

KEALANI KOBAYASHI, MD, INC.

# Kapolei Family Clinic

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Providing Medical Services to  
Adults and Families in the Ewa  
Plain

## Executive Business Plan



**December 2012**

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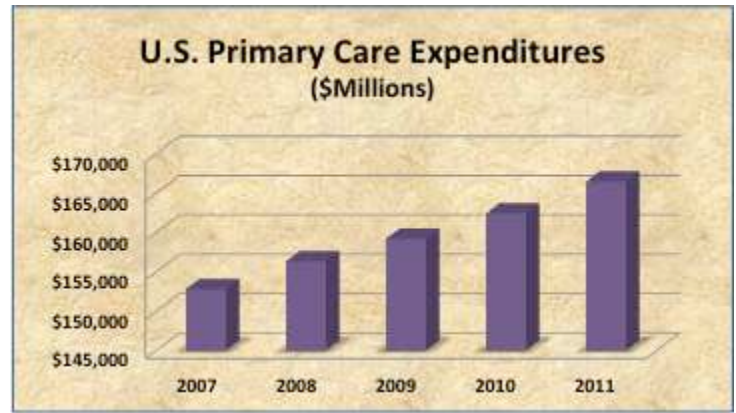
# EXECUTIVE SUMMARY

## FAMILY PRACTICE IN WEST OAHU

### HEALTHCARE SERVICES

Kealani Kobayashi, MD, Inc. is an S-corporation formed in Hawaii in November 2011. The purpose of the company is to establish the new family practice of Dr. Kealani Kobayashi in Kapolei, serving adults and families in the Ewa Plain. Family medicine is a practice devoted to comprehensive healthcare; it is a form of primary care that provides continuing healthcare for the individual and family across all ages, sexes, diseases and parts of the body. Primary and family care doctors are the gatekeepers of the U.S. health system. General and family care doctors practice health promotion, disease prevention, health maintenance, counseling, patient education, diagnosis and treatment of acute and chronic illnesses in a variety of settings (e.g., office, inpatient, critical care, long-term care, home care and day care). They are the first point of contact for people seeking healthcare by providing care for the whole body.

The essential nature of the primary care doctor has contributed to industry revenue growth during each of the five years to 2011. Despite the recession, which did cause revenue growth to decelerate, revenues grew approximately two percent per year nationwide to \$166.5 billion in 2011. Revenue growth decelerated during the recession as individuals and families lost insurance coverage because of unemployment or falling income. In 2011, revenue is estimated to have grown slightly faster, 2.5 percent, than the year before, which was two percent, reflecting a general improvement in economic conditions. In the years ahead, the industry is forecast to benefit from continued improvement in the economy and the healthcare reform laws of 2010. Most notably, the reform aims to provide health insurance to a considerably larger portion of the population starting in 2014. This trend will boost revenues, which are forecast to increase at an average of 4.1 percent annually during the five years to 2016, reaching \$204 billion.<sup>1</sup>



As a state, Hawaii has a mixed health record. On the plus side, Hawaii has high per capita public health funding, low rate of preventable hospitalizations, low rate of uninsured members of the population, and low rates of deaths due to cancer or cardiovascular disease. In part because of the state's 1974 Prepaid Healthcare Act, less than eight percent of Hawaii's population is without healthcare insurance of some type. In addition, the state has a lower prevalence of smoking, obesity, and air pollution, as well as a reasonable number of primary care physicians (148.5 physicians per 100,000 population statewide). However, on the down side, positive health indicators are not evenly spread by either geography (poor coverage on the neighbor islands and even around Oahu) or income (with rising poverty levels disproportionately affecting at-risk communities).<sup>2</sup> Except for the major urban areas around Honolulu, the entire state is federally designated as either a primary care health professional shortage area or partial shortage area.<sup>3</sup>

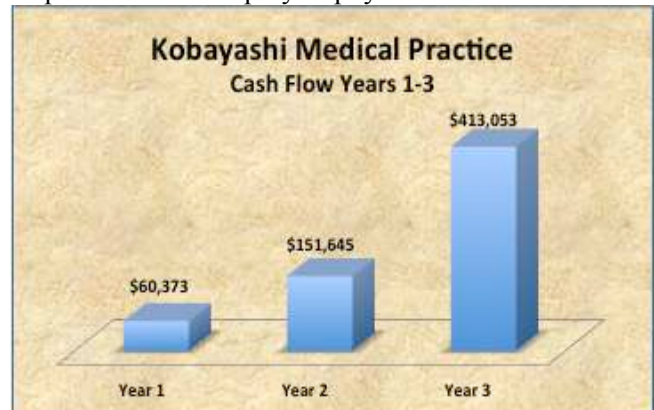
Dr. Kobayashi is exceptionally prepared to start her own practice. Having finished her primary residency at St. Raphael Hospital in New Haven, Connecticut (a Yale affiliate), Dr. Kobayashi arrived in Hawaii in 1988 to do a surgery rotation at the University of Hawaii. Following the U.H. rotation, for the next ten years she worked as an urgent care physician with Straub Clinic and Hospital. Since 2001, she has worked for two Waikiki Health Clinics with other doctors, as well as eight years with a primary care practice in Kapolei called The Medical

<sup>1</sup>. "Primary Care Doctors in the U.S.", IbisWorld Industry Report 62111a, October 2011, available at [www.ibisworld.com](http://www.ibisworld.com).  
<sup>2</sup>. See for example, [www.countyhealthrankings.org/hawaii](http://www.countyhealthrankings.org/hawaii).  
<sup>3</sup>. "Economic Impact of Family Physicians in Hawaii", American Academy of Family Physicians, June 2007, available at [http://www.aafp.org/online/etc/medialib/aafp\\_org/documents/policy/state/econimpact/hi.Par.0001.File.tmp/Hawaii.pdf](http://www.aafp.org/online/etc/medialib/aafp_org/documents/policy/state/econimpact/hi.Par.0001.File.tmp/Hawaii.pdf).

Corner Clinics. She has witnessed first hand the demand for primary care physicians in Kapolei, where her most recent employment reached patient capacity with three doctors in less than a year. The recent closure of Hawaii Medical Center Ewa will undoubtedly further increase the demand for physicians of all sorts in Ewa. Having gained both medical and business experience, and having substantially paid down her student loans, Dr. Kobayashi is now financial and practically ready to begin her own practice.

At this writing, Dr. Kobayashi is searching for the appropriate location in Kapolei. The new clinic will be approximately 1,200 square feet, with enough space for four exam rooms. The financial projections assume that the new practice will require three medical assistants to begin, until demand reaches 40 patients a day in the beginning of the second year of operations. Thereafter, the practice will employ a physician’s assistant and another medical assistant. The practice will offer primary healthcare to individuals and families with private insurance.

Medical record keeping and billing has been substantially streamlined in recently decades through the development of electronic health record (EHR) software. Shockingly, EHR usage is incredibly low in Hawaii, with only ten percent of all private doctors using this time and error saving technology.<sup>4</sup> With only six companies providing private insurance in Hawaii<sup>5</sup>, of which one is a Health Maintenance Organization (Kaiser) that only serves members, it is easy to choose software that corresponds with the HMSA system (insuring over half of Hawaii’s population), as well as the other four private insurers. This will allow Dr. Kobayashi, who is highly computer literate, to establish billing, practice management, and record keeping systems that provides maximum efficiency and reimbursement cycle.



An estimate of equipment, leasehold improvements and start-up costs shows that Dr. Kobayashi will require approximately \$200,500 in hard and soft costs to open the new practice. In addition, cash flow for the first year will require an additional \$75,000 in working capital as the practice builds clientele and adjusts to the 30-day insurance reimbursement cycle. Dr. Kobayashi will contribute \$75,000 to the working capital needs. Financial projections show that the practice will finish the first year with over \$60,000 positive cash flow, quickly rising in year two to \$150,000 and year three to over \$400,000.

The company seeks a \$225,000 term loan and \$50,000 line of credit, both of which will be paid down through the proceeds of the business and backed with a personal guarantee of Dr. Kobayashi.

<b>Financing Requirements</b>	<b>Amount</b>
Equipment and Supplies	\$146,830
Leasehold Improvements	\$ 22,000
Deposits, Professional Services	\$ 31,713
<b>Total Costs (Rounded)</b>	<b>\$200,500</b>
Working Capital Requirements	\$75,000
Of Which, Term Loan	\$25,000
<b>Term Loan Sought</b>	<b>\$225,500</b>
<b>Line of Credit Sought</b>	<b>\$50,000</b>

<sup>4</sup> . Data quoted at forum “How Healthy is Healthcare in Hawaii?”, December 6, 2011, by Big Island Senator and Physician Josh Green.

<sup>5</sup> . They are HMAA, HMSA, Kaiser, Summerlin Life & Health, United Healthcare, and University Health Alliance (UHA).

