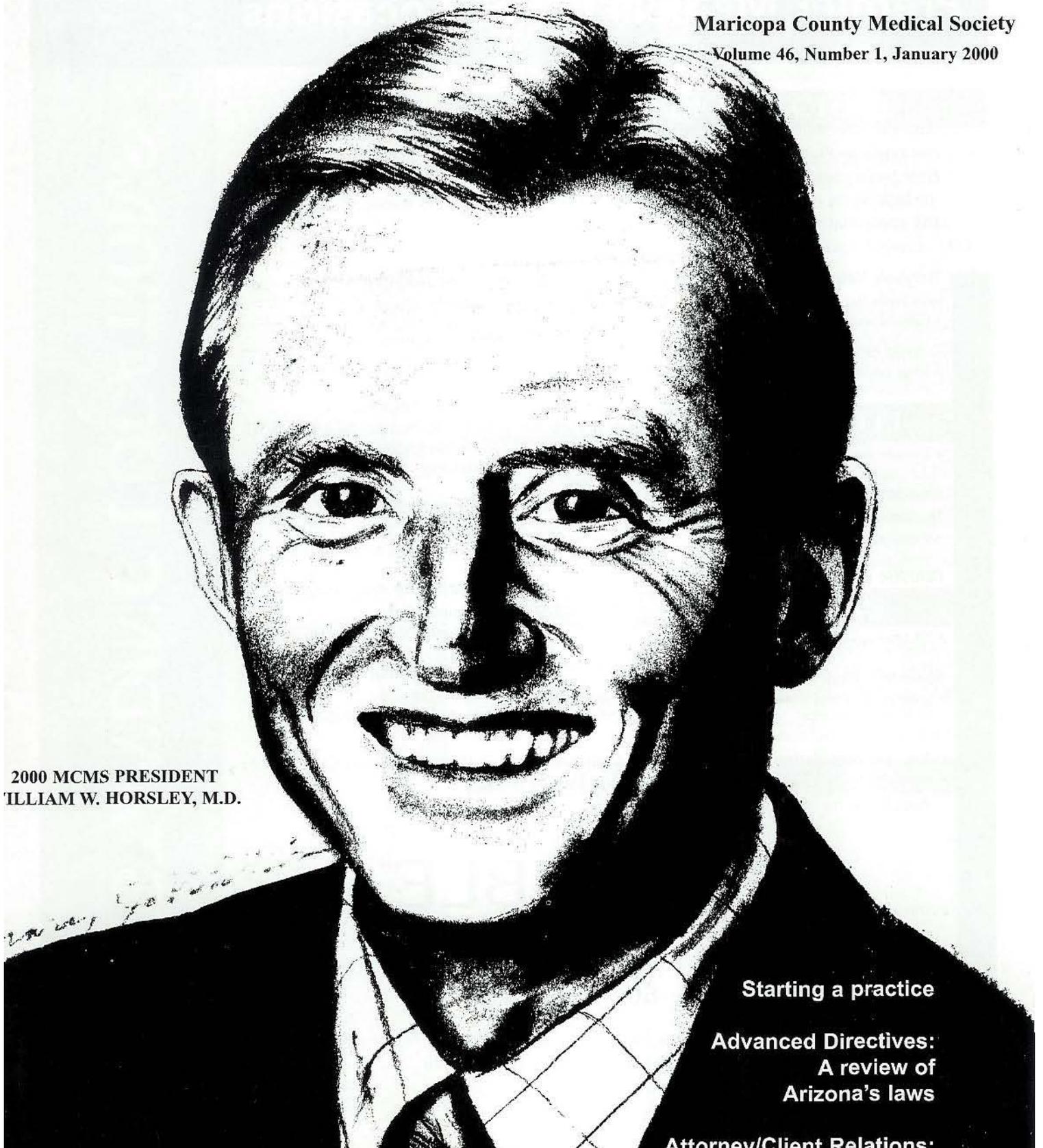


ROUND-UP

Maricopa County Medical Society

Volume 46, Number 1, January 2000



2000 MCMS PRESIDENT
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Starting a practice

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Considerations in Starting a Practice: Forming Your Team of Experts

By: Anne Cornelius, CPA

Starting a new medical practice can be a terrifying and painful experience. But with careful planning and the right supporting team of professional advisors, a new practice, like any small business, has a much greater opportunity for success. It is important to first consider whether or not owning your own practice is right for you.

