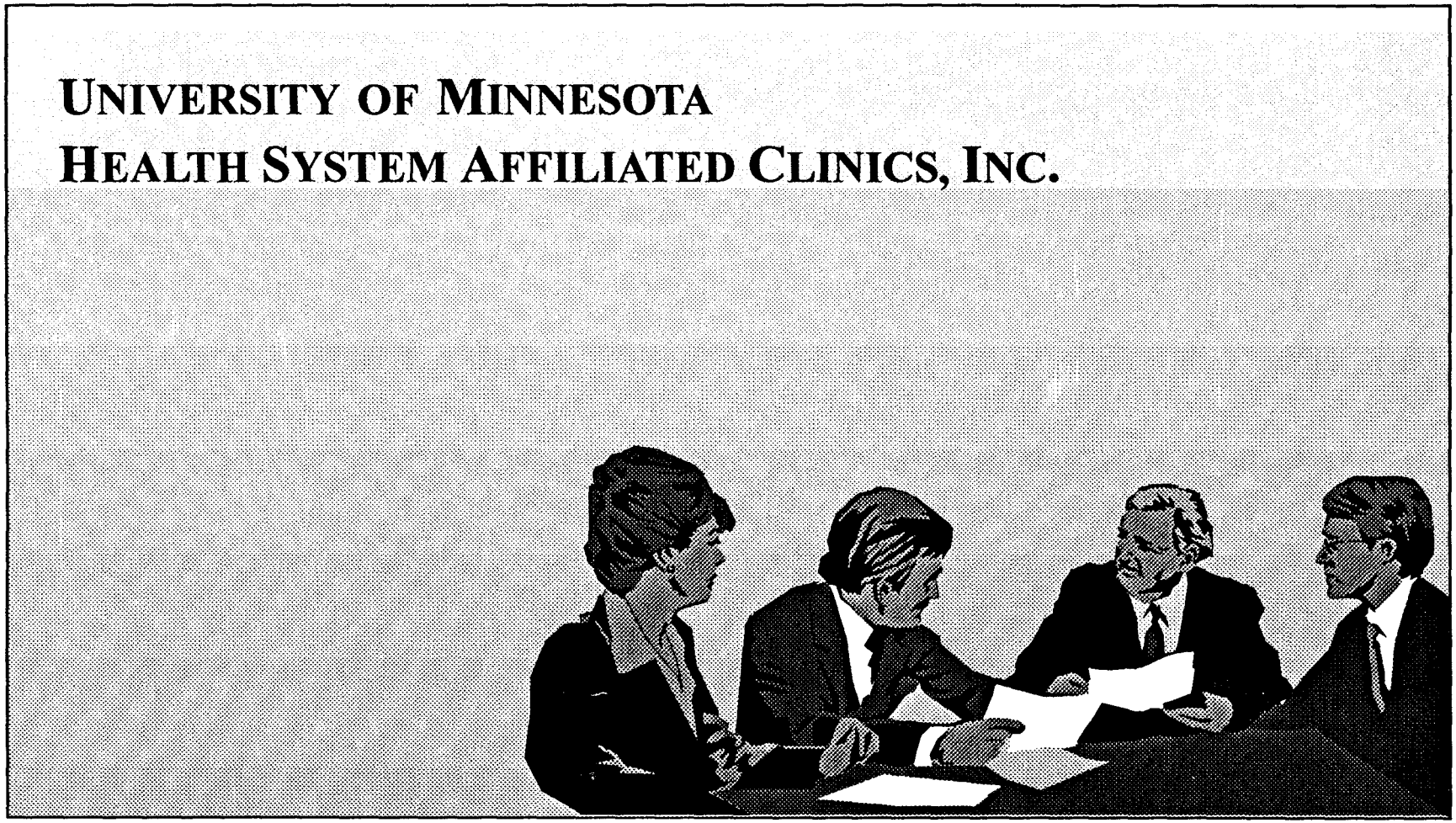
UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.



Board of Directors Meeting
January 27, 1995

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.
("UMHSAC")

1/27/95 Meeting of the Board of Governors

AGENDA

1. Approval of 12/9/94 Minutes
2. Heights Medical Clinic - Closing Status
3. Rush City Health Care Center Status
4. Hinckley Health Care Center Status
5. Central Internal Medicine, P.A. - Purchase Offer Status
6. West Side Community Clinic
7. Practice Acquisition Status
8. November, 1994 FYTD Financial Statements

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.

TABLE OF CONTENTS

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC. ("UMHSAC")
Minutes of the 12/9/94 Meeting of the Board of Directors

Attendees

In Person

Patrick Board
Michael Fay
Clifford Fearing
Daniel McLellan, M.D.
Helen Pitt

Non-Director Attendees

Keith A. Dunder, Hospital Counsel
Sharon Farsht
Stephan C. Grygar, UMHC Finance Department
Thomas J. Doyle, Attorney

Location

The University of Minnesota Hospital & Clinic (in Room C-365(3) of the Mayo Building, Harvard Street at East River Road, Minneapolis, Minnesota).