# BACKGROUND

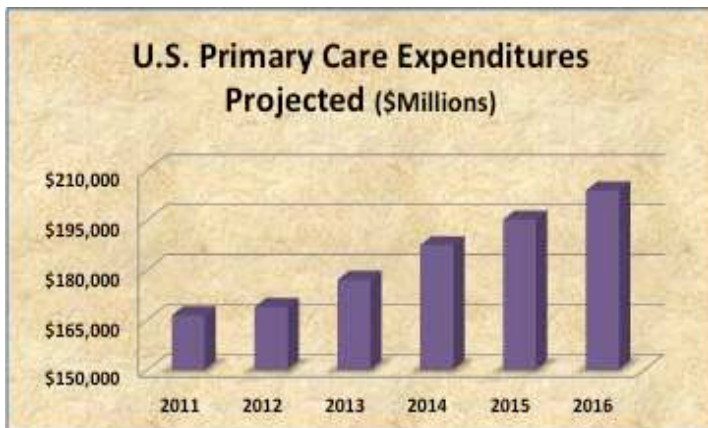
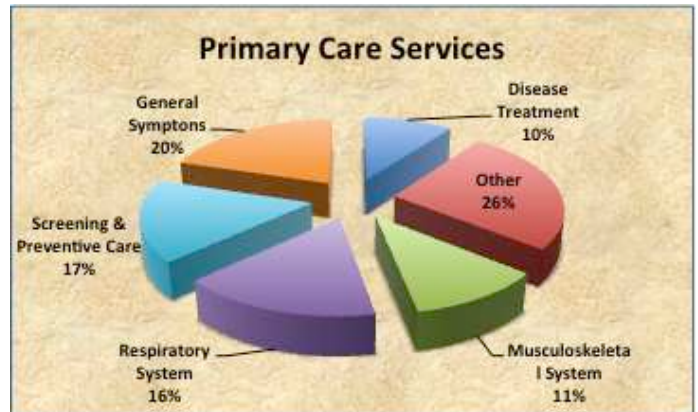
## MARKET ANALYSIS

### MARKET DEFINITION

Family medicine is a medical specialty devoted to the comprehensive health care of people of all ages. Family physicians provide a medical “headquarters” for people. The physician must complete at least three years of specialty training, learning how to deliver a range of acute, chronic and preventive medical care services. In addition to diagnosing and treating illness, they also provide preventive care including routine check-ups, health risk assessments, immunization and screening tests, and personalized counseling on maintaining a healthy lifestyle. Family physicians also manage chronic illnesses and coordinate care with other sub specialties. From heart disease, stroke and hypertension, to diabetes cancer and asthma, family physicians provide primary care for the most serious, and common, health problems.

A typical visit to a primary doctor will begin with interviewing the patient to collect information on the present symptoms, prior medical history and other health details, followed by a physical examination. Primary care doctors are trained in basic medical testing, such as interpreting results of blood or other patient samples, electrocardiograms or x-rays. More complex and time-intensive diagnostic procedures are usually obtained by referral to specialists, due to either special training with a technology, or increased experience and patient volume that makes a procedure safer for the patient. After collecting data, the doctor arrives at a diagnosis and, with the participation of the patient, formulates a plan including (if appropriate) components of further testing, specialist referral, medication, therapy, diet or life-style changes, patient education, and follow-up treatment. Primary care physicians also counsel and educate patients on safe health behaviors, self-care skills and treatment options, and provide screening tests and immunizations.

Visits to general and family practices accounted for over 23 percent of all physician office visits in the U.S. in 2006 (the latest data available from National Center of Health Statistics). And of those visits, 82.4 percent of visits to general and family care doctors were taken care of by the primary care physicians, with the remainder requiring referrals to specialists or specialized treatment.



### MARKET DEMAND, SIZE AND GROWTH

The essential nature of the primary care doctor has contributed to revenue growth of these practices during each of the five years to 2011. Despite the recession, which did cause revenue growth to decelerate, revenues grew approximately two percent per year to \$166.5 billion in 2011. Revenue growth decelerated during the recession as individuals and families lost insurance coverage because of unemployment or falling income. In 2011, revenue is estimated to have grown slightly faster, 2.5 percent, than the year before, which was two percent, reflecting a general improvement in economic conditions. In the years ahead, the industry is forecast to benefit from continued improvement in the economy and the healthcare

reform laws of 2010. Most notably, the reform aims to provide health insurance to a considerably larger portion of the population starting in 2014. This trend will boost revenues, which are forecast to increase at an average of 4.1 percent annually during the next five years, reaching \$204 billion in 2016.<sup>6</sup>

Exact market figures for Hawaii are impossible to determine as many physicians operate in solo practices without employees and therefore do not report revenues, even for economic census purposes. However, economic census data shows that revenues of physician offices in Hawaii grew faster than nationally. These figures are for physicians’ offices of all types.

Place	2002 Revenues \$Millions	2007 Revenues \$Millions	% Change
U.S.	\$248,824	\$339,267	26.7%
Oahu	\$651.7	\$908.7	28.3%

As of October 2011, there are 4,170 doctors licensed to practice in the state of Hawaii, with a population of approximately 1.3 million. As the table below shows, a disproportionate number are on Oahu.

DCCA	# Of Doctors	%	Population	%
Oahu	3,258	78%	909,151	70%
Hawaii	396	9%	179,105	14%
Maui	353	8%	146,714	11%
Kauai	163	4%	65,116	5%
<b>Total Hawaii</b>	<b>4,170</b>	<b>100%</b>	<b>1,300,086</b>	<b>100%</b>

According to the Hawaii Association of Family Physicians, “the primary care shortage on the neighbor islands is quite extreme”.<sup>7</sup> So much so, according to the article, patients are forced to travel for service, “overloading” the Oahu health care system. According to the Hawaii/Pacific Basin Area Health Education Center, there was a 28 percent shortage in 2010 of local primary care doctors – defined as general practitioners, internists and family physicians. There were 962 primary care doctors practicing in Hawaii in 2010, but 1,232 were needed, according to a report presented in June 2010 at the Hawaii Physician Workforce Summit.<sup>8</sup> According to another survey, the state is short at least 500 physicians.

Further stressing the system is the aging physician workforce. More than 40 percent – almost half - of all physicians in Hawaii will reach retirement age in the next ten years. Turnover has already started. This is at the same time that the Hawaii’s senior population is ballooning – and at 81, Hawaii already has the highest longevity rate of any state in the nation.<sup>9</sup>



Although there is some debate over how much of a physician shortage Hawaii has, no one is arguing that Hawaii is over-served in health care services.

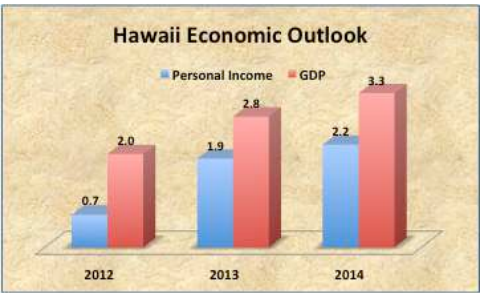
<sup>6</sup>. “Primary Care Doctors in the U.S.”, IbisWorld Industry Report 62111a, October 2011, available at [www.ibisworld.com](http://www.ibisworld.com).  
<sup>7</sup>. “Geography Challenges Hawaii AFP’s Ability to Grow Family Medicine”, American Association of Family Physicians, News Now, February 28, 2011, available at [www.aafp.org/online/en/home/publications/news/news-now/chapter-of-the-month/20110228hawaiichapter.html](http://www.aafp.org/online/en/home/publications/news/news-now/chapter-of-the-month/20110228hawaiichapter.html).  
<sup>8</sup>. “Doctors Shun Medicaid”, Honolulu Star Advertiser, July 5, 2011, available at [www.staradvertiser.com](http://www.staradvertiser.com).  
<sup>9</sup>. “Isles’ Long-term Care Costs High, Survey Shows”, Honolulu Star Advertiser, May 11, 2011. Also, “Aging Population Amplifies Health Care Shortages”, Honolulu Star Advertiser, November 18, 2010.

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## MARKET DRIVERS

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The major external market drivers for healthcare services are well known and constant across geographies.

Factor	Hawaii Input												
Population Growth, especially birth of babies	Population growth for 2010-2015 period is anticipated to be one percent per year, statewide. Different counties will experience different growth rates, with the Big Island (2 percent per year) growing the fastest and Honolulu County growing the slowest (0.6 percent per year). <sup>10</sup> This is a slow but positive growth rate.												
Medicare & Medicaid Growth	Federal funding of M/M services is expected to grow or remain constant, however program determinants may restrict access to these services as the Healthcare Reform exchanges become more accessible. This is expected to slightly improve access to healthcare services.												
Number of Private Insured	This is a highly positive indicator for Hawaii, as statewide only 7.5% of the population is uninsured. On Oahu, uninsured individuals only make up 6.4% of the population. <sup>11</sup>												
Economic Outlook, especially Per Capita Disposable Income	<p>With unemployment at six percent, Hawaii's economy is doing better than the national average. The Economic Research Organization at the University of Hawaii is projecting modest but continued growth in state GDP and real personal income. Visitor arrivals and government expenditures are doing well, and unemployment is predicted to decrease to a very respectable 4.7 percent by 2014.<sup>12</sup></p> <div style="display: flex; align-items: center;">  <table border="1" style="margin-left: 20px;"> <caption>Hawaii Economic Outlook</caption> <thead> <tr> <th>Year</th> <th>Personal Income</th> <th>GDP</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>0.7</td> <td>2.0</td> </tr> <tr> <td>2013</td> <td>1.9</td> <td>2.8</td> </tr> <tr> <td>2014</td> <td>2.2</td> <td>3.3</td> </tr> </tbody> </table> </div>	Year	Personal Income	GDP	2012	0.7	2.0	2013	1.9	2.8	2014	2.2	3.3
Year	Personal Income	GDP											
2012	0.7	2.0											
2013	1.9	2.8											
2014	2.2	3.3											
Healthcare Reform	Healthcare reform in general is anticipated to have a strong and positive effect on access to healthcare services. The major requirement that all individuals have insurance or pay a penalty by 2014 will increase the demand for primary physician care directly. In addition, other reforms, such as ability of parents to cover children up to age 25, and the elimination of pre-existing condition exclusions, are already having a positive effect.												
Age of Population	As people age, they consume more healthcare services. As noted above, Hawaii's longevity and baby boomer population is rapidly reaching the senior brackets and will disproportionately require healthcare services for the next decade.												