Ask Yourself these 5 questions:

1. Do I want to be independent, create my own policies, procedures, etc? Do I want the freedom to create my own practice the way I envision it to be?
2. Am I ready to market myself to the public...to referring physicians...to other appropriate agencies?
3. How long am I willing to go without a paycheck while I grow my practice? Can I then survive with a minimal salary after the initial start-up and during the early growth period?
4. Do I want to take on the responsibilities associated with governmental reporting requirements, collections, debts, and having my own staff?
5. Do I like the concept of choosing my own retirement plan and charting my own financial future?

Once you've carefully weighed your options and determined that you want your own practice, the next step is to...

Plan Your Future - Don't Make Hasty Decisions

Before you do anything, the single most important step you can take is to put in place a key advisor; one who will look out for your best interests and can help you implement the steps needed to get you where you want to go. A good Certified Public Accountant experienced in practice development and management is a good place to start.

You'll want a CPA who'll work with you through the start-up phase and stick with you through the years. Your CPA will be your primary financial and tax advisor. A good one will hold your hand throughout the start-up phase, helping you in the development of a business plan, and selecting and forming your professional team of advisors (attorney, banker, etc.). Your accountant will guide you in the appropriate selection of the business entity (Corp., LLC., etc) and will make sure that you are in compliance with all of those government requirements.

Planning, Planning, Planning

Prepare a business plan. If you are planning to look for capital financing, you'll most likely need to show your lender a business plan. The plan should be well thought out and include a realistic financial projection, information on your office space lease and location, and a marketing plan. Financial institutions look for a business plan that shows you have considered all aspects of starting a new medical practice. You'll want your plan to

make a great presentation. Your business plan is a great management tool. You'll be able to compare projected figures to actual revenues and expenses and modify the management of your practice as appropriate. A regular review of your plan will remind you of your goals and help keep you on the right path. Your CPA will work with you to prepare a comprehensive plan and will help you compare and interpret your actual results on an ongoing basis.

Forming the Professional Team

The Professional team should consist of a certified public accountant, a banker, an attorney and a practice management consultant. In addition, you may need to find an insurance agent, a pension plan advisor, a billing agency, a staffing agency, a real estate leasing agent, equipment vendors, and an equipment leasing company. Your professional team will assist you with your planning and start-up.

Your Certified Public Accountant

Your certified public accountant can set up your internal accounting system, with a keen eye toward cash flow efficiency, reporting, privacy, and theft prevention measures. Your CPA will help you decide on your legal form of entity and make certain all legal documents are complete and timely filed. The accountant will also apply for all appropriate ID numbers, registrations, workers compensation coverage, etc. This part of the start-up process is critical in assuring that you will not later experience undesired and costly consequences of choosing an inappropriate form of entity or failure to file all necessary documents. One of the ongoing and primary responsibilities of your CPA will be to prepare monthly historical financial statements for your practice. These reports will accurately depict the assets and debts of your business, as well as inform you

of your current monthly and year-to-date income and expenses. Other information may also be provided. Make sure that you have a good understanding of how to interpret your financial statements. Your CPA should explain the figures to you. If you still have questions, always ask. Knowing how to read and interpret your financial statements will help you to better manage the financial aspects of your business.

Every business entity has some type of financial reporting requirement, even if the information is only reported on your personal income tax return. Most medical practices, however, will be required to file either partnership or corporate income tax returns with the Internal Revenue Service and the State of Arizona. Your certified public accountant will prepare these annual returns for you and instruct you as to how, where and when to file. Other returns you will probably file include quarterly and annual payroll tax reports and perhaps sales and use tax reports.

Your Banker

A relationship should be established with a bank that has a sincere interest in working with your new business, both in the start-up phase and for the long haul. Forming this relationship during the formulation of your business plan ensures you meet all the necessary guidelines set forth by the financial institution. You'll want to deal with a banker that gives you the personal attention you'll need to get your practice off the ground. If capitalization is a concern, shopping for a good bank is of even greater concern. Compare interest rates, application requirements, banking convenience, lending policies, and overall comfort level of various banks before choosing one best suited to your needs.

Your Attorney

An attorney should review any and all lease agreements, contracts, and policy manuals. In most cases your attorney will also agree to serve as your statutory agent. In addition, your attorney can prepare documents relating to the formation of your legal entity. Choosing a form of entity is no task to be taken lightly. If you are considering starting a new practice, you'll need to consider the various forms of business organization and choose the form of entity best suited to the nature of the business and your own individual needs, as well. Consideration should be given to tax treatment, available benefits and liability issues, just to name a few. The primary forms of entity available to a business are sole proprietorship, partnership, limited partnership, Corporation, S-Corporation, and Limited Liability Company (LLC). Many CPA firms will also help you form your entity if not done through your attorney. In either case, your CPA should make sure that your legal records are complete.

