  
Public/Consumer Advocates  
Quality Organizations  
Schools of Pharmacy  
State Pharmacy Associations