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<sup>10</sup>. "Population and Economic Projections for the State of Hawaii to 2035", July 2009, Hawaii Department of Business, Economic Development & Tourism, available at [http://hawaii.gov/dbedt/info/economic/data\\_reports/2035LongRangeSeries](http://hawaii.gov/dbedt/info/economic/data_reports/2035LongRangeSeries).

<sup>11</sup>. "State of Hawaii Primary Care Needs Assessment Data Book 2009", Hawaii Department of Health, Family Health Services Division, January 2010, available at <http://hawaii.gov/health/doc/pcna2009databook.pdf>.

<sup>12</sup>. "Annual Hawaii Forecast", September 2, 2011, available at [www.uhero.hawaii.edu](http://www.uhero.hawaii.edu).

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## INDUSTRY TRENDS

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The landscape of primary care practice is changing. The numbers of solo and two-physician practices, and practices owned by physicians, are slowly declining. Hospitals have acquired primary care practices, and physicians who are completing their residency training are now joining larger organizations to avoid financial and administrative worries. Financial pressures related to healthcare reform and lax reimbursements from government payers, among other issues, are making it harder for solo and small practices to operate. An estimated 75 percent of primary care doctors are still in practice groups of five doctors or fewer, but hospital and larger physician groups are experiencing an increase in membership and interest from doctors, especially recently qualified doctors who are often burdened by enormous student loans.

This slow consolidation into larger practices means that the number of small physician offices available to consumers in their local neighborhood will become less and less available. This is not a trend welcomed by patients, who largely prefer the smaller, local offices of their personal physician.



With the December 2011 closure of Hawaii Medical Center West in Ewa, Ewa and Kapolei residents will have even fewer options for medical services close to their homes.

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## TECHNOLOGY & SOFTWARE

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Medical record keeping and billing has been substantially streamlined in recent decades through the development of electronic health record (EHR) software. Shockingly, EHR usage is incredibly low in Hawaii, with only ten percent of all private doctors using this time and error saving technology. With only six companies providing private insurance in Hawaii, of which one is a Health Maintenance Organization (Kaiser) that only serves members, it is easy to choose software that corresponds with the HMO system, which insures over half of Hawaii's population, as well as the other four private insurers. This will allow Dr. Kobayashi, who is highly computer literate, to establish a billing, practice management, and record keeping system that provides maximum efficiency and reimbursement cycle.

The cost of these software packages is relatively expensive, going as high as \$20,000. However, they streamline billing and HMO has committed to Dr. Kobayashi a 30-day reimbursement time frame if the practice uses one of their approved software. Dr. Kobayashi will not accept Medicare or Medicaid (including the state Quest program) in the initial years of her practice. The primary reason is the incredibly complex and burdensome paperwork involved in Medicare and Medicaid claims.<sup>13</sup>

After her practice is established and she is more comfortable with the insurance regulations, Dr. Kobayashi hopes to begin taking public insurance patients in future years.

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## HEALTHCARE REFORM

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On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act (PPACA) into law; a week later, he signed the Health Care and Education Reconciliation Act of 2010 into law, making some tweaks to the first bill. Although most of the major coverage provisions of the laws will not be implemented until 2014, there are already some changes occurring in the industry in response to the law. For instance, more individuals are already gaining insurance coverage, which boosts primary care doctor visits. At the end of the day, the reforms seek to provide some 32 million Americans access to healthcare. Reform will increase the demand for healthcare services, and will especially require increased services from primary care doctors. There has been much debate about whether there are sufficient numbers of primary care doctors for the projected demand, but everyone agrees there will be more demand.

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<sup>13</sup>. "Locating a Doctor Who Takes Public Insurance Proves Difficult in Isles", Honolulu Star Advertiser, July 18, 2011, available at [www.staradvertiser.com](http://www.staradvertiser.com). See also, "Doctors Shun Medicaid", above.





The greatest demand increase will be on primary doctors because they play a larger role, they will be the central coordinator for all care a patient receives. There are increased Medicare payments under the new law especially for primary care doctors in order to encourage them to stay a generalist and not specialized in medical fields that are generally more lucrative than primary care. And there is a new medical entity, called a “Medical Home” that creates affordable flat-fee primary care practices to compete with state-based insurance exchanges.

The rise in demand will put even more pressure on primary care doctors to be efficient in order to see more patients. The increased use of technology, medical assistants and physician assistants will all be required to make a small family practice profitable while still providing top diagnostic and personal service to patients.

# OPERATIONS

## KAPOLEI PRACTICE

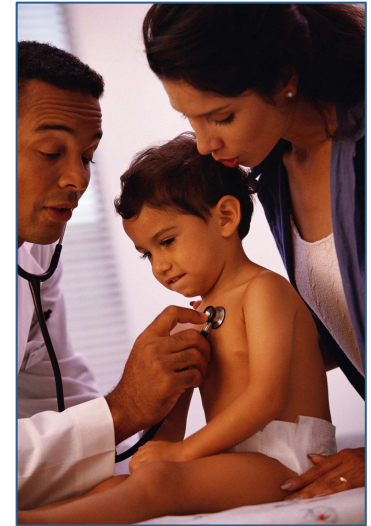
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### LOAN PROCEEDS AND START-UP COSTS

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Kapolei is known as Oahu's "Second City"; for decades city planners and private developers have been slowly enticing Oahu's residents to relocate in this Ewa Plain with less expensive homes and fully stocked shopping and entertainment centers. The strategy has worked and between 1990 and 2010, the population more than doubled, reaching approximately 40,000 in Kapolei proper and almost 90,000 in a five-mile radius. Dr. Kobayashi was convinced of the area's need for a good family practice doctor from over eight years working with a three-physician practice in Kapolei. The practice broke up and the physicians relocated in September 2011, providing Dr. Kobayashi with the impetus she needed to start her own practice. Before the practice was dissolved, it had reached maximum patient capacity of almost 80 patients per day, per doctor.

As a family practitioner, the start-up equipment, supplies and build-out requirements are surprisingly simple. The build-out costs have been estimated based on finding a relatively easy space to customize, but all other estimates should prove very close to actual costs. There is no expensive testing or diagnostic equipment required; the most expensive single piece is the autoclave used for sterilizing equipment.



#### **Waiting Room**

Sofa & Chairs	\$1,500
Coffee & End Tables	\$550
Lighting	\$250
<b>Total</b>	<b>\$2,300</b>

#### **Break Room**

Table & Chairs	\$550
Microwave	\$100
Refrigerator	\$600
<b>Total</b>	<b>\$1,250</b>

#### **Reception / Common Area**

Desk & Chair	\$250
Telephone System	\$500
Filing Cabinets	\$350
Printer/Copy Machine	\$250
Sound System (Music)	\$500
TV, DVD Player	\$500
General Office Supplies	\$500
Forms	\$250
Brochure Rack	\$150
<b>Total</b>	<b>\$3,250</b>

### **Dr.'s Office**

Desk & Chair	\$1,000
Filing Cabinets	\$500
Credenza	\$500
Printer / Copy Machine	\$250
Chairs & End Tables	\$250
Lamps	\$150
Bookcases / Shelves	\$250
<b>Total</b>	<b>\$2,900</b>

### **Computers / Electronics**

2 Desktops	\$1,200
1 Laptop	\$800
2 Tablets	\$1,100
EHR Software	\$10,000
<b>Total</b>	<b>\$13,100</b>

### **Exam Rooms (4)**

Exam Tables (\$2,000 Each)	\$8,000
Revolving Stool (\$200)	\$800
Side Chair (\$50)	\$200
Utility Cart (\$150)	\$600
Trash Receptacles (bio & other)	\$200
Patient Gowns (150 * \$8 each)	\$1,200
Magazine Holders (\$20)	\$80
<b>Total</b>	<b>\$11,080</b>

### **Instruments & Medical Equipment**

Autoclave	\$3,000
Anoscope	\$400
Audiometer	\$1,000
Ophthalmoscopes	\$250
Otoscopes	\$150
Stethoscopes (4)	\$300
EKG machine/paper/electrodes	\$2,000
Laryngoscope	\$150
Nasal speculum	\$100
Spirometer	\$100
Miscellaneous Instruments	\$500
Sundries / Disposables	\$1,000
Bandages, Dressings, Splints	\$2,500
Needles, Syringes, Injectables	\$1,500
<b>Total</b>	<b>\$12,950</b>



