**Consider the following financial statements for BestCare HMO, a not-for-profit managed care plan:**

**BestCare HMO**

**Statement of Operation and Change in Net Assets**

**Year Ended June 30, 2007**

**(in thousand)**

Revenue:

Premiums earned $26,682.00

Co-insurance $ 1,689.00

Interest and other income $ 242.00

**Total revenue** **$28,613.00**

Expenses:

Salaries and benefits $15,154.00

Medical supplies and drugs $ 7,507.00

Insurance $ 3,963.00

Provision for bad debts $ 19.00

Depreciation $ 367.00

Interest $ 385.00

**Total expenses $27,395.00**

Net income $ 1,218.00

Net assets, beginning of year $ 900.00

Net assets, end of year $ 2,118.00

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**BestCare HMO**

**Balance Sheet**

**June 30, 2007**

**(in thousands)**

**Assets**

Cash and cash equivalents $ 2,737.00

Net premiums receivable $ 821.00

Supplies $ 387.00

Total current assets $ 3,945.00

Net property and equipment $ 5,924.00

Total assets $ 9,869.00

**Liabilities and Net Assets**

Accounts payable-medical services $ 2,145.00

Accrued expenses $ 929.00

Notes payable $ 141.00

Current portion of long-term debt $ 241.00

Total current liabilities $ 3,456.00

Long –term debt $ 4,295.00

Total liabilities $ 7,751.00

Net assets (equity) $ 2,118.00

Total liabilities and net assets $ 9,869.00

1. **Perform a Du Pont analysis on BestCare HMO. Assume that the industry average ratios are as follows:**

Total margin 3.8%

Total asset turnover 2.1

Equity multiplier 3.2

Return on Equity 25.5%

1. **Calculate and interpret the following ratios for BestCare:**

Industry Average

Return on assets (ROA) 8.0%

Current ratio 1.3

Days cash on hand 41 days

Average collection period 7 days

Debt ratio 69%

Debt-to-equity ratio 2.2%

Times interest earned (TIE) ratio 2.8

Fixed asset turnover ratio 5.2