Order of Business

Cliff Fearing called the meeting to order at 7:40 o'clock a.m., pursuant to prior notice. All directors had received the Agenda, and a packet (the "Directors' Packet") including the minutes of the 8/19 and 9/23 meetings of the Board of Directors, a copy of the Unanimous Written Consent of Directors in Lieu of a Meeting,* summary written reports concerning the status of negotiations in connection with the Rush City clinic and the Hinckley clinic (including as to Rush City a list of issues, a schedule of estimated payments and draft recitals and resolutions for the establishment of a Rush City Clinic Committee, and as to Hinckley a summary of issues, information regarding site options, and a market survey), a summary of practice acquisition status, an October fiscal year-to-date financial statements for UMHSAC.

1. **Approval of Prior Minutes.** Cliff Fearing called for any changes to the minutes of the August 19 and September 23, 1994 Meetings. Hearing none, he called for approval. Mike Fay moved approval of the minutes of both meetings, which motion was seconded by Helen Pitt and approved by voice vote with no dissenting votes being heard. Cliff Fearing declared the minutes to have been accepted.

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* By this Consent, Dr. McLellan was confirmed as the Medical Director of Staub Pediatric Clinic, was appointed as the sole member of the Physicians' Committee established by the Consent, and was appointed as the Physician Director of UMHSAC.

2. **Introduction of Dr. Daniel S. McLellan.** Steve Grygar introduced Dr. McLellan to the other members of the Board of Directors and other attendees.

3. **IRS Forms.** Steve Grygar reported on the recent submission of IRS Form 990 (UMHSAC's annual tax return) and 1023 (application by UMHSAC to the IRS for recognition of its tax-exempt status). In response to a question Tom Doyle advised of his estimate that it would be approximately 100 days before any response would be forthcoming from the IRS with respect to the Form 1023, that the response would likely be a request for further information, and that he was not aware of any way of hastening that process.

4. **Heights Medical Clinic Report.** Steve Grygar reported of a UMHSAC management determination to change some terms of the offer for the acquisition of the assets of Palen Clinic, P.A. The change does not involve a greater outlay of dollars but does accelerate a schedule of payments by one year. Tom Doyle advised that the proposal had been made to the attorneys for Palen Clinic, and had been accepted by them within the past two days. He advised that the attorneys for Palen Clinic apparently still have some comments and concerns about the purchase agreement by which UMHSAC proposes to acquire real estate from Dr. Cortez, and that he awaits those comments. Assuming those comments can be negotiated to a mutually acceptable position, Tom advised that to his knowledge UMHSAC could proceed to close the transaction. But he cautioned that UMHSAC may need to seek postponement of the closing if it otherwise would occur in late December or early January, and if (as may be the case) the attention of UMHSAC management is entirely occupied with other matters currently scheduled for that time period.

5. **Rush City Report.** Steve Grygar reported on the status of negotiations with Rush City officials. Highlights included the following:

(a) Status of Facility Planning. Facility planning is proceeding. It is now estimated that the cost of a new clinic building would be between 1.5 and 1.6 million dollars. Several sites have been identified, the pros and cons of each of which are being reviewed by George Wilkinson, a consultant retained by UMHSAC. Pursuant to responses to a request for proposals, UMHSAC has a "short list" of three architects, which candidates will be interviewed shortly. Mike Fay made the point that the architect should be involved in site selection if at all possible, and Steve Grygar advised that he would try to have the architect selected in time to have input into site selection.

(b) Promotional Campaign. Steve Grygar reported on efforts being made to promote the role of UMHS in Rush City. Sharon Farsht's group has been assisting in this process. She reported that efforts include seeking visibility in the community for UMHS specialists via articles in the local newspaper and otherwise.

(c) Negotiations. Steve Grygar reviewed the current status of negotiations. He advised the directors that the most recent points discussed were to have UMHSAC purchase the accounts receivable and enter into a management agreement to manage the existing Rush City Hospital and Clinic while the new clinic building is under construction. Thereafter, once the new clinic building is ready for occupancy, UMHS would loan funds to UMHSAC to enable UMHSAC to purchase equipment, supplies and miscellaneous assets, and that UMHSAC would repay the loan from Rush City clinic operations. It was noted that when negotiations began, UMHSAC management was under the impression that Rush City officials basically wanted to "break even" on the transaction. Subsequently, they have been requiring net cash to Rush City, and seem to expect UMHSAC to hire all current employees of Rush City Hospital and Clinic and bear some or all costs of demolishing the existing structure. Such terms have not been a part of UMHSAC's position, and Steve Grygar predicted some degree of confrontation with Rush City negotiators.

At this point discussion ensued. Cliff Fearing stated his position that the current proposed transaction does not allow sufficient return of investment to UMHSAC, or to its source of financing (UMHS), to enable UMHSAC to obtain approval of the UMHS Board of Governors for UMHS financing. He stated his opinion that different possibilities must be explored, including the possibility of keeping the existing Rush City clinic building and using it instead of constructing a new building. Mike Fay observed that the negotiations have been going on for approximately one and one-half years, creating the impression that University-related entities simply cannot move fast enough in the health care field. Cliff Fearing acknowledged that possible impression, but pointed out that in reality other players in the health system are not necessarily moving as fast as they may claim to be (giving the example of the highly publicized intention of the Fairview system to build a hospital in Wyoming, when no ground has in fact been broken). Cliff reiterated that the possibility currently on the table with Rush City is not economically viable and that Rush City must have some stake in a joint effort that is viable. Helen Pitt asked specifically what in the transaction must change, to which Cliff responded he was not entirely certain, perhaps changing focus from a new building to use of the existing structure would be enough, but that in the end he thought the return on investment should be 6%. The advisability of this was generally acknowledged by the directors.