**Build-Out**

Professional Fees	\$2,500
Dry Wall, Layout	\$10,000
Paint	\$2,000
Plumbing	\$5,000
Signage	\$1,000
Electrical	\$1,500
<b>Total</b>	<b>\$22,000</b>

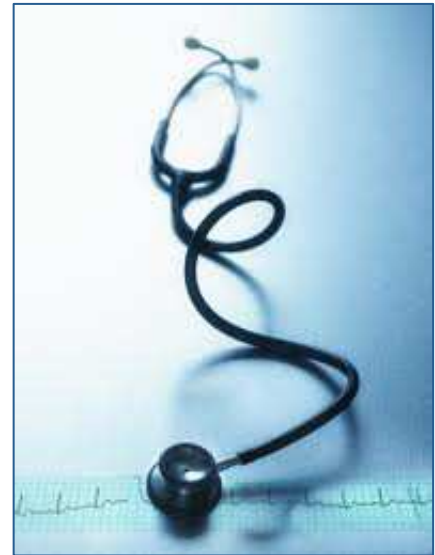
**Other Start-Up**

Professional Fees	\$10,000
Lease Security Deposit	\$3,581
Website	\$5,000
Graphic Services, Logo, Printing	\$2,500
Licenses, Registration	\$250
Open House / Marketing	\$3,500
Insurance Deposits	\$6,882
<b>Total</b>	<b>\$31,713</b>

In summary, the total hard and soft costs to open the practice are approximately \$100,500.

**Summary Start-Up**

Waiting Room	\$2,300
Reception	\$3,250
Break Room	\$1,250
Dr.'s Office	\$2,900
Computers	\$13,100
Exam Rooms	\$11,080
Instruments	\$12,950
Build-Out	\$22,000
Other Start-Up	\$31,713
<b>Total Start-Up</b>	<b>\$100,543</b>
<b>Rounded:</b>	<b>\$100,500</b>

**LOCATION & LEASE**

Dr. Kobayashi is working with a commercial realtor to find and negotiate an appropriate space for her practice. The location will be on or near the main avenue through Kapolei, Kamokila Boulevard, where all the major shops, government offices and professional buildings are located.

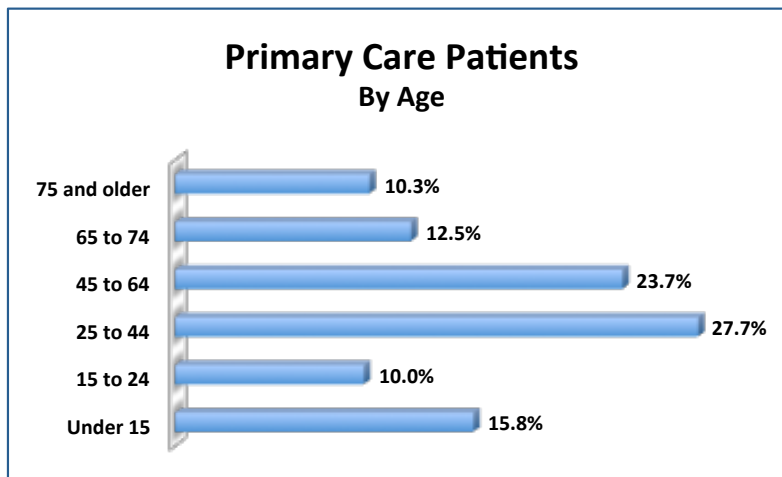
The demographics for Kapolei are excellent for a new medical practice. First, according to the Hawaii Department of Health, the Ewa Plain, with an estimated adult population of 226,174, has one of the lowest

uninsured populations in the state, with only 14,238, or 6.3 percent, of the population without insurance of any kind.<sup>14</sup>

Demographics compiled using tools from a website called “Business Decision” reveals the additional promising indicators for Kapolei, using a ten-minute drive radius around Kamokila Boulevard.<sup>15</sup>

Ten Minute Drive Time	2010	2015
Population	113,840	117,836
Households	30,764	32,045
Families	25,365	26,298
Median Household Income	\$73,900	\$79,510
Median Age	33.7	34.1
Expenditure Physician Services	\$1,942.15 Per Person	\$59.8 Million Annually Now

The large population, low competition (see below), high insurance, high median household income, high family density, and above average expenditures on physician services are all promising indicators for a new family practice. In addition, the median age of 33-34 years old is the exact age bracket in which the average family practitioner sees the most patients.<sup>16</sup> In short, Kapolei is the ideal, growing, upper-middle class, working neighborhood that would quickly patronize the services of a new family doctor’s practice.



Rents in Kapolei for Class A commercial office property are approximately \$2 per square foot and \$0.85 per square foot for common area maintenance. Dr. Kobayashi estimates that she will require approximately 1,200 square feet for the initial office.

Estimated Monthly Occupation Costs	2012
Rent (Inclusive of CAM & GET)	\$3,581
Utilities (Estimate)	\$500
<b>Total (Rounded)</b>	<b>\$4,100</b>



<sup>14</sup> . “State of Hawaii Primary Care Needs Assessment Data Book 2009”, op.cit.

<sup>15</sup> . See [www.BusinessDecision.info](http://www.BusinessDecision.info)

<sup>16</sup> . IbisWorld, op.cit.

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**SERVICES AND PRICING**

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The list of procedures and their fees for Dr. Kobayashi’s family practice are relatively simple, and can be divided into four categories, listed below. The procedures and their fees are determined from experience and the reimbursements are current for HMSA, with each service type taking into account various procedures and patient coverage levels.

<b>Service</b>	<b>Average Charge</b>
New Patient	\$151
Established Patient	\$89
Routine Visits (Physicals, etc.)	\$56
Procedures (blood, urine, etc.)	\$65

Medical assistants help with both patient treatment and communication. Medical assistants can perform many of the basic steps involved in treating patients, such as taking vitals, drawing blood, or entering test results into the EHR software. Actual doctor time with each patient is extremely limited, often as little as five or ten minutes. Thus, individual charges remain quite reasonable, but a clinic with a single doctor is capable of treating as many as 80 patients on a busy day.




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**PERSONNEL**

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The company believes it will only require three medical assistants (also known as nurse’s assistants) in the beginning to help Dr. Kobayashi with patient treatment. When the volume reaches 40 patients a day, the clinic will hire a physician’s assistant and another medical assistant. Hours and salaries are listed below.

<b>Employees</b>	<b>Rate</b>	<b>Hours P.W.</b>	<b>Monthly</b>	<b>Start Date</b>
Medical Assistant 1, Senior	\$15.00	40	\$2,580	Month 1
Medical Assistant 2, Medium	\$13.50	40	\$2,322	Month 1
Medical Assistant 3, Junior	\$12.00	40	\$2,064	Month 3
Medical Assistant 4, Medium	\$13.50	40	\$2,322	Month 15
Physician's Assistant	\$50.00	40	\$8,600	Month 16
<b>Total Monthly:</b>			<b>\$17,888</b>	

Fortunately, Dr. Kobayashi’s experience has allowed her to meet many exceptional medical assistants and she has already approached the senior medical assistant she intends to employ. Other employees are also likely to come from her circle of colleagues and associates.

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**COMPETITION**

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A comprehensive search of Hoovers (which bought Dun & Bradstreet in 2011), reveals that there are only eight general, family, internal, or pediatric doctors offices in all of Kapolei.<sup>17</sup>

<b>Company Name</b>	<b>Address</b>	<b># Of Employees</b>
Queen's Health Care Centers	599 Farrington Hwy, #100	12
Gilbert Hager, MD	590 Farrington Hwy, #507	4

<sup>17</sup>. Data available at [www.Zapdata.com](http://www.Zapdata.com).

Naro L Torres MD	579 Farrington Hwy, #203	5
Keith I Tonaki MD	Queens Medical Center	4
Earle H Nakagawa MD	1001 Kamokila Blvd, #108	3
Dr. Davi Roberts	92-1360 Panana Street	3
William F McKenzie MD	590 Farrington Hwy, 26a	3
Jason Ninomiya MD	1001 Kamokila Blvd, #193	3

This is a startlingly small number of providers to treat over 100,000 people. When the search was expanded to include Waipahu and Ewa Beach, only 28 primary care doctors offices were found to treat a population of well over 200,000.

### MARKETING AND PROMOTIONS

Like lawyers before them, doctors now openly market and advertise their services, although the stigma against professional services marketing still requires that the promotional efforts be dignified. Although she is prohibited from directly contacting her clients from eight years of work in Kapolei, Dr. Kobayashi anticipates that many of current patients will learn about her new practice and become her patients under the new roof. The company will certainly make every effort to let them know about the new clinic.

The company has budgeted 1.5 percent of gross revenues for advertising and promotional efforts. The annual budget for advertising and promotion comes to:

Year 1	Year 2	Year 3
\$9,843	\$17,473	\$23,175

The following are some of the marketing tactics the company plans to employ.

