Forecasting H-Care Inc.’s Financial Statements\textsuperscript{1}

H-Care Inc., a not-for-profit health care provider, commenced operations one year ago. A group of health care professionals had got together, raised $50 million from various philanthropic foundations and borrowed $50 million from a consortium of banks. The debt, with a 10-year maturity, required coupon (interest) payments of 6% per year.

With the capital in hand, H-Care purchased $45 million in equipment prior to commencing operations. This equipment had an average depreciable life of five years.

In its first year of operations, H-Care generated $100 million in net patient service revenue.\textsuperscript{2} Of this, 75% was collected during the year, 20% (with very high chances of collection) was yet to be collected and would be booked as receivables. The remaining 5% would need to be categorized as ‘doubtful debt.’ The latter mostly arose from direct charges to non-paying patients who lacked insurance or were unable to meet insurance co-pays.

H-Care also had $1 million in investment income from interest received on its cash.

H-Care’s salaries and benefits for health care professionals and administrative staff during the first year totaled $55 million, rent payment for the building it had leased to house its operations was $3 million for the year, and insurance costs to cover risks of fire, malpractice, etc. totaled $2 million. In addition, H-Care purchased outside medical services totaling $5 million during the year.

H-Care also bought $20 million in medical consumables and supplies during its first year of operations, of which 80% was paid for during the year, and the rest, still due to suppliers, would be booked as payables. Of the $20 million in supplies purchased, $12 million was consumed during the year, the rest kept as inventory.

Looking ahead to the next year, H-Care forecasted net patient service revenue to grow 15%. Proportions of Year 2’s revenue actually collected during the year, receivables, and provision for doubtful debt were expected to be the same as in Year 1. Investment income was expected to continue at $1 million.

Supplies, rent, purchased services, and insurance were expected to grow at the same rate as revenue. Salaries and benefits would grow at a somewhat slower rate, totaling $60 million in Year 2. Additional supplies worth $15 million would be purchased in Year 2 (as before, 80% of that would be paid for during the year, the rest booked as payables.)

Finally, reflecting the need to scale up given H-Care’s forecasted revenue growth, H-Care foresaw the need for further capital expenditure to the tune of $10 million in Year 2. (This capital expenditure was also expected to have a 5-year depreciable life.)

\textsuperscript{1} This case was developed by Professor Anant K. Sundaram at the Tuck School of Business at Dartmouth, solely as a basis for class discussion. © 2011. anant.sundaram@tuck.dartmouth.edu

\textsuperscript{2} Net patient service revenue is defined as ‘gross’ patient service revenue (i.e., the amount charged) minus discounts associated with contracts that a provider negotiates with its major payers, which primarily consist of Medicare/Medicaid, insurers, and managed care organizations.
Assignment:

1) Develop the Income Statement, Balance Sheet, and Cash Flow Statement for H-Care Inc. for the first year of its operations.

2) Develop the *forecasted* Income Statement, Balance Sheet, and Cash Flow Statement for H-Care Inc. for the second year of its operations.

*Note 1:* As a check to see if everything balances, the cash position at the end of the first year should be $47 million, and at the end of the second year, it should be $53.75 million. (Note that beginning-of-year cash available at the start of Year 1 is $100 million, from the $50 million in foundation funding and the $50 million in debt).