

# Is Your Practice Financially Healthy?

## A Year-End Check-Up Tells the Story Behind the Numbers

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Does your practice hold a yearly financial check-up and planning meeting? If not, you're missing an important tool in managing your practice.

The yearly check-up should be an integral part of your accounting services package. If you don't currently receive one, ask for it - yes, it is that important.

### The Participants

During your yearly financial check-up meeting, you, as well as all the dentists in your practice, are encouraged to invite those you feel can help you plan for the future. Besides owners, the meeting often includes the accountant, the practice's attorney, insurance advisor, investment advisors and sometimes spouses of dentists.

### Crunching the Numbers

The meeting starts with a review of your most current financial statements. The statements can help you compare fluctuations in the practice from year to year as well as provide a benchmark to compare with industry averages.

The numbers really do tell the story of your practice. They tell how you choose to operate your practice, what is going well and what is not going so well. As you look at your

revenue stream, now is a good time to review the various insurance providers your practice accepts. How much and how quickly are they reimbursing you? How much extra work do they create? Are there other providers who should be considered? And since many participation agreements expire January 1, this decision is very timely.

### Showing/Spending Profit

Because any profit shown in a Professional Service Corporation (PSC) will be taxed at 35 percent, it is important to correctly estimate your profits for the year and determine how those profits might be distributed through bonuses, profit sharing, dividends, salaries or other benefits.

Since bonus calculations are most often defined by your contract, now is the time to determine each professional's bonus. You may end up discussing restructuring the bonus calculation. If a new calculation formula for bonuses is agreed upon, then you need to talk about putting together a new contract for each professional.

### Reviewing Fixed Assets

You'll want to review any equipment you may have purchased during the year and how it will be depreciated. Be sure you also discuss any future purchases for the coming year and how you will finance them.

### Profit Sharing, Salaries and Bonuses

You and your fellow dentists may not know what all your staff members are paid. This meeting might be a good time to receive current salaries and pay rates. Your accounting professional can suggest average cost of living increase figures. Later, you can discuss among yourselves to whom you may also consider giving merit increases.

You will have two considerations as you prepare to allocate funds for profit sharing. First, you must meet the minimum federal requirements of your plan. Second, the amount of profit realized by the company would dictate if any discretionary funds are available for profit sharing or bonuses.



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Be prepared, because salary increases, profit sharing and bonus considerations will more than likely become your “take home assignment” to complete after the meeting.

### **Healthcare Insurance**

Managing rising healthcare premiums, sharing of healthcare costs with employees, and development and management of flexible health savings accounts should also be on the agenda. This is also a time when you will want to discuss disability and life insurance for the shareholders and other key personnel.

### **Employee and Practice Issues**

Now is the time to discuss specific issues going on within the practice - from business procedures to routine office policies and problem employees to the potential hiring of additional staff members, just to name a few. You'll want to hold a solid discussion and forge a plan for the coming year.

### **Back to the Future**

What changes will take place within the practice in the coming year? Are rental or lease agreements expiring? Are large purchases or sales a potential? Are legislative or regulatory changes or even retirement or serious illness of key personnel on the horizon?

As you look to the future, you should also review your will and estate plan to make sure the beneficiaries reflect any life changes, such as a divorce, also death or changes in relationships. Your tax return should also be reviewed and you should discuss what amount of taxes should be withheld to cover any bonuses incurred. Tax planning for the coming year should be considered, as well.

As you can see, a year-end check-up should be an important part of your practice management process.

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