- **Local Free Press.** A professional press release will be posted to all local papers announcing the clinic’s establishment. This will be issued to the three military papers, the Star Advertiser, and the Pacific Business News, usually garnering a small write-up in each.
- **Open House.** The clinic will host an opening party with an extensive mail-out to the residential community and advertisements in the paper. The opening house party will feature creative promotions (blood pressure checks, body mass index measurements, etc.) and provide food and drink.
- **Web site.** A professional Website is in the budget. The URL is yet to be determined, but will provide an informational site that will be referenced in all promotional materials. The site may be relatively simple to start, but will certainly incorporate more robust content over time, including a Doctor’s blog, health tips and online booking capabilities.
- **Yellow Pages.** A budget of \$150 per month has been allotted for yellow pages advertising. Although the yellow pages are decreasingly important, as the Internet becomes the primary source of information, the clinic will test this outlet as a source of patients.
- **Brochure.** A clean, three-panel glossy color brochure is in the budget and will be created for mailers and handouts, as appropriate.
- **Informational Health Brochures.** Dr. Kobayashi will reach out to health-related professionals in Kapolei, such as nutritionists or physical trainers, to write short brochures or handouts that she will display in the waiting room of the clinic. The purpose is to push and encourage healthy lifestyles as well as encourage referrals between professionals.
- **Word of Mouth.** Dr. Kobayashi is active in several communities, including medical, sports, and other hobbies she pursues locally. She intends to spread the word as widely as possible.
- **Online Promotion.** The company will explore appropriate methods of online promotion, including email promotions, search engine optimization and possibly online advertising.

# THE PEOPLE

## QUALIFICATIONS AND EXPERIENCE

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### KEALANI KOBAYASHI

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Kealani Kobayashi is the sole shareholder of Kealani Kobayashi, MD, Inc. Dr. Kobayashi has already obtained her Department of Health and Department of Commerce and Consumer Affairs licenses and has been gaining experience at a busy Kapolei practice for the last eight years.

In addition to her sound business and technical credentials, Dr. Kobayashi has financial savings for the start-up period and an appropriately outgoing, friendly personality for working with the public. In short, Dr. Kobayashi is a classic example of a strong entrepreneur; she has the business acumen and personal qualities needed to be a successful business owner.

### Education

1982-1987	University of Michigan Medical School, Ann Arbor, Michigan, Doctorate of Medicine
1977-1982	Rockhurst College, Kansas City, Missouri, Bachelor of Science in Chemistry
1972-1977	Southwest High School, Kansas City, Missouri, High School Diploma

### Post Graduate Training

1987-1988	St. Raphael Hospital, New Haven, Connecticut, Rotating Internship
1988-1991	University of Hawaii, Honolulu, Hawaii, Integrated Surgical Residency

### Work Experience

**2001 - Present                      Kuhio Walk-in Medical Clinic                      Waikiki**

***Primary, Urgent and Occupational Medical Physician***

- Self-employed contracted doctor providing medical services to residents and visitors.
- Involved in all aspects of patient diagnosis, care and referrals.
- Responsible for preparing medical reports and documenting all procedures.
- Responsible for supervising medical assistants and staff of 12 individuals.

**2006 – Present                      Waikiki Health Center                      Waikiki**

***Primary and Urgent Medical Physician***

- Self-employed contracted doctor providing medical services to residents and visitors.
- Responsible for all aspects of patient diagnosis, care and referrals.
- Contributed to overall management and business direction of Center.
- Supervising Physician to a team of 6 physician's assistants and nurses.

**2001 – 2003                      The Medical Corner Clinics                      Kapolei**

***Primary, Urgent and Occupational Medical Physician***

- Self-employed contracted doctor providing medical services to residents and visitors.
- Responsible for all aspects of patient diagnosis, care and referrals.
- Contributed to overall management and business direction of Clinic.
- Supervising Physician to a team of 3 physician's assistants and nurses.



1991 – 2001

**Straub Clinic and Hospital**

**Kapolei**

***Urgent and Primary Care Medical Physician***

- Employed by leading health care institution in Hawaii providing all aspects of care to patients undergoing hospital procedures, surgery and follow-up clinic care.
- Responsible for all aspects of patient diagnosis, care and referrals.
- Supervising Physician to a team of 3 physician's assistants and nurses.

**Licenses & Certificates**

- 1989, Hawaii Medical Doctor License
- 1991, Basic Life Support (BLS)
- 1991, Advanced Cardiac Life Support (ACLS)
- 1991, Pediatric Advanced Life Support (PALS)
- 1991, Medical Review Officer (MRO)

**Academic Experience**

2002 – Present Preceptor to graduate nursing students at the University of Hawaii and Hawaii Pacific University. Also, worked as preceptor to medical and physician-assistant students of several Mainland medical schools.

**Computer Experience**

- Five years experience with Electronic Health Record (EHR) software packages STIX and AGILITY
- Two years experience with Electronic Health Record (EHR) software packages GE Centricity
- General PC and Apple computer literacy
- Microsoft Office Suite, high proficiency.

**Leadership Experience**

Acted as supervisor to all staff while working at various clinics. Team leader to physician assistants', nurses of all levels, medical assistants and graduate students. Often responsible for up to 12 staff members per shift.

# FINANCIAL RESULTS

## PROJECTED RESULTS OF OPERATIONS

### ASSUMPTIONS

Revenue and expense assumptions have been made to project Kealani Kobayashi, MD's future financial results. Revenues have been estimated using the average charge from each of the four categories of services, the details of which are listed in Appendix A. This breakdown is based on Dr. Kobayashi's experience working in Kapolei. It is assumed that the practice will be open five days a week, taking only major holidays throughout the year.

Breakdown of Services	First 12 Months	Thereafter
New Patient	45%	15%
Established Patient	15%	50%
Routine Visit	15%	15%
Routine Procedure	25%	20%

The number of patients per day is estimated to ramp up as follows. At her previous practice, doctors saw up to 80 patients per day, without the help of a physician's assistant. Dr. Kobayashi believes that 70 patients per day is entirely feasible with the help of four medical assistants and one physician's assistant.

Month 1	Month 12	Month 24	Month 36
5	36	59	70

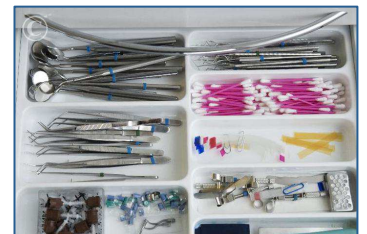
It is assumed that 25 percent of revenues will come out of patients' pockets, with the remainder coming from insurance reimbursements. This is based on the fact that HMSA requires 20 percent co-pay from patients, with the remaining five percent coming from procedures or visits not covered by insurance but paid entirely by the patient. An example is a general physical fitness exam required for a commercial driver's license; these exams are not covered by insurance and driver's pay for the exam out of pocket.

These assumptions result in the follow gross revenue per year.

Year 1	Year 2	Year 3
\$432,543	\$1,164,889	\$1,731,231

Fixed and variable expenses are estimated based on experience and quotations provided by vendors. The medical malpractice insurance cost, for example, was quoted by the Medical Insurance Exchange of California, a leading provider of medical professional liability insurance. Also, medical insurance coverage costs for the doctor and all employees has been quoted by HMSA.

A discount factor of five percent has been added to all non-varying expenses in years two and three to account for inflation, except for medical liability insurance, which increases each year, and health insurance, which increase ten percent per year. Also, Dr. Kobayashi's salary increases each year as revenues allow.



Fixed Expenses	Monthly, Y1
Cable	\$250
Insurance, GL	\$208
Insurance, Malpractice	\$278
Rent	\$3,581
Telecommunications	\$350

<b>Variable Expenses</b>	<b>Monthly, Y1</b>	
Business Supplies	1.5%	Of Gross
Clinical Supplies	3.5%	Of Gross
Continuing Education	\$167	
Dues & Subscriptions	\$156	
Electricity	1.8%	Of Gross
Employee Salaries	See Above	
GET	4.5%	
Insurance, Medical	\$350	Per Person
Laundry Service	\$200	
Meals & Entertainment	\$350	
Merchant Account	2.5%	On 50% of Charges
Miscellaneous	1%	Of Gross
Officer Salary	\$8,333	Year 1
Professional Services	\$625	
Promotion & Advertising	1.5%	Of Gross
Repair & Maintenance	\$150	
Salary Taxes	10%	On all salaries

Salary taxes are estimated to cover the employer share of social security taxes as well as temporary disability and worker's compensation.

The estimated terms for the bank loan are:

<b>Bank Loan</b>	<b>Terms</b>
Amount	\$125,500
Interest Rate	7%
Term, Months	48
<b>Monthly Payment</b>	<b>\$3,005.25</b>

The practice will have considerable accounts receivable, of course, because 75 percent of revenues will be reimbursed from insurance. The use of EHR software will dramatically improve the reimbursement terms of the insurance portion of patient charges. HMSA has confirmed that it will electronically deposit all reimbursements within 30 days of submittal.

<b>Cash Flow</b>	<b>Terms</b>
Patient Payments	50% Cash or Check 50% Credit / Debit Card
Credit / Debit Cards	Received in 1 Week
Insurance Reimbursements	100% in 1 Month

Finally, for simplicity's sake, depreciation and amortization of the start-up capital expenditures are calculated using the straight-line method.

