

## Year End Planning Strategies

### A Top 10 Checklist

Montgomery County Medical Society  
Practice Management Update Meeting  
Shady Grove Adventist Hospital  
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## Year End Planning Strategies

### A Top 10 Checklist

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## Top 10 Year End Planning Strategies

- ♦ Purpose of this presentation is to provide a comprehensive check-list for year-end planning to reduce problems related to financial reconciliation, cash flow planning, and more

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## Step One – Start Early

- ◆ Prepare in advance. Don't wait until December to develop your plan
  - Vacations and holidays typically reduce availability and productivity of staff, physicians, bankers, retirement administrators, vendors, etc.
  - Determine now if you are going to delegate portions of the project. Identify who will be involved and what their roles will be. Leave time to review their work and for possible revisions.
  - Identify and communicate the plan up the hierarchy.

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## Step Two – Make sure internal records are up-to-date and accurate

- ◆ All balance sheet accounts should be supported
  - Bank accounts – look at the reconciling items
    - Are there old deposits in transit? Resolve them.
    - Address stale, outdated checks – escheat them or write them off.
  - Review the activity in fixed asset accounts.
    - Are asset purchases sitting in proper accounts?

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## Step Two Continued....

- ◆ Loan Accounts – Verify principal balance(s) to loan statements or amortization schedules. Make sure that loan draws properly hit liability accounts rather than revenue account
- ◆ Read the balance sheet – Is it reasonable? Does it make sense?
  - Look for asset accounts with credit balances and liability accounts with debit balances.
  - Do you understand the accounts?

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## Step Two Continued...

- ◆ Read the Profit & Loss Statement – Is it reasonable?
  - Reconcile collections to your billing software
  - Perform analytical review by comparing income and expenses YTD to the budgets
  - Compare YTD to prior year
  - Investigate significant variances
  - Anticipate questions that the stakeholders may have
- ◆ Take OWNERSHIP of the financial statements

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## Step Three – Ensure adequate financing is available

- ◆ If not, remember that time may be needed to process paperwork for a line of credit
- ◆ Allow additional time if you do not have direct contact or a relationship with the banker yourself
- ◆ May need to evaluate compliance with any loan covenants

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## Step Four – Get your accountant involved now

- ◆ Together you can:
  - Determine and plan for tax liabilities, both Company and stakeholders
  - Consider alternative strategies, including
    - Depreciation elections
    - Planned extent of retirement plan funding
    - Staff and/or owner bonuses, etc.

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### Step Four Continued....

- ◆ Take advantage of available options – many windows of opportunity close to December 31<sup>st</sup>:
  - If cash basis taxpayer, ability to prepay expenses, pay bonuses, accelerate deductions into this year to reduce taxable income
  - Opportunity to purchase or dispose of assets
  - Pension plan funding must be established prior to year-end, even if funding will occur next year

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### Step Four Continued...

- ◆ Plan for the cash requirements necessary to attain all tax and business goals
- ◆ Discuss the deadlines – Dec 31<sup>st</sup>? Others?

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### Step Five – Anticipate timing of collections

- ◆ Low collections in December due to holidays
  - Motivate/remind staff to aggressively pursue collections and denials
  - Insurance companies tend to get behind due to holidays
- ◆ Anticipate low collections in January
  - Deductibles, lower utilization
  - Emphasize staff diligence in collecting patient portions up front

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### Step Five Continued...

- ◆ Include the billing department or billing service in developing the projection since they may have knowledge of upcoming issues that you do not
- ◆ The projections of collections for the purpose of year-end planning should initially be conservative

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### Step Six – Anticipate cash flow needed for expenses

- ◆ (Pre?)payments to be made in December
  - Bonuses for staff, physicians
  - Distributions to owners to meet personal tax obligations, etc.
  - Malpractice insurance – how much will next year's premium be?

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### Step Seven – Consider asset/equipment acquisitions and disposals

- ◆ Tax implications - \$250,000 IRC Section 179 election with phase-out beginning at \$800,000
- ◆ Disposals may result in taxable gains, especially if "bonus" depreciation was taken on assets in prior years
- ◆ Look ahead to assets/equipment needed now or in the near future
- ◆ Your accountant should be working with you in addressing these questions and their impact

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**Step Eight – Look around the corner**

- ◆ Occurrences that may impact the availability of cash in early 2010
  - Health insurance renewal resulting in a potential increased premium
  - Annual staff increases effective in January

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**Step Nine – Use CY performance to set 2010 budgets/projections**

- ◆ Modify as needed for:
  - Upcoming changes in managed care contracts and the impact they may have on collections
  - Anticipated changes in number of physicians and/or providers
  - Facilities/equipment/technology needs, including repairs, replacements, and upgrades

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**Step Ten – Final communication with the stakeholders**

- ◆ This communication should preferably be held in person, with all stakeholders in attendance, to avoid any misinterpretation and allow for open discussion
- ◆ Last chance to make sure that they are on board, and obtain their agreement

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## Step Ten – Continued...

- ◆ Communicate what is expected within the next few months – operations, cash flow and taxes
  - Projected cash in and cash out from operations
  - Timing and amount of tax payments
    - 4<sup>th</sup> quarter state estimates to be paid prior to 12/31/09
    - 4<sup>th</sup> quarter federal estimates to be paid by 1/15/10
    - Expected tax balances – business and/or personal liabilities – due 4/15/10
    - Retirement plan funding to be paid prior to filing the tax return
    - 1<sup>st</sup> quarter estimates due 4/15/10

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## Step Ten – Continued...

- ◆ Any minor variations that occur after this meeting can most likely be dealt with informally
- ◆ Significant variations subsequent to the meeting may require more formal measures, depending on the your practice culture
- ◆ Present 2010 budget/projections for the practice in this meeting if feasible

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## Questions



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