**Shah Ophthalmology Cente**r 5/3/2010

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Background

Lee Shah, a board certified ophthalmologist, has been successful in private practice for 15 years. At the beginning of 2009 he met Ann Casey, a newly minted ophthalmologist, and agreed to employ her in his practice. (See contract terms below.) As a result Dr. Shah reorganized his practice as a new limited liability corporation, beginning with 2009.

Attachment One is the Income/Expense statement for the first year of the newly organized medical practice. Dr. Shah now wants to replace some of the aging medical equipments in the facility and add examining room equipments to accommodate Dr. Casey. These purchases will cost $385,000. He will have to borrow $298,000 to enact this renovation and wants to create a series of pro forma income/expense statements for the next three years to accompany his loan application.

Assumptions and Added Information

1. Dr. Ann Casey’s four-year contract provides for a starting salary of $125,000 for 2009 and a 9.85% increase for each of the next 3 years, after which a new partnership arrangement may be established depending upon results of the previous 4 years.
2. Dr. Lee Shah draws a salary of $250,000 plus retains the resulting annual profits (net income after taxes).
3. As a result of employing Dr. Casey the practice is expected to grow during the next three years as follows:

- Office visits 5% per year

- General surgery 9% per year

1. A local bank has informally offered a $298,000 loan for a six year period at 5.9% annual interest.
2. The practice employs an Office Manager, a Receptionist and a Medical Technician; all can expect a 2.5% salary increase each year for the next three years.
3. The practice employs a contract service to perform all its billings, bookkeeping

 and accounts payable needs. The contract service charges the practice at the rate

 of 2.98% of gross income and requires a 0.5% annual increase beginning in 2010.

1. Insurance for the Center is $30,000/year. With added surgical procedures

beginning in 2011, the annual insurance expense will be $55,000/year.

1. The lease for the office space, $50,000/year, includes a 2.5% increase in rent per year. And all other office expenses (materials & supplies, telephone & communications, marketing, and miscellaneous) are expected to increase 7.00% each year.
2. The new equipments have a five-year life and are depreciated on a straight-line basis.
3. Taxes on the corporation are 0% for the first $35,000 of profit and 19 % for the balance of profits.

Assignment

 1) Using the attached income/expense statement outline and the 2009 operating data

 as the base period, you are asked to calculate the following for the years 2010 –

 2012:

 - Total incomes for each year

 - Total expenses for each year

 - Gross profit for each year

 - Taxes for each year

 - Net Income for each year

 (Assume the loan is received and the equipments are purchased at the beginning

 of 2010.)

 Begin by completing the income/expense statement for the year 2010.

1. Dr. Shah has recently previewed the most recent refractive surgery equipments, which he is certified to use. Beginning in 2011 the Practice will lease these equipments and offer refractive surgery. Revenue from refractive surgery is expected to be $200,900 in 2011 and then increases 19% per year.

The equipments lease for $88,000 per year which includes all maintenance and supplies.

An additional Medical Technician will be needed in 2011 for this effort, with a starting salary of $60,000 (and with a 3.5% annual raise planned), and marketing expenses will increase to 12% beginning in 2011.

Assignment Deliverables

1. Income/Expense statement for 2009 and projected for the years 2010 – 2012
2. Income/Expense statement for 2009 and revised projected income/expense statement for 2010 – 2012 based on the addition of refractive surgery to the practice.

Hints:

* 1. Rounding numbers to whole integers will make the spreadsheets easier to read
	2. You should use formulas for the projections NOT hard numbers, so Dr. Shah can easily manipulate the spreadsheet in playing “what if” exercises on business expectations
	3. Be sure your printout for each pro forma fits on a single page, and is labeled appropriately.

Attachments:

If you have questions, contact the Teaching Assistant, Dr. Mona Dhillon at dhlllonm@.gwu.edu.