<b>Depreciation &amp; Amortization</b>	<b>Life</b>	<b>Value</b>	<b>S/L Annual</b>
Furniture & Fixtures	7	\$19,530	\$2,790
Equipment, Instruments	5	\$27,300	\$5,460
Leasehold Improvements	5	\$22,000	\$4,400
Other	3	\$31,713	\$10,571
		<b>\$100,543</b>	<b>\$23,221</b>

**PROFIT & LOSS**

Based on the assumptions above, the profit and loss for the first three years is projected below. Profits are sufficient to repay the bank loan and provide reasonable compensation for Dr. Kobayashi.

Attached please find the monthly profit and loss for years one through three of operations.

<b>Revenues</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Patients	\$108,136	\$291,222	\$432,808
Insurance	\$324,407	\$873,667	\$1,298,423
<b>Total Revenues</b>	<b>\$432,543</b>	<b>\$1,164,889</b>	<b>\$1,731,231</b>
<b>Expenses</b>			
Bank Loan	\$36,063	\$36,063	\$36,063
Business Supplies	\$3,678	\$4,200	\$4,410
Cable / Website / Software	\$3,000	\$3,150	\$3,300
Clinical Supplies	\$15,139	\$40,771	\$60,593
Continuing Education	\$2,000	\$2,100	\$2,200
Depreciation	\$23,221	\$23,221	\$23,221
Dues & Subscriptions	\$1,870	\$1,964	\$2,057
Electricity	\$5,559	\$6,930	\$7,260
Employee Salaries	\$77,400	\$189,398	\$221,096
General Excise Tax	\$19,464	\$52,420	\$77,905
Insurance, GL	\$2,500	\$2,625	\$2,750
Insurance, Malpractice	\$3,332	\$6,548	\$8,782
Insurance, Health	\$19,950	\$21,945	\$35,280
Laundry Service	\$2,100	\$3,600	\$4,800
Meals & Entertainment	\$4,200	\$4,620	\$5,040
Merchant Account	\$1,352	\$3,640	\$5,410
Miscellaneous	\$4,325	\$11,649	\$17,312
Officer Salary	\$100,000	\$150,000	\$200,000
Professional Services	\$7,500	\$7,875	\$8,250
Promotions & Advertising	\$9,843	\$17,473	\$23,175
Rent	\$42,974	\$45,122	\$47,271
Repair & Maintenance	\$1,800	\$1,890	\$1,980
Salary Taxes	\$17,740	\$33,940	\$42,110
Telecommunications	\$4,200	\$4,410	\$4,620
<b>Total Expenses</b>	<b>\$409,210</b>	<b>\$675,554</b>	<b>\$844,885</b>
<b>Net Profit Before Taxes</b>	<b>\$23,332</b>	<b>\$489,334</b>	<b>\$886,345</b>
Estimated State Taxes	\$1,260	\$26,424	\$56,726
Estimated Federal Taxes	\$3,500	\$166,374	\$301,357
<b>Net Profit</b>	<b>\$18,573</b>	<b>\$296,537</b>	<b>\$528,262</b>

**Kobayashi Medical Practice**  
**Profit & Loss**  
**Year 1**

<b>Revenues</b>	June	July	August	September	October	November	December	January	February	March	April	May	<b>Total</b>	
Patients	\$2,781	\$3,337	\$4,079	\$4,449	\$5,827	\$6,356	\$7,945	\$10,011	\$11,123	\$14,566	\$16,685	\$20,976	\$108,136	25.0%
Insurance	\$8,343	\$10,011	\$12,236	\$13,348	\$17,480	\$19,069	\$23,836	\$30,033	\$33,370	\$43,699	\$50,055	\$62,927	\$324,407	75.0%
<b>Total Revenues</b>	<b>\$11,123</b>	<b>\$13,348</b>	<b>\$16,314</b>	<b>\$17,798</b>	<b>\$23,306</b>	<b>\$25,425</b>	<b>\$31,781</b>	<b>\$40,044</b>	<b>\$44,494</b>	<b>\$58,266</b>	<b>\$66,741</b>	<b>\$83,903</b>	<b>\$432,543</b>	100.0%
<b>Expenses</b>														
Bank Loan	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$36,063	8.3%
Business Supplies	\$167	\$200	\$245	\$267	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$3,678	0.9%
Cable / Website / Software	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$3,000	0.7%
Clinical Supplies	\$389	\$467	\$571	\$623	\$816	\$890	\$1,112	\$1,402	\$1,557	\$2,039	\$2,336	\$2,937	\$15,139	3.5%
Continuing Education	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$2,000	0.5%
Depreciation	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$23,221	5.4%
Dues & Subscriptions	\$156	\$156	\$156	\$156	\$156	\$156	\$156	\$156	\$156	\$156	\$156	\$156	\$1,870	0.4%
Electricity	\$350	\$350	\$350	\$350	\$408	\$445	\$556	\$550	\$550	\$550	\$550	\$550	\$5,559	1.3%
Employee Salaries	\$4,902	\$4,902	\$4,902	\$6,966	\$6,966	\$6,966	\$6,966	\$6,966	\$6,966	\$6,966	\$6,966	\$6,966	\$77,400	17.9%
General Excise Tax	\$501	\$601	\$734	\$801	\$1,049	\$1,144	\$1,430	\$1,802	\$2,002	\$2,622	\$3,003	\$3,776	\$19,464	4.5%
Insurance, GL	\$208	\$208	\$208	\$208	\$208	\$208	\$208	\$208	\$208	\$208	\$208	\$208	\$2,500	0.6%
Insurance, Malpractice	\$278	\$278	\$278	\$278	\$278	\$278	\$278	\$278	\$278	\$278	\$278	\$278	\$3,332	0.8%
Insurance, Health	\$1,400	\$1,400	\$1,400	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$19,950	4.6%
Laundry Service	\$100	\$100	\$100	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$2,100	0.5%
Meals & Entertainment	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$4,200	1.0%
Merchant Account	\$35	\$42	\$51	\$56	\$73	\$79	\$99	\$125	\$139	\$182	\$209	\$262	\$1,352	0.3%
Miscellaneous	\$111	\$133	\$163	\$178	\$233	\$254	\$318	\$400	\$445	\$583	\$667	\$839	\$4,325	1.0%
Officer Salary	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$100,000	23.1%
Professional Services	\$625	\$625	\$625	\$625	\$625	\$625	\$625	\$625	\$625	\$625	\$625	\$625	\$7,500	1.7%
Promotions / Advertising	\$334	\$400	\$489	\$534	\$699	\$763	\$953	\$1,201	\$1,335	\$874	\$1,001	\$1,259	\$9,843	2.3%
Rent	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$42,974	9.9%
Repair & Maintenance	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$1,800	0.4%
Salary Taxes	\$1,324	\$1,324	\$1,324	\$1,530	\$1,530	\$1,530	\$1,530	\$1,530	\$1,530	\$1,530	\$1,530	\$1,530	\$17,740	4.1%
Telecommunications	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$4,200	1.0%
<b>Total Expenses</b>	<b>\$29,000</b>	<b>\$29,308</b>	<b>\$29,717</b>	<b>\$32,643</b>	<b>\$33,461</b>	<b>\$33,760</b>	<b>\$34,653</b>	<b>\$35,665</b>	<b>\$36,213</b>	<b>\$37,034</b>	<b>\$37,951</b>	<b>\$39,806</b>	<b>\$409,210</b>	94.6%
<b>Net Profit Before Taxes</b>	<b>(\$17,877)</b>	<b>(\$15,959)</b>	<b>(\$13,403)</b>	<b>(\$14,845)</b>	<b>(\$10,155)</b>	<b>(\$8,335)</b>	<b>(\$2,872)</b>	<b>\$4,380</b>	<b>\$8,281</b>	<b>\$21,231</b>	<b>\$28,790</b>	<b>\$44,096</b>	<b>\$23,332</b>	5.4%
Estimated State Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$193	\$364	\$934	\$1,267	\$1,940	\$1,260	0.3%
Estimated Federal Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$657	\$1,242	\$3,185	\$4,319	\$6,614	\$3,500	0.8%
<b>Net Profit</b>	<b>(\$17,877)</b>	<b>(\$15,959)</b>	<b>(\$13,403)</b>	<b>(\$14,845)</b>	<b>(\$10,155)</b>	<b>(\$8,335)</b>	<b>(\$2,872)</b>	<b>\$3,530</b>	<b>\$6,675</b>	<b>\$17,113</b>	<b>\$23,205</b>	<b>\$35,542</b>	<b>\$18,573</b>	4.3%