Tom Doyle was then asked to briefly review the proposed resolutions on the Rush City Clinic. He explained the general thrust of the resolutions, which were a part of the Directors Packet. Although no vote was taken, from comments made by certain directors it seemed that the concept and content of the resolutions were generally acceptable. (Action was not taken pending comments from Rush City representatives on the proposed resolutions and further development of the transaction.)

6. **Hinckley Clinic Report.** Steve Grygar gave a general overview of the status of Hinckley Clinic. He advised that the lease is under negotiation, with the principal issues being who is responsible for making improvements and the return on investment to the Mille Lacs Band of Ojibwe. He commented on discussions with Ryan Companies as to the return on investment issue, and the emphasis he was placing on community benefit from the clinic as a partial offset against obtaining a higher rate of return. He also reported on the site selection process, and referred to the report in the Directors Packet from Ryan Companies. Steve produced a map of the Hinckley area with the proposed sites. Discussion ensued as to which site would be best. **ACTION:** Following discussion, upon motion made by Helen Pitt and seconded by Mike Fay, and approved by voice vote with no dissenting votes being heard, the directors gave their support to site 2 as identified on the chart accompanying the December 5, 1994 letter from Chester J. Yanik of Ryan Companies, included in the Directors Packet.

The discussion then moved to issues of staffing the Hinckley Clinic (physician staff) and the market study contained in the Directors Packet. Highlights of the discussion included the following:

- Gateway Family Health Clinic in Moose Lake ("MLC") signed a letter of intent to provide physicians for the clinic. MLC may now want administrative control over the Hinckley Clinic. Some comments would seem to indicate that MLC wants the Hinckley Clinic to be "their" clinic. The question arose as to where MLC was "coming from," and that they had not put any money into efforts to date for the Hinckley Clinic. Cliff Fearing advised that the game plan of UMHSAC management, once it had learned of the position of MLC, was to meet with MLC representatives after the market study had been completed. Cliff advised of his intention to meet with a Dr. Christensen of MLC on December 15, 1994 and ascertain the position of MLC with respect to staffing, administrative control and operations of the Hinckley Clinic.

- The market study (results of which were presented in large part by Sharon Farscht indicates the Hinckley populous is enthusiastic about a possible role by UMHS, having high regard for UMHS's quality. However, she cautioned that the market study indicates high expectations on the part of the Hinckley population, for better trained and more caring personnel in a UMHS-affiliated clinic, for modern equipment, and for better all-round service. She stated her opinion that a key question is whether UMHS could meet expectations of the Hinckley population. She stressed that there would be a need for UMHS to really become part of the Hinckley community, if it wants to have success of the Hinckley Clinic, including occasional presence

of UMHS personnel, and the use of community health fairs, direct mailings, articles in the local newspaper, and the like, all reflecting the UMHS connection.

- As a result of the marketing study, Sharon Farscht also noted the Hinckley population wants emergency room, urgent care, obstetrics and gynecological care, and pediatric care. Some discussion followed on the viability of providing emergency care, with Helen Pitt noting the significant expense of a free-standing emergency room. Possible options identified were to use other local emergency care services, perhaps in some sort of affiliation with the Hinckley Clinic.

The consensus of the directors seemed to be for UMHSAC management to proceed along the lines as had been reported, with Cliff Fearing's December 15 meeting with Dr. Christensen of MLC being recognized as potentially a key meeting, one that could result in more definitive information that might cause some change in approach.

7. **Practice Acquisition Status.** Steve Grygar referred to the Practice Acquisition Status Checklist in the Directors Packet. He noted that several of the clinics had been the subject of more specific reports earlier in the meeting. He commented upon the apparent continuing interest of Central Internal Medicine (as evidenced by a letter received from their accountant and a phone call from a Central Internal physician to Steve), and advised the directors that UMHSAC management would send a letter to Central Internal Medicine expressing an intention to pursue discussions after the start of the new year (hopefully after currently pressing matters were brought to closure).

In connection with the Practice Acquisition Status Report, Dr. McLellan was asked to comment upon the request of Staub Pediatric Clinic for a new physician. Dr. McLellan advised in general terms of the need of another physician, and reported on recruiting efforts to date. It was clarified that July 1, 1995 was the target date for when a new physician would start. Mike Fay asked if Dr. Staub seemed interested in continuing to work, to which Dr. McLellan responded yes. Mike Fay also asked if there were any other issues that seemed to be of concern. As to that, Dr. McLellan reported that morale amongst all pediatric clinic staff was good, that staff generally feel comfortable and he thought the transition to UMHSAC ownership and management of Staub Pediatric Clinic had gone well. Dr. McLellan did report some anxiety of the person who had been doing billing and collections, but thought this might not be related to UMHSAC management.

Steve noted that some affiliation, perhaps at the UMHS level, with West Side Community Health Center is a possibility. Negotiations are still in an early stage because of the fairly recent departure of West Side's former administrator.

