MANAGING YOUR DERMATOLOGY PRACTICE

How to Read a Balance Sheet

A balance sheet provides an essential picture of your practice's financial health, yet, amazingly, few physicians can make heads or tails of one. Medical schools don't teach that stuff, of course, but most doctors don't see a reason to learn about it anyway. After all, that's why you pay an accountant, right?

But it's your practice. You can't really get a handle on its finances and how they are trending unless you can interpret financial statements. With a basic understanding of what's going on, you'll be far better equipped to understand the advice accountants and other financial professionals give you, and you won't need to rely on them to make all the crucial decisions about your practice's future.

BY JOSEPH S. EASTERN, M.D.

A balance sheet, like a blood pressure reading, is a snapshot—a measure of a practice's financial situation at a given point in time. And like a blood pressure reading, its main usefulness lies in how it compares with other snapshots at other times.

Essential components of a balance sheet include assets (what your practice owns outright), liabilities (what it owes others), and equity (value added to the practice, such as financed equipment and profits retained within the business.)

As the name implies, a balance sheet must balance. The fundamental equation is assets equal liabilities plus equity. In other words that I find easier to grasp: Equity equals assets minus liabilities.

Assets are typically divided into current and long term. Current assets are those that could be liquidated within 1 year, such as cash, accounts receivable, and inventory if you stock products for resale. Long-term assets include buildings, furniture, equipment, and other durable goods, less depreciation (the taxable value they have lost since they were purchased).

Liabilities are similarly classified as current and long term. Current liabilities must be paid within the next year and include accounts payable, wages, and payroll taxes. Long-term liabilities, such as mortgages, loans, and equipment leases, are due over a period of years.

Equity is basically the owner's money—theoretically what would be left if you liquidated all the practice's assets and paid all its liabilities. It is *not* a realistic measure of a practice's net value since it doesn't reflect the current, open-market value of assets and doesn't consider intangibles such as good will. That's not what a balance sheet is designed to measure.

So what does a balance sheet measure? It keeps track of two of the three key elements of financial strength: liquidity and solvency. The third element, profitability, is measured with a separate tool, the income statement.

Liquidity, as calculated by current ratio (current assets divided by current liabilities), is a measure of the practice's ability to pay its bills over the next year. Your ratio should be at least 2:1. If it's lower, the practice is probably carrying too much debt and may run into trouble, particularly if too many bills come due at once.

Solvency, or debt-to-equity ratio (total liabilities divided by total equity), is a measure of borrowing power. A 3:1 ratio is the upper limit of normal for most banks, meaning for every $3 in debt there is at least $1 in equity (owner's money). Any higher and the practice will not be able to finance expansion, or even weather an economic downturn, because loan money will not be available.

The time to do these calculations is not when you apply for a loan, but long before—by assembling and analyzing balance sheets regularly—so that negative trends can be identified and turned around.

Hopefully, the importance of regular financial analysis is becoming obvious.

Numerous other useful bits of information—asset allocation, collection efficiency, and cash utilization—can be gleaned from a balance sheet if you know what to look for.

So how often should you review your practice's balance sheet? In an established practice, during relatively stable economic times, once a year may be sufficient. If your practice is new, though, or you're having liquidity problems, more frequent analysis, perhaps quarterly, is necessary. When in doubt, have a look. Balance sheets are neither expensive nor difficult to produce. With modern financial software, a few keystrokes on your accountant's computer are usually all that's necessary.

It may take you awhile, however, to feel comfortable analyzing financial statements. You didn't master medical diagnosis and treatment overnight, and this skill won't come instantaneously either.

I suggest you ask your accountant to walk you through your practice's balance sheet the first few times. Ask questions. Get a feel for what he or she sees within it, and take the opportunity to review your plans for the future. A good accountant will welcome the chance to show you the financial ropes and to help you work toward your long-term practice goals. ■

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Overbooking, Physician Extenders Boost Office Efficiency

BY DOUG BRUNK

San Diego Bureau

LAS VEGAS — One of the best ways to improve your office efficiency is to train and retain good staff, Dr. David M. Pariser advised at the Fall Clinical Dermatology Conference.