**Kobayashi Medical Practice**  
**Profit & Loss**  
**Year 2**

<b>Revenues</b>	June	July	August	September	October	November	December	January	February	March	April	May	<b>Total</b>	
Patients	\$20,578	\$21,135	\$22,724	\$22,247	\$23,889	\$22,247	\$22,777	\$24,472	\$23,836	\$26,802	\$26,140	\$34,377	\$291,222	25.0%
Insurance	\$61,735	\$63,404	\$68,171	\$66,741	\$71,667	\$66,741	\$68,330	\$73,415	\$71,508	\$80,407	\$78,420	\$103,130	\$873,667	75.0%
<b>Total Revenues</b>	<b>\$82,313</b>	<b>\$84,538</b>	<b>\$90,894</b>	<b>\$88,988</b>	<b>\$95,556</b>	<b>\$88,988</b>	<b>\$91,106</b>	<b>\$97,886</b>	<b>\$95,344</b>	<b>\$107,209</b>	<b>\$104,560</b>	<b>\$137,507</b>	<b>\$1,164,889</b>	100.0%
<b>Expenses</b>														
Bank Loan	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$36,063	3.1%
Business Supplies	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$4,200	0.4%
Cable / Website / Software	\$263	\$263	\$263	\$263	\$263	\$263	\$263	\$263	\$263	\$263	\$263	\$263	\$3,150	0.3%
Clinical Supplies	\$2,881	\$2,959	\$3,181	\$3,115	\$3,344	\$3,115	\$3,189	\$3,426	\$3,337	\$3,752	\$3,660	\$4,813	\$40,771	3.5%
Continuing Education	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$2,100	0.2%
Depreciation	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$23,221	2.0%
Dues & Subscriptions	\$164	\$164	\$164	\$164	\$164	\$164	\$164	\$164	\$164	\$164	\$164	\$164	\$1,964	0.2%
Electricity	\$578	\$578	\$578	\$578	\$578	\$578	\$578	\$578	\$578	\$578	\$578	\$578	\$6,930	0.6%
Employee Salaries	\$7,314	\$7,314	\$9,752	\$18,335	\$18,335	\$18,335	\$18,335	\$18,335	\$18,335	\$18,335	\$18,335	\$18,335	\$189,398	16.3%
General Excise Tax	\$3,704	\$3,804	\$4,090	\$4,004	\$4,300	\$4,004	\$4,100	\$4,405	\$4,290	\$4,824	\$4,705	\$6,188	\$52,420	4.5%
Insurance, GL	\$219	\$219	\$219	\$219	\$219	\$219	\$219	\$219	\$219	\$219	\$219	\$219	\$2,625	0.2%
Insurance, Malpractice	\$546	\$546	\$546	\$546	\$546	\$546	\$546	\$546	\$546	\$546	\$546	\$546	\$6,548	0.6%
Insurance, Health	\$1,925	\$1,925	\$2,310	\$2,695	\$2,310	\$1,540	\$1,540	\$1,540	\$1,540	\$1,540	\$1,540	\$1,540	\$21,945	1.9%
Laundry Service	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$3,600	0.3%
Meals & Entertainment	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$4,620	0.4%
Merchant Account	\$257	\$264	\$284	\$278	\$299	\$278	\$285	\$306	\$298	\$335	\$327	\$430	\$3,640	0.3%
Miscellaneous	\$823	\$845	\$909	\$890	\$956	\$890	\$911	\$979	\$953	\$1,072	\$1,046	\$1,375	\$11,649	1.0%
Officer Salary	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$150,000	12.9%
Professional Services	\$656	\$656	\$656	\$656	\$656	\$656	\$656	\$656	\$656	\$656	\$656	\$656	\$7,875	0.7%
Promotions / Advertising	\$1,235	\$1,268	\$1,363	\$1,335	\$1,433	\$1,335	\$1,367	\$1,468	\$1,430	\$1,608	\$1,568	\$2,063	\$17,473	1.5%
Rent	\$3,760	\$3,760	\$3,760	\$3,760	\$3,760	\$3,760	\$3,760	\$3,760	\$3,760	\$3,760	\$3,760	\$3,760	\$45,122	3.9%
Repair & Maintenance	\$158	\$158	\$158	\$158	\$158	\$158	\$158	\$158	\$158	\$158	\$158	\$158	\$1,890	0.2%
Salary Taxes	\$1,981	\$1,981	\$2,225	\$3,084	\$3,084	\$3,084	\$3,084	\$3,084	\$3,084	\$3,084	\$3,084	\$3,084	\$33,940	2.9%
Telecommunications	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$4,410	0.4%
<b>Total Expenses</b>	<b>\$45,481</b>	<b>\$45,721</b>	<b>\$49,475</b>	<b>\$59,095</b>	<b>\$59,421</b>	<b>\$57,940</b>	<b>\$58,169</b>	<b>\$58,903</b>	<b>\$58,628</b>	<b>\$59,911</b>	<b>\$59,624</b>	<b>\$63,186</b>	<b>\$675,554</b>	58.0%
<b>Net Profit Before Taxes</b>	<b>\$36,833</b>	<b>\$38,817</b>	<b>\$41,419</b>	<b>\$29,892</b>	<b>\$36,135</b>	<b>\$31,047</b>	<b>\$32,937</b>	<b>\$38,984</b>	<b>\$36,716</b>	<b>\$47,298</b>	<b>\$44,936</b>	<b>\$74,320</b>	<b>\$489,334</b>	42.0%
Estimated State Taxes	\$1,621	\$1,708	\$1,822	\$1,315	\$1,590	\$1,366	\$1,449	\$1,715	\$1,616	\$2,081	\$1,977	\$3,270	\$26,424	2.3%
Estimated Federal Taxes	\$5,525	\$5,823	\$6,213	\$4,484	\$5,420	\$4,657	\$4,941	\$5,848	\$5,507	\$7,095	\$6,740	\$11,148	\$166,374	14.3%
<b>Net Profit</b>	<b>\$29,687</b>	<b>\$31,286</b>	<b>\$33,384</b>	<b>\$24,093</b>	<b>\$29,125</b>	<b>\$25,024</b>	<b>\$26,547</b>	<b>\$31,421</b>	<b>\$29,593</b>	<b>\$38,122</b>	<b>\$36,219</b>	<b>\$59,902</b>	<b>\$296,537</b>	25.5%

**Kobayashi Medical Practice**  
**Profit & Loss**  
**Year 3**

<b>Revenues</b>	June	July	August	September	October	November	December	January	February	March	April	May	<b>Total</b>	
Patients	\$32,814	\$33,370	\$35,542	\$34,483	\$36,707	\$33,900	\$34,430	\$36,707	\$35,489	\$40,203	\$38,376	\$40,786	\$432,808	25.0%
Insurance	\$98,442	\$100,111	\$106,626	\$103,448	\$110,122	\$101,700	\$103,289	\$110,122	\$106,467	\$120,610	\$115,128	\$122,358	\$1,298,423	75.0%
<b>Total Revenues</b>	<b>\$131,257</b>	<b>\$133,481</b>	<b>\$142,168</b>	<b>\$137,931</b>	<b>\$146,829</b>	<b>\$135,600</b>	<b>\$137,719</b>	<b>\$146,829</b>	<b>\$141,956</b>	<b>\$160,813</b>	<b>\$153,503</b>	<b>\$163,144</b>	<b>\$1,731,231</b>	100.0%
<b>Expenses</b>														
Bank Loan	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$3,005	\$36,063	2.1%
Business Supplies	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$368	\$4,410	0.3%
Cable / Website / Software	\$275	\$275	\$275	\$275	\$275	\$275	\$275	\$275	\$275	\$275	\$275	\$275	\$3,300	0.2%
Clinical Supplies	\$4,594	\$4,672	\$4,976	\$4,828	\$5,139	\$4,746	\$4,820	\$5,139	\$4,968	\$5,628	\$5,373	\$5,710	\$60,593	3.5%
Continuing Education	\$183	\$183	\$183	\$183	\$183	\$183	\$183	\$183	\$183	\$183	\$183	\$183	\$2,200	0.1%
Depreciation	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$23,221	1.3%
Dues & Subscriptions	\$171	\$171	\$171	\$171	\$171	\$171	\$171	\$171	\$171	\$171	\$171	\$171	\$2,057	0.1%
Electricity	\$605	\$605	\$605	\$605	\$605	\$605	\$605	\$605	\$605	\$605	\$605	\$605	\$7,260	0.4%
Employee Salaries	\$18,425	\$18,425	\$18,425	\$18,425	\$18,425	\$18,425	\$18,425	\$18,425	\$18,425	\$18,425	\$18,425	\$18,425	\$221,096	12.8%
General Excise Tax	\$5,907	\$6,007	\$6,398	\$6,207	\$6,607	\$6,102	\$6,197	\$6,607	\$6,388	\$7,237	\$6,908	\$7,341	\$77,905	4.5%
Insurance, GL	\$229	\$229	\$229	\$229	\$229	\$229	\$229	\$229	\$229	\$229	\$229	\$229	\$2,750	0.2%
Insurance, Malpractice	\$732	\$732	\$732	\$732	\$732	\$732	\$732	\$732	\$732	\$732	\$732	\$732	\$8,782	0.5%
Insurance, Health	\$2,940	\$2,940	\$2,940	\$2,940	\$2,940	\$2,940	\$2,940	\$2,940	\$2,940	\$2,940	\$2,940	\$2,940	\$35,280	2.0%
Laundry Service	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$4,800	0.3%
Meals & Entertainment	\$420	\$420	\$420	\$420	\$420	\$420	\$420	\$420	\$420	\$420	\$420	\$420	\$5,040	0.3%
Merchant Account	\$410	\$417	\$444	\$431	\$459	\$424	\$430	\$459	\$444	\$503	\$480	\$510	\$5,410	0.3%
Miscellaneous	\$1,313	\$1,335	\$1,422	\$1,379	\$1,468	\$1,356	\$1,377	\$1,468	\$1,420	\$1,608	\$1,535	\$1,631	\$17,312	1.0%
Officer Salary	\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$16,667	\$200,000	11.6%
Professional Services	\$688	\$688	\$688	\$688	\$688	\$688	\$688	\$688	\$688	\$688	\$688	\$688	\$8,250	0.5%
Promotions / Advertising	\$1,575	\$1,802	\$1,919	\$1,862	\$1,982	\$1,831	\$1,859	\$1,982	\$1,916	\$2,171	\$2,072	\$2,202	\$23,175	1.3%
Rent	\$3,939	\$3,939	\$3,939	\$3,939	\$3,939	\$3,939	\$3,939	\$3,939	\$3,939	\$3,939	\$3,939	\$3,939	\$47,271	2.7%
Repair & Maintenance	\$165	\$165	\$165	\$165	\$165	\$165	\$165	\$165	\$165	\$165	\$165	\$165	\$1,980	0.1%
Salary Taxes	\$3,509	\$3,509	\$3,509	\$3,509	\$3,509	\$3,509	\$3,509	\$3,509	\$3,509	\$3,509	\$3,509	\$3,509	\$42,110	2.4%
Telecommunications	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$385	\$4,620	0.3%
<b>Total Expenses</b>	<b>\$68,839</b>	<b>\$69,273</b>	<b>\$70,199</b>	<b>\$69,748</b>	<b>\$70,696</b>	<b>\$69,499</b>	<b>\$69,725</b>	<b>\$70,696</b>	<b>\$70,177</b>	<b>\$72,188</b>	<b>\$71,408</b>	<b>\$72,436</b>	<b>\$844,885</b>	48.8%
<b>Net Profit Before Taxes</b>	<b>\$62,417</b>	<b>\$64,208</b>	<b>\$71,969</b>	<b>\$68,183</b>	<b>\$76,133</b>	<b>\$66,101</b>	<b>\$67,994</b>	<b>\$76,133</b>	<b>\$71,779</b>	<b>\$88,626</b>	<b>\$82,095</b>	<b>\$90,708</b>	<b>\$886,345</b>	51.2%
Estimated State Taxes	\$2,746	\$2,825	\$3,167	\$3,000	\$3,350	\$2,908	\$2,992	\$3,350	\$3,158	\$3,900	\$3,612	\$3,991	\$56,726	3.3%
Estimated Federal Taxes	\$9,363	\$9,631	\$10,795	\$10,227	\$11,420	\$9,915	\$10,199	\$11,420	\$10,767	\$13,294	\$12,314	\$13,606	\$301,357	17.4%
<b>Net Profit</b>	<b>\$50,308</b>	<b>\$51,752</b>	<b>\$58,007</b>	<b>\$54,955</b>	<b>\$61,363</b>	<b>\$53,277</b>	<b>\$54,803</b>	<b>\$61,363</b>	<b>\$57,854</b>	<b>\$71,432</b>	<b>\$66,169</b>	<b>\$73,110</b>	<b>\$528,262</b>	30.5%