Cliff Fearing next reported as to the status of negotiations with Mesaba Clinic. (It was pointed out that this is not a transaction being done by UMHSAC, but is rather occurring between UMHS and Mesaba Clinic. But the report was made for the information of directors.) Cliff advised that there are two principal open issues: first, how to budget for a sufficient amount of money to fall to the bottom line, as net income, so as to have the income which is the premise of the value that was determined for Mesaba Clinic; and second, how to handle income tax liability on receivables. Tom Doyle then reviewed for the directors the general concepts behind the valuation, and the tax rules that may require the change from the cash to the accrual method of accounting upon an acquisition by UMHS of the equity of Mesaba Clinic (with attendant tax liability estimated to be in excess of $600,000, but susceptible of being paid over four years). Cliff advised that UMHS officials are trying to work these matters out with Mesaba Clinic representatives, but that he could not at this point predict the outcome with any certainty.

Cliff Fearing next reported on the status of UMHS negotiations with Mesabi Regional Medical Center (again, an affiliation that may occur between UMHS and the Medical Center, but which was reported for the information of the UMHSAC directors). He advised that the audit of Mesabi Regional Medical Center's last fiscal year was just completed on December 8, showing net income of approximately $250,000. As a result he was optimistic the affiliation would be approved by the UMHS Board of Governors.

8. **Financial Statements.** Steve Grygar noted that the October year-to-date financial statements for UMHSAC were in the Directors Packet. He advised that UMHSAC is still in the process of converting to a full accrual method of accounting. He also noted that UMHSAC is still collecting some pre-8/1/94 receivables belonging to Dr. Staub, and paying them over to Dr. Staub. Steve also advised that UMHSAC had acquired assets of Staub Pediatric at the time of year when business was at the lowest, and that the continuing payment of old receivables to Dr. Staub plus the fact that business was at a low point during the first month or so of the operations means that there still are not many receivables on the books providing a full stream of revenue. Various questions were asked about the financial statements and addressed by Steve.

9. **Future Meetings.** The remaining directors (two having departed at this point) discussed the meeting schedule. Mike Fay stated that he would like to go back to a monthly meeting schedule, at least for a few months, given the level of activity with various UMHSAC opportunities. That was agreed by those present. The next meeting was tentatively set for the last Friday in January (January 27, 1995). It was tentatively scheduled as an all-morning meeting so that in addition to normal business, the directors may pursue strategic planning.

There being no further business to come before the meeting, the meeting adjourned at approximately 9:15 o'clock a.m.

Respectfully submitted,

Keith A. Dunder, Secretary of University of Minnesota Health System Affiliated Clinics, Inc.

The foregoing minutes were approved by the Board of Directors of UMHSAC at their meeting of _____, 1995.

_____

Keith A. Dunder, Secretary of
University of Minnesota Health System
Affiliated Clinics, Inc.

Rush City Area Hospital & Clinic News Release

780 West Fourth Street • Rush City, MN • 55069 • (612)358-4708

For Immediate Release

Contact: Lynn Clayton
Administrator

Rush City Area Hospital expands affiliation search to better meet needs of local community and patients

(December 29, 1994 Rush City, MN) A rapidly changing health care environment within the I-35 corridor prompted Rush City Area Hospital and Clinic board members to halt affiliation negotiations with the University of Minnesota Health Systems (UMHS).

According to hospital administrator Lynn Clayton, regionalization and consolidation in the Cambridge and Forest Lake/Chisago Lakes areas significantly changed the look of this area's health care since the hospital began pursuing affiliation with UMHS in May of 1993. "In view of these expansive changes and the length of time UMHS has taken to negotiate a mutually beneficial agreement, the hospital board and Rush City council chose to reevaluate the options and take advantage of the best medical choice out there," Clayton explained. "That may or may not include UMHS."

Health care providers and insurers were encouraged during the 1992 legislative session to regionalize and form Integrated Service Networks (ISNs). This trend towards more efficient, consolidated care is highly evident within the I-35 Corridor, specifically in Allina's (an ISN created by the merging of Health One and Medica) purchase and management of the Cambridge Hospital and Clinic and in Fairview Hospital's increased presence at Princeton/Milaca and Chisago Lakes/Forest Lake.

"We view this decision as a positive, not a negative," said Mike Carroll, hospital board president. "It gives us an opportunity to reassess our needs and look at potential partners in

-more-

new perspectives. We have more options available to us than when we started this process, and our goal is to do what's best for the patients we serve."

"We also have a better feel for what the communities we serve want and need, as well as what is practical," Clayton said. "Knowing that, we can better match those needs with what is available."

Hospital officials will invite Allina, Fairview Hospital and Health Partners (an ISN consisting of Group Health, MedCenters and Ramsey Medical Center and Clinic) to discuss partnering possibilities, as well as continuing discussions with UMHS, following the December 31st legal expiration of a letter of intent signed with UMHS. According to Clayton, the hospital is seeking affiliation with a willing partner able to meet several criteria: the ability to enhance physician recruitment to the Rush City area; an ISN affiliation ensuring patient access to insurance products; a willingness to make a capital investment in a new facility; and a willingness to provide for emergency medical services in this area.

The hospital's goal to relocate to a new facility by the end of 1995 remains unchanged. Board members expect to negotiate a final agreement with one or more of the potential partners by spring, and anticipate this entity assisting in the funding of a new building. Major inefficiencies and mandated code upgrades have rendered current facilities nearly obsolete.

In addition, the same University of Minnesota health specialists which have regular appointments at the Rush City Area Hospital will continue to see patients throughout the foreseeable future.

