

MANAGING YOUR DERMATOLOGY PRACTICE

How to Read an Income Statement

Last month, I discussed the importance of learning to read and understand financial statements. It is the only way in which you can truly evaluate your practice's financial health.

I named the three barometers of financial strength: liquidity, solvency, and profitability. The first two are measured with the balance sheet, which I covered last month. Measuring profitability requires a separate tool: the income statement.

An income statement summarizes revenue and expenses for a specific time period, usually a year, although reports should be generated more frequently for large or complicated practices. Here are the essential components:

► **Total sales revenue (TSR).** Nicknamed the "top line," TSR represents the practice's gross income for the period. In large offices with multiple "providers" and/or multiple specialized services, TSR will be

broken down to identify and track all major revenue producers.

► **Operating costs.** In other words, overhead. For many practices, there is only one category of operating costs, usually called

general and administrative expenses (G&A). However, if you offer ancillary services, such as a spa, or sell a lot of products, your income statement should separate the costs of producing these products or services into a separate category called sales costs. Cosmetically oriented practices with large marketing expenses should have a third category to track them.

Many physicians instinctively strive to slash operating costs, but they often fail to distinguish between G&A expenses—which should be kept as low as possible—and sales and marketing costs. The latter often must be maintained or even increased. A practice spending 30% on overhead, for example, is not necessarily doing as well as one

spending 60%: Would you rather have 70% of \$250,000 or 40% of \$1 million?

► **Gross profit (or loss).** In practices with significant sales costs, this is the difference between sales revenue and sales/marketing costs. A positive difference is profit; a negative difference is a loss and is shown in brackets. If you offer ancillary products or services, this category determines if they, by themselves, are making money.

► **Operating income.** What's left when you subtract all the operating expenses from gross profit.

► **Income before taxes.** After subtracting any interest paid on outstanding debt from total operating income, you are left with the amount on which the practice may be liable for taxes.

► **Taxes.** All paid or anticipated taxes during the period, to all jurisdictions.

► **Net income from continuing operations.** After subtracting taxes from its income, this is what is left.

► **Nonrecurring events.** This is the cost of any one-time expenses, such as restructuring the practice or an unreimbursed casualty loss. These are shown on

a separate line so as to not confuse the "continuing operations" figure.

► **Net income.** What the practice has left after subtracting all its expenses from its total revenue. If the difference is positive, it is profit. A negative difference is a loss and is shown in brackets. This is a different benchmark for a professional corporation than for most businesses, since professional corporations strive to minimize net income, and thus corporate taxes.

► **Net income available to shareholders.** This is the bottom line, the money left at the end of the period. It is held for future needs, invested as the board directs, or returned to investors in the future.

It takes awhile to become adept at analyzing financial reports, so ask your accountant to walk you through your practice's balance sheet and income statement and point out the important indicators. ■

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BY JOSEPH S. EASTERN, M.D.

Easing Back Into the Big Easy

New Orleans from page 1

Dr. Lupo said the disruption to her practice has taken a significant financial toll as well. "It's been catastrophic," she said.

Dr. Lupo, who does a lot of cosmetic work, said she generates about half of her gross income between September and December, the busy social season in New Orleans. "The timing could not have been worse for me," she said.

Since she owns her practice and has saved over the years, Dr. Lupo said she expects to be able to rebuild and continue in New Orleans but she estimates that her practice cash flow will be affected for the next 18 months. She also anticipates the need to be flexible and ready to adjust to the changing demographics of the city and her practice.

Dr. Lupo said it's likely that she will lose many of her indigent and low-income patients, who may not return to the city. But she expects to maintain her fee-for-service cosmetic patients.

Dr. Lupo remains optimistic both about the future of her practice and her native city. "It gives me a chance to reevaluate, revamp, and rejuvenate," she said.

She has also had time to think about changes to the business end of her practice, considering, for instance, whether to invest in an electronic medical record. Though her paper records remained intact, she said an electronic system would have made it easier to communicate information to patients, pharmacists, and other physicians immediately after the storm.

Another area dermatologist taking stock of her practice in the wake of Katrina is Dr. Elizabeth McBurney, a dermatologist who lives and works in Slidell, La. She has been seeing patients since late September. The biggest challenge, she said, has been

dealing with the personal issues and coming in and trying to be professional and calm. She said that as of last month, five members of her staff were still living out of Federal Emergency Management Agency trailers. "[The staff has] really done a beautiful job," she said.

Dr. McBurney's office had electricity as early as September, but the phone service at the time was unreliable and getting in touch with patients was difficult. "The real problem was communication," she commented.

In those first weeks after the storm, few patients came for scheduled appointments, and other patients showed up as walk-ins, she said.

Dr. McBurney and her colleagues are now seeing some of their regular patients, new and displaced patients, and even patients who have come to the area as part of the rebuilding effort in and around New Orleans. ■

Residents Return to New Orleans

The dermatology training programs in New Orleans continue to be affected with residents from Tulane University and Louisiana State University being relocated to neighboring areas. For instance, residents at Tulane University are temporarily continuing their training in Houston, at the University of Texas and Baylor College, while residents in LSU have been relocated to Baton Rouge, La.

The Tulane residents have been an asset in Houston, said Dr. Ronald P. Rapini, professor and chair of the department of dermatology at the University of Texas. "We enjoy having the extra help," he said.

There is a long waiting list for dermatologic care in the Houston area, he said, and with more than 100,000 people coming here from New Orleans, it's good to have the help.

"All of our wants have definitely

been met," said Dr. Nicole Rogers, a second-year resident in the Tulane dermatology program.

The Tulane residents have been able to work with great physician-teachers in the University of Texas program and benefit from seeing how other programs operate, she said. A substantial challenge has been logistical, Dr. Rogers said. Residents have had to scramble to find new housing arrangements in Houston, many continue to pay double rents, and some are even sleeping on air mattresses as they wait to find out when they can return to New Orleans, she said.

But the biggest challenge has been the uncertainty of not knowing when they will return to New Orleans, she said. At press time, Tulane dermatology chairman Dr. Larry Millikan said that they are planning for the return of the residents.

AAD Mobilizes Efforts in Response to Hurricane Katrina

In the wake of Hurricane Katrina, the American Academy of Dermatology is taking a new look at the way it prepares for disasters.

Officials at AAD have decided to broaden the scope of the academy's Bioterrorism Task Force and have renamed it the Bioterrorism and Natural Disasters Task Force. The group is charged with coordinating educational efforts for nondermatologist physicians who may be diagnosing skin diseases in a disaster. AAD has also compiled a list of dermatologists who can be contacted

for consults by these physicians.

This task force will also offer an opportunity for AAD to compile some of the lessons learned from dermatologists affected by Katrina, said AAD President Clay Cockerell.

At this point, most dermatologists are either settling back in the area or have relocated, Dr. Cockerell said. "Things have pretty much settled down." AAD is continuing to offer its low-cost loan program to affected dermatologists but few people have utilized it, he said.

AAD is also continuing as a clearinghouse to coordinate member calls for assistance and support after Katrina. The academy has also developed a Web page for both members and the public (www.aad.org/public/hurricane/) to access information on medical licensure, change of address forms, residency questions, information on where to donate, and information on diseases specific to disaster conditions. In addition, AAD is waiving payment of 2006 dues to members in the affected area upon request.