



CANADIAN ASSOCIATION OF OPTOMETRISTS  
ASSOCIATION CANADIENNE DES OPTOMÉTRISTES

CAO PRACTICE MANAGEMENT

MODULE 1  
THE NEW DOCTOR OF OPTOMETRY  
FINANCIAL MANAGEMENT





CAO wishes to thank Dr. Howard Dolman  
for his generous assistance in reviewing these materials.

CAO extends it's thanks to Dr. Howard Dolman for his

## Module 1

### The New Doctor of Optometry

#### Introduction

##### **Learning Objectives**

- *Finding the right mentors and advisors*
- *The Role of your mentors and advisors*

##### **Key Messages**

- *Practice management addresses issues that affect the day to day operation of your clinic. They encompass finances, human resources, professional and legal activities.*
- *Whether you've just started in the profession or have been a practicing OD for years, you should be looking for professional advice to help you manage your practice.*

##### **Establishing Your Professional Advisory Team**

Doctors of Optometry are trained to be eye experts. The focus of education is predominantly on the clinical aspects of your role. However, once you are out in your own practice there are a number of activities that you are required to do that have little to do with clinical work. Although these responsibilities sit on the business side or back office, they are critical to running a successful practice. Getting the assistance of professionals who specialize in that part of the business will help you to stay on track and allow you to focus your energy on what really matters, serving your patients.

CAO encourages members to use the same preventative philosophy towards their business management as you do towards your patients' eye health. In short, don't wait for things to go

wrong before seeking advice. Take care of your business in a proactive manner. Don't forget to include your own personal well-being (financial and health) as part of that process.

In order to get started you will want conduct a thorough self-audit that includes a vision of where you want to be. Consider the following questions:

- Where am I now?
- Where do I want to be?
- What type of practice do I want?
- What size, with how many employees?
- What kind of environment do I want to work in?
- How long do I want to take to get there?
- What assets do I have (financial and intellectual)?
- How do I get there?
- What professional advice should I get to help me make decisions?

*There are many self-audit tools available online and a sample one has been included here.*

Members of your professional advisory team should include:

- a financial consultant
- an accountant
- insurance advisors
- lawyers who specialize in personal, family and contract law (lawyers familiar with health professional practices are the best starting point).
- a banker (someone with decision making ability is best)

This module will provide an overview of the roles and responsibilities of each of these professionals.

## The Roles of Your Professional Advisors

Although all professional advisers will provide benefit to your practice, two key advisers are your financial adviser (planner) and your accountant. You should meet regularly with both. Finding the right people will depend on a number of factors, not the least of which is your own comfort level, but it is best to find advisers who are familiar with optometric practices. If that is not feasible, then consider professionals familiar with dental or independent pharmacy practices.

### Financial Advisor

When choosing a financial adviser consider a certified financial planner who is not affiliated with a specific investment company. This will reduce possible bias towards certain investment products. Using your financial planner wisely means treating them as more than an investment broker. They can also help you to manage debt, cash flow and ensure a strong financial future. There are six areas where your financial adviser can help you.

1. Cash flow: Understanding your cash flow is a pillar of effective financial management. Without an understanding of your cash flow you cannot maintain an effective budget.

What is Cash flow?

- Income – things such as salary, rents and dividends
- Expenses – things like, occupancy costs, taxes, staff salary, cost of goods and fees
- Assets – the things you do with the money you make such as savings, investments, property
- Liabilities – these are things such as home loan, credit cards, personal loans and investment loans

2. Net worth statement: Most recent graduates carry a significant debt load. This might result in them thinking there is no point in assessing their value. But without that initial assessment it is very hard to establish a benchmark. How will you know how you are progressing if you do not know where you started?

*This module will provide you with a sample sheet of the things required to estimate your net worth.*

3. Debt status. Your debt can be rated as good, acceptable or bad—for example, tax-deductible debt arising from business loans is good debt; low-interest mortgages and personal lines of credit are acceptable debt; and high-interest credit card debt is bad debt. The truth is, no debt is really a “good” idea, but some have more consequence than others.