Your Practice Management Consultant

This team member will review your space plans and make necessary suggestions for improvement, request telephone services and make arrangements with your answering service. Your practice management consultant will help you develop your fee schedule, create office forms and help you with your staffing requirements. One of the most important things your consultant can do for you is to assist you with your credentialing. They will help you complete insurance plan, hospital, and other required credentialing applications. Your consultant can help you negotiate contracts with various health insurance providers, weed out the bad ones and point you toward the better ones.

In addition to a core team of professional advisors, you will need the services of other experts. Your core advisors will help set you up with other advisors such as an insurance agent and equipment vendors.

You'll need to sit down with your insurance agent in the planning stage of your new practice. Putting in place a sound malpractice insurance policy is a top priority. You'll also want to look at a disability policy for yourself and group coverage for both you and your staff. There are other types of insurance that may provide additional tax benefits and you should discuss with your CPA and insurance agent their applicability to your own individual situation.

Unless you plan to immediately take on a staff sufficient to tackle the enormous task of handling your receivables and insurance billings, you'll need an outside agency to handle your billing needs. Your practice consultant may provide such services on your own premises, or you may wish to use a billing agency. Such a company can bill your patients, collect your fees, and make deposits to your bank account. They will also handle all of your insurance paperwork for you, as well as billing inquiries from patients. The drawback to using an outside agency instead of working with your practice management consultant is that you will have less control over the billing function. You'll want to carefully weigh the pros and cons of either method.

If your practice management consultant does not assist you with your staffing needs, you'll want to look for an agency that specializes in medical practice staffing. At a minimum, you will need a small administrative staff and a nurse. Even if you don't expect to keep full time hours initially, you'll want a receptionist available during normal business hours to take inquiries and schedule appointments.

Determining staff size is often done as part of your business plan.

You will probably want to do some basic bookkeeping (check writing, for example) in-house. If you have the proper staffing, you may even want to keep a computerized basic accounting system. Having such a system reduces the amount of time your CPA needs to spend on preparing your financial statements. Your CPA can work with you or your staff to set up such a system. It is recommended that this only be done if you have a competent and highly trustworthy staff member who is knowledgeable in bookkeeping functions. In many start-up practices it is not especially practical to hire a bookkeeper, as the work required would not be enough to keep a full-time bookkeeper busy.

When you're ready to begin shopping for office space, you'll need someone who can work on your behalf to negotiate the best possible lease agreement. A real estate firm experienced in medical office leases can help you negotiate your lease term, tenant improvements and your load factor.

Lining up a source for your medical equipment is a must in the early planning stage. All of your medical equipment, from exam tables to stethoscopes, needs to be ordered, manufactured and in place when your doors open for business. And let's not forget your basic office supplies. Examples include items unique to a medical practice such as prescription pads and "superbills".

Unless you expect to have enough capital at your disposal to buy your medical equipment outright, you'll want to consider a leasing arrangement. There are many equipment leasing companies out there and it is important to shop and compare. There are two basic types of equipment leases. A lease can be set up as a straight lease, which means that at the end of the contract you do not own

the equipment, but can purchase it for fair market value. Or the lease can be set up as a lease/purchase, meaning that at the end of the contract you own the equipment or can purchase it for a nominal price, typically \$1. Either choice results in different tax consequences and you should consult your CPA before making a decision.

Your pension advisor can help set up the appropriate retirement plan for each stage of your business development. Even if you're young and just out of residency, you'll want to implement some form of retirement planning as you start your professional career. It takes many years to put enough away to maintain the same standard of living after retirement, as you will in your prime earning years. There are many types of retirement plans available to the future-oriented professional. Among these are a profit sharing plan, money purchase pension plan, SEP-IRA, 401(k) plan, and defined benefit plan. Your CPA will help you choose the one best suited to you and your staff.

As you can see, opening a new medical practice requires a great deal of careful planning and consideration of many critical issues, from formation of your legal entity to credentialing and compliance with various governmental agencies. Your team of experts can help you with these important steps and so much more. Forming your professional team early can help put you on the course of long-term success and keep you there.