"You spend more time with your staff than you spend with your family," noted Dr. Pariser, professor of dermatology at Eastern Virginia Medical School in Norfolk. "You want your employees to know what your expectations are, and you would love for them to be able to exceed those expectations."

Written job descriptions are important no matter what the size of your practice. "People need to know what the scope of their job is," said Dr. Pariser, who is the senior partner in a group of 11 dermatologists who practice in southeastern Virginia. "Cross training is essential. You also need to have a policy and procedures manual."

Other tips that he shared for improving office efficiency include the following:

▶ **Develop an employee recognition program.** Recognizing behavior that exceeds expectations or good work performance can boost morale in the office. This can be as simple as awarding a pin to outstanding employees to wear on their lapel. "It sounds corny, but it really helps morale," he said at the conference, sponsored by the Center for Bio-Medical Communication Inc.

▶ **Hire a physician extender.** "This can help your quality of life in the office more than any other thing," he said. "The key is [that you have to] train and supervise."

Adding a physician extender lets you delegate routine tasks, such as patient histories, procedure setup and assistance, and the screening of after-hours telephone calls.

▶ **Preregister and overbook all patients.** Have someone review the appointment book for the next 2-3 days and fill out the necessary paperwork to ensure that patients are properly referred and have the right insurance. This strategy is especially helpful if you practice in an area with a lot of managed care.

"I think some of the best money you can spend in office management is at the front end, anticipating problems rather than dealing with them," Dr. Pariser said. "If you find your day is interrupted by a patient who shows up out of referral or who needs something recertified that you can't do at that moment, then you're wasting time."

Written job descriptions are important in practices of all sizes. 'People need to know what the scope of their job is, [and] cross training is essential.'

Dr. Pariser prefers overbooking patients, because he considers reconfirming their appointments "a very time-consuming process. If you expect that your employees are going to be able to reach everybody who has an appointment ... it's going to take them hours to do that, probably half a day," he explained. "It's not possible to reconfirm every single appointment. I prefer the airline style of overbooking. In my practice, the no-show rate is different on a Monday than it is on a Tuesday."

Have a giveaway item for those times when everyone shows up or for when you are running behind. The giveaway at his office is a small gift bag of moisturizer and sunscreen samples.

▶ **Manage your managed care contracts.** "Keep them all in one place," Dr. Pariser said. "Have a tickler file to know when they renew. Evaluate each contract every year to see how they're paying and to see what their procedures are and decide if you want to [sign a contract] or not. Learn to say no to the ones who don't pay up."

▶ **Accurately code before you file the claims.** Don't wait for your claims to be denied or sent back because you didn't file it right. "Your coder needs to be dermatology certified," he said. "Do as much as you can on the front end. I still hear of people who file claims for a procedure before they get the results of a biopsy back. If you do that, how do you know if it was benign or malignant?"

Instituting a coding compliance program can help you maximize the claims process. "We have our senior coding person give the doctors feedback every so often as to how well they've been coding," he said.

Know the CPT codes for site-specific biopsy. When used appropriately, the reimbursement rate is much higher for skin biopsy than when the site is not identified.

Know the CPT codes for site-specific destruction. When used appropriately, reimbursement is often higher than is the rate for general destruction codes.

▶ **Manage your phone calls.** A call to your office may be your only chance to make a good first impression. "Often the person who answers the phone is the lowest paid, newest person to the practice," Dr. Pariser said. "I think that's a mistake, because patients will form their opinions about how they like the practice and how they like you [from] their first impressions."

Staff members who answer the phone should be trained how to answer common questions in a consistent, friendly way.

"I also think it's very helpful to have extended phone coverage hours," he added. "We have somebody who starts to answer the phone at 7 in the morning, and we have people who stay until 6 at night. This allows our patients better access." ■