By analyzing your debt status, a financial consultant can recommend efficient debt load reduction measures.

4. Personal line of credit and interest rates: Your financial consultant can help you to negotiate with the bank for the best interest rates for your personal line of credit. A concise and well organized cash flow statement, net worth statement and business plan will be of great assistance when you are negotiating with any financial institution.
5. Life insurance: Your financial consultant can assist you to project your life insurance requirements by conducting an objective and unbiased review of your present and potential future liabilities, which also takes into account your aspirations for your family.
6. Financial plan and investment strategy: Once your financial counsellor has gathered and analyzed all of the above information, he/she can help you to develop a financial plan that addresses your current debt load management, as well as an investment strategy that addresses your short-, intermediate- and long-term goals.

### **Accountant**

Accountants can provide advice regarding the tax deductions and credits that you can claim now, as well as the expenditures made during school that may be carried forward and deducted once you enter practice.

Setting up personal and professional financial records and bank accounts before you start practice will save you a lot of time and money in the long run. Your accountant's advice is also essential when you look at the potential advantages of incorporation.

Although the clinical portion of an optometric practice bears a lot of resemblance to a medical practice, their location in high traffic retail spaces and the number of high end products they have on display in their showrooms mark them as a very different operation. Your optometric practice will need to consider:

1. Sales taxes: provincial sales tax does not generally apply to examination fees, or prescription eyeglasses, but it does apply to sunglasses and accessories. The GST or HST (if you are in a province that harmonized its sales tax with the Federal system) has similar rules of application, but of course must be accounted for, and reported, separately in a non-HST province.
2. Computing and claiming input tax credits: GST or HST carries with it the additional complexity of calculating input tax credits, which can be a financial relief to your practice. Your accountant can help you determine what is exempt, what has a zero rating and what is

fully taxable (e.g., sunglasses and accessories). An accountant can also help you to claim back a portion of the GST/HST you are charged on general business expenses.

**Inventory write-downs:** Write downs are an ongoing requirement since it is impossible to guess ahead of time what particular frames will sell well. Determining the appropriate level of write-downs can be a significant financial reporting issue, and your bank will also track ~~you~~ **your** inventory level.

3. **Location:** Shopping centres can insist on specific design requirements and involve mandatory leasehold improvements, consistent with those of your fellow merchants. Depending on your leasing agreement, you may also be required to report your sales to the property managers on a regular basis in order to calculate a rental surcharge. Some popular shopping areas can have very high rents, on a square-foot basis. It's usually expensive to locate your business in a high-volume location, but there may be little choice, given the importance of walk-by traffic.

The principles of taxation and accounting are examined in more detail in Module 4. Personal and Professional Accounting and Taxation.

### **Insurance Advisor**

Insurance is at its most important when you are in debt. One mistake can severely impact your practice or cost you your career and your personal assets. Having appropriate insurance in place gives you coverage should a patient claim negligence or harm. Essentially, it gives you confidence and peace of mind.

It's important to keep in mind malpractice suits are often directed at a practice, at everyone who might have provided service to a patient. They can also be long drawn out activities.

In many ways insurance is the centre piece of your financial plan, make sure you have appropriate coverage. Consider the following:

1. **Disability insurance for income replacement.** Disability insurance should be purchased early on and re-evaluated annually.
2. **Life insurance.** Even if you presently have no dependents, you should buy life insurance. Your future liabilities will be greater than they are currently, and you may not be as insurable tomorrow as you are today. Your health, good lifestyle and youth enable you to buy insurance at preferential rates today.
3. **Property insurance.** For your home and personal goods.

4. Automobile insurance
5. Personal liability insurance
6. Office Overhead Insurance is an important piece of the insurance puzzle for a practice owner. Disability Insurance replaces the income side of the revenue generated. Office Overhead insurance covers the fixed expense (rent, property tax, insurance, utilities, etc.) when you are unable to work.
7. Critical Illness Insurance provides a lump sum when diagnosed with a specific disease and is worth understanding. Talking to your insurance broker about the different insurance products available is a good way to learn about your options.