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**CASH FLOW**

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Accounts receivable are significant. As a result, Dr. Kobayashi is seeking \$25,000 in working capital to be added to her start-up expenses as part of the term loan. In addition, financial projections show she will require an additional \$50,000 line of credit in the first year. Dr. Kobayashi will contribute \$75,000 in the first year to provide working capital. The line of credit is paid off in year two of operations.

Accounts payable are small. The start-up expenses are depreciated and amortized per the schedule shown above. Small investments (\$10,000) in additional equipment are estimated for years two and three.

With Dr. Kobayashi contributions, the company achieves positive cash flow from the first month of operations. As a S-corporation flow-through, all profits accrue to the owner. A monthly cash flow statement for year one is attached.

<b>Cash Flows From Operating Activities</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Net Profit	\$2,617	\$296,537	\$528,262
Accounts Receivable	(\$67,122)	(\$110,006)	(\$130,515)
Accounts Payable	\$1,700	\$1,893	\$2,085
Depreciation & Amortization	\$23,221	\$23,221	\$23,221
<b>Net Cash Provided by Operating Activities</b>	<b>(\$39,584)</b>	<b>\$211,645</b>	<b>\$423,053</b>
<b>Net Cash Flows From Investing Activities</b>			
Start-Up Expenses	(\$31,713)	\$0	\$0
Equipment and Fixed Assets	(\$146,830)	(\$10,000)	(\$10,000)
Leasehold Improvements	(\$22,000)	\$0	\$0
<b>Net Cash Used in Investing Activities</b>	<b>(\$200,543)</b>	<b>(\$10,000)</b>	<b>(\$10,000)</b>
<b>Cash Flows From Financing</b>			
Bank Loans	\$225,500	\$0	\$0
Owner's Capital	\$75,000	(\$60,373)	(\$151,645)
Line of Credit	\$50,000	(\$50,000)	\$0
<b>Net Cash Flow From Financing Activities</b>	<b>\$350,500</b>	<b>(\$110,373)</b>	<b>(\$151,645)</b>
Change in Cash			
Cash Balance, Beginning	\$0	\$60,373	\$151,645
<b>Cash Balance, End</b>	<b>\$60,373</b>	<b>\$151,645</b>	<b>\$413,053</b>



**Kobayashi Medical Practice**  
**Monthly Cash Flow**  
**Year 1**

<b>Cash Flows From Operating Activities</b>	June	July	August	September	October	November	December	January	February	March	April	May	<b>Total</b>
Net Profit	(\$17,877)	(\$15,959)	(\$13,403)	(\$14,845)	(\$10,155)	(\$8,335)	(\$2,872)	\$3,530	\$6,675	\$17,113	\$23,205	\$35,542	\$2,617
Accounts Receivable	(\$8,899)	(\$1,780)	(\$2,373)	(\$1,187)	(\$4,407)	(\$1,695)	(\$5,085)	(\$6,611)	(\$3,560)	(\$11,018)	(\$6,780)	(\$13,730)	(\$67,122)
Accounts Payable	\$1,400	\$0	\$0	\$100	\$58	\$37	\$111	(\$6)	\$0	\$0	\$0	\$0	\$1,700
Depreciation & Amortization	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$1,935	\$23,221
<b>Net Cash Provided by Operating Activities</b>	<b>(\$23,441)</b>	<b>(\$15,804)</b>	<b>(\$13,841)</b>	<b>(\$13,996)</b>	<b>(\$12,569)</b>	<b>(\$8,057)</b>	<b>(\$5,911)</b>	<b>(\$1,152)</b>	<b>\$5,050</b>	<b>\$8,030</b>	<b>\$18,360</b>	<b>\$23,747</b>	<b>(\$39,584)</b>
<b>Net Cash Flows From Investing Activities</b>													
Start-Up Expenses	(\$31,713)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$31,713)
Equipment and Fixed Assets	(\$46,830)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$46,830)
Leasehold Improvements	(\$22,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$22,000)
<b>Net Cash Used in Investing Activities</b>	<b>(\$100,543)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$100,543)</b>
<b>Cash Flows From Financing</b>													
Bank Loans	\$125,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$125,500
Owner's Capital	\$10,000	\$0	\$0	\$0	\$0	\$5,000	\$5,000	\$5,000	\$0	\$0	\$0	\$0	\$25,000
Line of Credit	\$50,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$50,000
<b>Net Cash Flow From Financing Activities</b>	<b>\$185,500</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,000</b>	<b>\$5,000</b>	<b>\$5,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$200,500</b>
<b>Change in Cash</b>													
Cash Balance, Beginning	\$0	\$61,516	\$45,712	\$31,871	\$17,875	\$5,306	\$2,248	\$1,337	\$5,186	\$10,236	\$18,266	\$36,626	\$0
<b>Cash Balance, End</b>	<b>\$61,516</b>	<b>\$45,712</b>	<b>\$31,871</b>	<b>\$17,875</b>	<b>\$5,306</b>	<b>\$2,248</b>	<b>\$1,337</b>	<b>\$5,186</b>	<b>\$10,236</b>	<b>\$18,266</b>	<b>\$36,626</b>	<b>\$60,373</b>	<b>\$60,373</b>

# APPENDIX A

## SERVICES PROVIDED

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KEALANI KOBYASHI, M.D., FAMILY PRACTICE

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The following chart of services and charges are the currently approved services and reimbursement rates for Hawaii Medical Services Association (HMSA), from

### **New Patient Charges**

New Patient Level 1	\$150
New Patient Level 2	\$190
Work Comp Patient New	\$115
No Fault Patient New	\$150
<b>Average New Patient</b>	<b>\$151</b>

### **Established Patient Charges**

Established Patient Level 1	\$105
Established Patient Level 2	\$125
Work Comp Patient Established	\$60
No Fault Patient Established	\$65
<b>Average Est. Patient</b>	<b>\$89</b>

### **Routine Visit Charges**

Sport Physical	\$50
Adult Physical	\$95
Drug Screen	\$30
Commercial Driver Physical	\$50
<b>Average Standard Visit</b>	<b>\$56</b>

### **Procedure Charges**

Urinalysis	\$20
TB Test	\$30
Cerumen (ear wax) Removal	\$90
Flu Test	\$80
Strep Test	\$40
EKG	\$90
Skin Tag Removal	\$120
Tetanus Vaccination	\$75
Steroid Injection	\$80
Blood Draw	\$20
<b>Average Procedure</b>	<b>\$65</b>