-end-

Ryan Companies

[illegible] International Centre
[illegible] Second Avenue South
Minneapolis MN 55402-3387
[illegible] 1290 phone
[illegible] 3552 fax

RYAN

Building Lasting Relationships

December 19, 1994

VIA FAX
Dunkley/Twait: 449-5984
Grygar: 624-8128

Mr. Deron Dunkley
Mr. Doug Twait
Mille Lacs Band of Ojibwe Indians
HRC 76, Box 194
Onamia, Minnesota 56359

Mr. Steve Grygar
Box 704 UMHS
420 Delaware Street SE
Minneapolis, Minnesota 55455

RE: HINCKLEY CLINIC LAND PURCHASE SCHEDULE

Dear Gentlemen:

Last Thursday I had the opportunity to meet with Jim Ausmus, City Administrator of Hinckley, to discuss the timing of the land purchase from the City of Hinckley for either Site #1 or #2 or both in the Hinckley Industrial Park. As a result of this meeting, we have developed the following schedule.

By Wednesday of this week our architect Tom Wasmoen will provide us with site plans for both properties. The objective of this exercise is to see which of the two properties in the Industrial Park works better. Upon reaching consensus between the City, the Band and UMHS by Thursday or Friday of this week, Tom will finalize a site plan which would permit a 22-25,000 square foot building on the selected property.

On Tuesday, *December 27*, Tom will present this site plan to the Hinckley City Planning Commission at 7:00 p.m. for informational review. A Conditional Use Permit is required on either of the two properties, and it is for this purpose that we are presenting this site plan for their review and input.

I have asked Jim Ausmus to have the City's attorney, Howard Ledin, to begin the process of preparing a purchase agreement between the Mille Lacs Band of Chippewa Indians and the City of Hinckley for each of these two properties. We shall present the City of Hinckley with a formal purchase offer at their City Council meeting on *January 3, 1995*. The purchase offer will be conditioned on the City Planning Commission's granting us the Conditional Use Permit and on favorable environmental and soils on each property.

If all schedules are met, the Conditional Use Permit application will be formally reviewed and approved by the Planning Commission at their *January 24* meeting. Formal approval of the Conditional Use Permit application and purchase offer would occur at the City Council's *February 2* meeting.

It is very important that the Mille Lacs Band of Chippewa Indians and the University of Minnesota Health System Affiliated Clinics reach agreement on the master lease and equipment lease by February 2, 1995. I will call each of you this week to see when you are available at the beginning of the year to finalize the master lease and the equipment lease.

It is equally important that we proceed forward in a timely manner with the programming and planning of the design of the project so that building plans can be submitted to the City for their review and approval immediately after the February 2 meeting. It is essential to get the programming completed and the building designed so that the final rental rate structure can be established.

Sincerely,

Chester J. Yanik
Vice President

c: Mr. Cliff Fearing
Dr. Ted Thompson
Mr. Mitch Corbine
Mr. Tom Wood
Mr. Tom Wasmoen
Mr. Mike Bauer

UMHSAC Practice Acquisition Status

Version: 24-Jan-95

	Phase I				Phase II		Phase III		Phase IV	Phase V
	(A)	(B)	(C)	(D)	(A)	(B)	(A)	(B)		
Staub Pediatric Group	X	X	X	X	X	X	X	X	X	X
Palen Clinic	X	X	X	X	X	X	X	X	X	2/2/95
Hinckley (New Clinic)	X	X	X	X	X	X	X			
Rush City Clinic	X	X	X	X	X	X	X			
Grand Rapids	X	X								
Central Internal Medicine	X	X	X	X	X	X	X			
Mesaba Clinic	X	X	X	X	X	X	X	X	X	
Granite Falls	X	X								
Mankato										
Mesabi Regional Medical Cntr										
West Side Comm Health Cntr	X	X	X							
East Range Clinics	X									

Definitions:

Phase I (A)	*Introductory Meeting*
Phase I (B)	*UMHSAC follow-up*
Phase I (C)	*Clinic Confirmation; UMHSAC originated Letter-of-Intent, Micro-process outline, detailed financial information request*
Phase I (D)	*Information receipt by UMHSAC*
Phase II (A)	*Tangible and Intangible Valuations (Bldg, Eqpt & Practice)*
Phase II (B)	*UMHSAC offer presentation*
Phase III (A)	*Offer Negotiation*
Phase III (B)	*Offer Agreement*
Phase IV	*UMHSAC Due Diligence*
Phase V	*Closing*

University of Minnesota Health System
Affiliated Clinics, Inc.

Income Statement
Accrual Basis
For the Period Ended July 1, 1994 to November 30, 1994