*Personal and professional insurance issues are examined in more detail in Module 3. Personal And Professional Insurance.*

### **Legal Advisor**

Legal issues are part of every aspect of your personal and professional life. It is extremely important to seek professional legal advice before signing any contract. You may be reluctant to pay for legal advice but it can save you from anything from a lawsuit to a bad rental agreement. You will find that legal advice is very useful for:

1. Incorporation
2. Personal and professional contracts
3. Creditor protection
4. Home purchase agreements
5. Wills

*Legal concerns will be explored in more detail in Module 5. Legal Matters for Optometrists.*

### **Banker**

Managing a successful practice means you are focused on your patients and not your banking requirements. Establishing a strong relationship with a banker who is familiar with optometric practices will save you time, money and headaches. Keep in mind that all bankers will work more effectively (and confidently) with you if you are prepared. Organize in advance. Know where you sit financially before you show up and be clear about what you are trying to achieve. Bring a current curriculum vitae, a business plan and an income/employment projection.

Part of your prep work should be discovering your credit rating. Banks value your credit rating and your future income. Before approaching a bank manager, review the pros and cons of



student loan consolidation with your financial planner. Your objective will be to obtain prime rates for your personal line of credit and, when in practice, your professional line of credit.

You can check your credit rating by contacting:

- Equifax ([www.equifax.com/EFX\\_Canada](http://www.equifax.com/EFX_Canada))
- TransUnion ([www.transunion.ca](http://www.transunion.ca)) or
- Northern Credit Bureaus ([www.creditbureau.ca](http://www.creditbureau.ca)).

Credit ratings work on a seven-year cycle, so any late interest payments or failures to pay bills will negatively affect your rating for some time. Because errors are not uncommon, verify that any claim against you is legitimate. If you discover an error, you should apply, with documentation, for a correction.

When you are prepared, your banker can help you with a number of issues.

- **Business Acquisition Financing:** If you have decided to purchase a clinic they can help you to create a financing solution tailored to your needs. They will take into consideration the market value of your business, not just its physical assets. Most bankers will work with the rest of your advisory team to ensure the right outcome for you.
- **Leasehold/Equipment Financing:** Your banker can help you to access a capital loan for new equipment, an upgrade, furniture, fixtures or leaseholds for your practice.
- **Operating Financing:** You can establish a loan or line of credit for things like inventory and operating expenses.
- **Real Estate Financing:** As time goes by you may want to grow your practice. This may mean building at a new location, expanding an existing one or opening a second clinic. Your banker can help you with financing.
- **Optimizing Your Cash Flow:** Effectively managing your revenue cycle is the key to operating a successful optometrist practice. Working with your accountant to set up systems that make your billings and receivables flow faster is a great start.

When dealing with banks, it's always best to negotiate with someone who can make final decisions. This is usually the branch or loans manager. Don't be shy about approaching several banks at once. If you do not feel you are getting the service you deserve, look for an institution you are comfortable with.

## Sample Sheet - How to Determine Your Net Worth

1. List your largest assets. Include items such as your home, vehicles investments etc.. Make sure you use accurate estimates in current dollars.
2. Gather your latest statements for your more liquid assets. This includes bank accounts, cash or other investments such as retirement accounts.
3. List personal items that may be of value. Consider things such as, jewelry, coin collections, musical instruments, etc. You don't need to include everything, try to focus on things worth more than \$500.
4. Add the value of all of these things together and you have your total assets.
5. Now consider your liabilities. Start with the major outstanding liabilities such as the balance on your mortgage or car loans.
6. Next, list all of your personal liabilities such as credit cards, student loans, or any other debt.
7. Add up all of your liabilities to come up with total.
8. Finally, subtract the total liabilities from the total assets and you will have your net worth.
9. Repeat this process once a year and compare it with the previous year's number. You can then determine if you are making progress.

### Tips:

Be conservative with estimates, especially with home and vehicle values. Inflating the value of large assets may look good on paper, but may not paint an accurate picture of your net worth.