Financial Reporting and Management In the Successful Ophthalmic ASC

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Financial Disclosures

• Stephen C. Sheppard is a Managing Principal of Medical Consulting Group, LLC. He acknowledges a financial interest in the subject matter of this presentation.

• Erin C. Malloy is an ASC Consultant with Medical Consulting Group, LLC. She acknowledges a financial interest in the subject matter of this presentation.

Reporting and Management Goals

• Reporting Goals
  – Identify trends, both internal and external
  – Ensure compliance with regulators and other third-parties
  – Drive decision-making to critical areas

• Financial Management Goals
  – Maintain profitability
  – Enhance efficiency
  – Create equity
  – Provide long-term stability
Develop an Effective Reporting System

- Data collection and recordkeeping
  - The general ledger
  - The chart of accounts
- Basic financial statements and their use
  - Balance sheet
  - Income statement
  - Statement of changes in cash
- Accounting methods – cash or accrual basis
- Do I need an outside CPA?

Financial Reporting Considerations

- Frequency of reports
- “Paralysis by analysis”
- Meet stakeholder needs
  - Owners
  - Staff members
  - Lenders
  - Regulators

Benchmarks and Trends

- External benchmarks
  - OOSS, ASCA, MGMA
  - Operational elements, e.g., procedures, cases, case mix
  - Financial elements, e.g., charges, collections, ratios
- Internal benchmarks
  - Reflect your center’s characteristics
  - Trending is critical and valuable
- Focus on “controllable” and “material” elements
The “Big Two” Controllable Costs

- Labor Expenses
  - What are FTEs?
  - What are “fully burdened” costs?
  - Labor Cost Ratio (20% to 30%)
  - Labor Hours Per Incisional Surgery (5.5 to 9.5)
  - Collections Per FTE ($250,000 to $400,000)
  - Incisional Cases Per FTE (275 – 350)
  - Staffing decision impacts

- Surgical Supplies Expenses
  - Surgical Supplies Expense Ratio (20% to 30%)
  - What’s included
  - Comparing to external benchmarks
  - Focus on internal trending
  - Beware of cash basis traps
  - Accounting for “pass through” expenses

Other Key Financial Elements

- Incisional case counts
  - Review weekly and monthly
  - Chart the trend
  - Maintain a 3 month surgical schedule
  - Sound the alarm at the FIRST sign of danger

- Accounts receivable and the revenue cycle
  - Four primary revenue cycle functions
  - Know the inter-relationships
  - Days Collections in Accounts Receivable (35 to 45 days)
  - Focus on the Accounts Receivable Aging
Cash Flow Management and Long Term Planning

- Claims on cash flow
  - Operating expenses
  - Long term debt repayment
  - Reserves for capital expenditures
  - Unanticipated cash needs, e.g., ICD-10 implementation
  - Distributions or dividends to owners

- Long term debt
  - Review and summarize the documents
  - Identify reporting requirements, e.g., “coverage” ratios
  - Maturity, renewals and balloons

Cash Flow Management and Long Term Planning (cont.)

- Capital purchases and the nature of “depreciation”
  - TANSTAAFL or there is no free lunch
  - Depreciation is a “real” expense
  - Plan for obsolescence and exhaustion

- Operating reserves
  - For known operational needs (minimum of 15 days expenses)
  - Known non-recurring events, e.g., purchase a femto laser
  - Periodic material payments, e.g., property taxes, professional liability insurance, etc.

Cash Flow Management and Long Term Planning (cont.)

- Distributions and dividends
  - Profit is not a four letter word
  - Owners expect profitable operations
  - Establish a schedule
  - Try to be consistent AND conservative
  - What is “phantom income” and why it is BAD
Thank You. Questions?