	November YTD		
	Staub Pediatric Clinic	**UMHSAC Admin**	**Consolidated Total**
Patient Services Collections	$362,324	$0	$362,324
Other	17,380	2,992	20,372
Total Revenue	379,704	2,992	382,696
Discounts	(86,957)	0	(86,957)
Net Revenue	292,747	2,992	295,739
Physician Compensation	120,141	0	120,141
Physician Taxes & Benefits	9,377	0	9,377
Total Physican Comp & FB	129,518	0	129,518
Non-Physician Compensation	81,386	0	81,386
Non-Physician Taxes & Benefits	17,350	0	17,350
Total Non-Physician Comp & FB	98,736	0	98,736
Medical Supplies	18,609	0	18,609
Medical Consulting Fees	963	0	963
Drugs	30,457	0	30,457
Lab Fees	2,478	0	2,478
Billing Fees	10,277	0	10,277
Office Related Expense	10,038	1,497	11,534
Occupancy Expense	35,930	3,392	39,322
Depreciation	3,578	0	3,578
Professional Liability Insurance	2,053	0	2,053
Interest Expense	7,891	11,900	19,791
Payroll Services	712	300	1,012
Bad Debt	10,870	0	10,870
Dues and Subscriptions	2,441	0	2,441
Management Fees	2,249	2,249	4,497
MNCare Tax	1,350	0	1,350
Miscellaneous	573	40	613
Total Expenditures	368,721	19,377	388,098
Net Profit(Loss)	**($75,974)**	**($16,385)**	**($92,359)**

University of Minnesota Health System
Affiliated Clinics, Inc.

Balance Sheet
Accrual Basis
11/30/94

	Staub Pediatric Clinic	UMHSAC Admin	Consolidated Total
Cash - Checking	$81,525	$14,257	$95,782
Cash - Savings	127,189	84,568	211,757
Cash - Other	0	749,143	749,143
Total Cash	208,714	847,969	1,056,682
Accounts Receivable	131,261	0	131,261
Allowance For Uncollectibles	(37,521)	0	(37,521)
	93,740	0	93,740
Intangible Asset - Staub Pediatric Clinic	227,800	0	227,800
Prepaid Expenses	11,388	0	11,388
Fixed Assets			
Equipment - Fridley	44,245	0	44,245
Equipment - Shoreview	9,715	0	9,715
Less: Accumulated Depreciation	(3,578)	0	(3,578)
Total Fixed Assets	50,382	0	50,382
Total Assets	$592,024	$847,969	$1,439,993
Accounts Payable			
Trade A/P	$5,035	$1,076	$6,111
Other - Mgmt Fees	2,267	2,249	4,516
Other - Due to Staub Pediatric Group, P.A.	18,615	0	18,615
Total Accounts Payable	25,917	3,324	29,241
Accrued Expenses			
Accrued Payroll	39,548	0	39,548
Other	0	11,900	11,900
Total Accrued Expenses	39,548	11,900	51,448
Long-Term Liabilities			
Working Capital Loan Payable	325,000	0	325,000
Equipment Loan Payable	51,635	0	51,635
Practice Payable	227,800	0	227,800
Loan Payable - Palen	0	749,143	749,143
Total Long-Term Liabilities	604,435	749,143	1,353,578
Total Liabilities	630,352	752,467	1,382,819
Fund Balance	(1,902)	99,987	98,085
YTD Net Income	(75,974)	(16,385)	(92,359)
Total Liabilities and Fund Balance	$592,024	$847,969	$1,439,993

University of Minnesota Health System
Affiliated Clinics, Inc.

Income Statement
Cash Basis
For the Period Ended July 1, 1994 to November 30, 1994

November MTD				November YTD		
Staub Pediatric Clinic	UMHSAC Admin	Consolidated Total		Staub Pediatric Clinic	UMHSAC Admin	Consolidated Total
$64,322	$0	$64,322	Patient Services Collections	$170,758	$0	$170,758
2,763	2,639	5,402	Other	17,380	2,992	20,372
67,085	2,639	69,724	**Total Revenue**	188,137	2,992	191,129
23,592	0	23,592	Physician Compensation	93,044	0	93,044
2,701	0	2,701	Physician Taxes & Benefits	9,377	0	9,377
26,293	0	26,293	Total Physican Comp & FB	102,421	0	102,421
18,240	0	18,240	Non-Physician Compensation	71,190	0	71,190
5,796	0	5,796	Non-Physician Taxes & Benefits	16,445	0	16,445
24,036	0	24,036	Total Non-Physician Comp & FB	87,636	0	87,636
2,034	0	2,034	Medical Supplies	18,609	0	18,609
755	0	755	Medical Consulting Fees	963	0	963
2,731	0	2,731	Drugs	30,457	0	30,457
2,406	0	2,406	Lab Fees	2,478	0	2,478
2,849	0	2,849	Billing Fees	10,277	0	10,277
3,457	1,076	4,533	Office Related Expense	10,019	1,497	11,516
8,982	424	9,406	Occupancy Expense	35,930	3,392	39,322
910	0	910	Depreciation	3,578	0	3,578
1,226	0	1,226	Professional Liability Insurance	2,053	0	2,053
1,937	0	1,937	Interest Expense	7,891	0	7,891
129	0	129	Payroll Services	712	300	1,012
680	0	680	Dues and Subscriptions	2,441	0	2,441
0	0	0	Miscellaneous	573	40	613
78,425	1,500	79,925	**Total Expenditures**	316,037	5,228	321,265
($11,340)	**$1,140**	**($10,201)**	**Net Profit(Loss)**	**($127,899)**	**(2,236)**	**($130,135)**

University of Minnesota Health System
Affiliated Clinics, Inc.

Statement of Cash Flows
Cash Basis
For the Period July 1, 1994 to November 30, 1994

	Staub Pediatric Clinic	UMHSAC Admin	Consolidated Total
Operating Activities and Non-Operating Revenues:			
Net Profit(Loss)	($11,340)	$1,140	($10,201)
Adjustments			
Depreciation	910	0	910
(Increase)Decrease in Prepaid Expense	(8,213)	0	(8,213)
Increase(Decrease) in Accounts Payable	(7,067)	902	(6,165)
Increase(Decrease) in Accrued Liabilities	10,341	0	10,341
Total Adjustments	(4,030)	902	(3,128)
Net Cash Provided by Operating Activities	(15,370)	2,041	(13,329)
Investing Activities			
Acquisition of PPE	0	0	0
Change in Promissory Notes	0	0	0
Net Cash From(Used) in Investing Activities	0	0	0
Financing Activities			
Repayment of Notes Payable	(440)	0	(440)
Change in Cash	**($15,810)**	**$2,041**	**($13,769)**
Cash at October 31, 1994	**$224,524**	**$845,928**	**$1,070,452**
Cash at November 30, 1994	**$208,714**	**$847,969**	**$1,056,682**

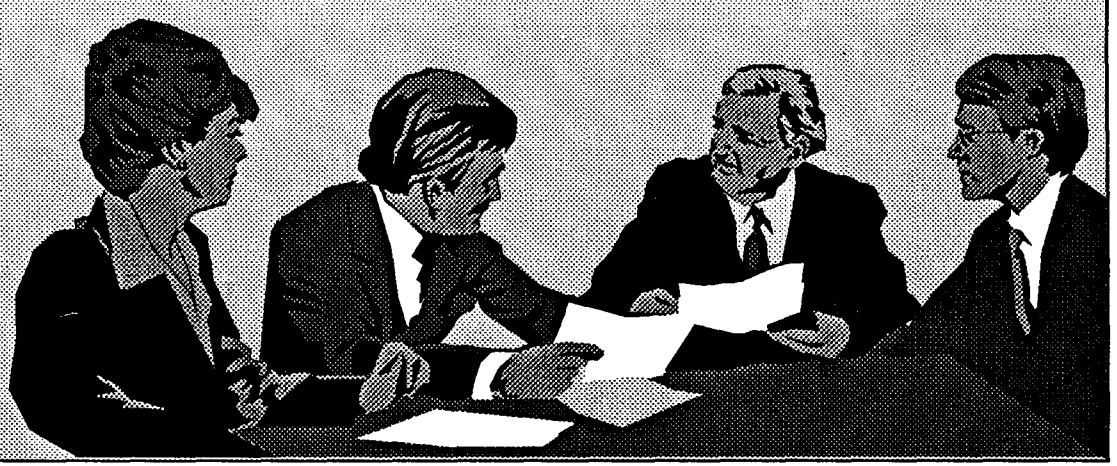
University of Minnesota Health System
Affiliated Clinics, Inc.

Balance Sheet
Cash Basis
11/30/94

	Staub Pediatric Clinic	UMHSAC Admin	Consolidated Total
Cash - Checking	$81,525	$14,257	$95,782
Cash - Savings	127,189	84,568	211,757
Cash - Other	0	749,143	749,143
Total Cash	208,714	847,969	1,056,682
Intangible Asset - Staub Pediatric Clinic	227,800	0	227,800
Prepaid Expenses	11,388	0	11,388
Fixed Assets			
Equipment - Fridley	44,245	0	44,245
Equipment - Shoreview	9,715	0	9,715
Less: Accumulated Depreciation	(3,578)	0	(3,578)
Total Fixed Assets	50,382	0	50,382
Total Assets	**$498,284**	**$847,969**	**$1,346,253**
Accounts Payable			
Trade A/P	$5,035	$1,076	$6,111
Other - Due to Staub Pediatric Group, P.A.	18,615	0	18,615
Total Accounts Payable	23,650	1,076	24,725
Long-Term Liabilities			
Working Capital Loan Payable	325,000	0	325,000
Equipment Loan Payable	51,635	0	51,635
Practice Payable	227,800	0	227,800
Loan Payable - Palen	0	749,143	749,143
Total Long-Term Liabilities	604,435	749,143	1,353,578
Total Liabilities	628,085	750,219	1,378,304
Fund Balance	(1,902)	99,987	98,085
YTD Net Income	(127,899)	(2,236)	(130,135)
Total Liabilities and Fund Balance	**$498,284**	**$847,969**	**$1,346,253**

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.

Staub Pediatric Clinic
Heights Medical Clinic
Palen Clinic



Board of Directors Meeting
February 23, 1995

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.
("UMHSAC")

2/23/95 Meeting of the Board of Governors

AGENDA

1. **Approval of 1/27/95 Minutes**
2. **Heights Medical Clinic - Purchased 2/2/95**
3. **Hinckley Health Care Center Status**
4. **Central Internal Medicine, P.A. - Purchase Offer Status**
5. **West Side Community Clinic**
6. **Practice Acquisition Status**
7. **UMHSAC Proposed Non-Physician Salary Plan FY 1996**
8. **December, 1994 FYTD Financial Statements**
9. **Budget Process FY 1995-96**
10. **Other:**
    - **Staff Privilege Dues at non-UMHS Facilities**

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.

TABLE OF CONTENTS

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC. ("UMHSAC")
Minutes of the 1/27/95 Meeting of the Board of Directors

Attendees

In Person

Michael Fay
Clifford Fearing
Daniel McLellan, M.D.
Helen Pitt

Non-Director Attendees

Keith A. Dunder, Hospital Counsel
Stephan C. Grygar, UMHC Finance Department
Thomas J. Doyle, Attorney

Location

The University of Minnesota Hospital & Clinic (in the Unit 5 Eighth Floor Board Room, Harvard Street at East River Road, Minneapolis, Minnesota).

Order of Business

Cliff Fearing called the meeting to order at 7:42 o'clock a.m., pursuant to prior notice. All directors had received a packet (the "Directors' Packet") including the Agenda, the minutes of the 12/9/94 meeting of the Board of Directors, a summary of practice acquisition status, and November, 1994 fiscal year-to-date financial statements for UMHSAC.

1. **Approval of Prior Minutes.** Cliff Fearing called for any changes to the minutes of the December 9, 1994 Meeting. Hearing none, he declared the minutes to have been accepted by consensus.

2. **Heights Medical Clinic Report.** Steve Grygar reported on the plan to close on the acquisition of the assets of Palen Clinic on February 2, 1995. There were some discussions as to the readiness of UMHSAC to take on clinic administration for this clinic. Steve noted that this clinic would continue to do its own billing, but would utilize services under the contract with UAFP for human resources, accounts payable and certain other administrative functions. This led to some discussion of UMHSAC's costs for UAFP administrative work, which Steve Grygar estimated to be approximately $8,500 per year per clinic, with concentration of costs when a new clinic first comes on line. Mike Fay asked about the number of physician and non-physician employees. Steve Grygar responded with those numbers and in so doing also noted that a Dr. Lawrow at Apache Medical had expressed some interest in joining the practice. Helen Pitt asked about lab services, and specifically asked whether JCAHO would ever review the labs of UMHSAC clinics in

determining accreditation of UMHS, on the grounds that UMHSAC is an affiliated organization. The answer was not known.

3. **Rush City Report.** Steve Grygar distributed the news release that is attached to these minutes. Cliff Fearing advised that Rush City and UMHSAC had ended their exclusive discussions, because Rush City had wanted UMHSAC (or UMHS) to commit to significant expenditure of funds without any reasonable degree of assurance of patient volumes that would be adequate to justify the expenditures. There followed some discussion on the general availability of health care in the area surrounding Rush City.

4. **Hinckley Clinic Report.** It was reported that Gateway Family Health Clinic was interested in managing and administering the clinic at Hinckley. Specifics are not yet known but there likely will be some three-way relationship perhaps involving UMHSAC (or perhaps even UMHS) as the tenant, with some sort of clinic management agreement with Gateway Family Health Clinic. Tom Doyle was told to expect a telephone call from Dr. Thompson concerning recent discussions. Steve Grygar distributed the December 19, 1994 letter from Chester Yanik of Ryan Companies concerning a land purchase schedule. Tom Doyle summarized key open issues with respect to the lease as being sovereign immunity/tribal jurisdiction and economic issues. There was some discussion in that regard about the overall financial commitment of the Mille Lacs Band of Ojibwe (approximately $2,000,000) and whether the clinic land and building would or would not be subject to real estate taxes.

5. **Central Internal Medicine Associates.** Steve Grygar noted that a meeting was scheduled for January 30 between representatives of Central Internal Medicine Associates, on the one hand, and Steve and Tom Doyle, on the other. The meeting was to re-initiate discussion of terms by which UMHSAC might possibly acquire the assets of Central Internal Medicine Associates.

6. **West Side Community Clinic.** Steve Grygar reported that this tax-exempt community clinic in St. Paul continues to have interest in an affiliation with UMHSAC (or possibly UMHS), and that he had requested historic financial data for purposes of assessing the financial position of West Side Community Clinic. Cliff Fearing provided some more background on the clinic, and described preliminary discussions with the Community Clinic consortium that might lead to two community integrated service networks of community clinics, one in Minneapolis and one in St. Paul. Although very tentative at this point, it was thought that UMHSAC and/or UMHS might be involved in both CISN's, and that conceivably U-Care might administer and be the claims agents for the CISN's. There was also some discussion on the possibility of providing specialist outreach and primary care assistance to West Side Community Clinic, and assist with long-term capital needs, in a manner that would further the missions of UMHSAC and UMHS. The role of Community University Health Care Center (C.U.H.C.C.) was also discussed.

7. **Practice Acquisition Status.** Many of the practices noted in the practice acquisition report in the Directors' Packet had been previously discussed. However, Tom Doyle gave a summary report on negotiations between UMHS and Mesaba Clinic, and Keith Dunder and Tom Doyle together gave a summary report on negotiations between UMHS and Mesabi Regional Medical Center. Tom Doyle also noted to the directors that he had recently been advised of the Internal Revenue Service's telephonic indication that it would recognize the tax-exempt status of Interstate Medical Center.

8. **Financial Report and Statements.** The financial statements in the Directors' Packet were briefly commented on by Steve Grygar. There were some specific questions that were asked and addressed. Some of the more general questions and comments were as follows:

- Mike Fay asked if UMHSAC could participate in volume or group purchasing arrangements in which UMHS participates. Keith Dunder advised that he would look into that and report back to the Board.

- Cliff Fearing and Mike Fay both requested that future financial statements show not only year-to-date activity but also comparisons to UMHSAC's budget. Cliff also noted that after approximately six months of experience UMHSAC should be able to prepare projections.

- Dr. McLellan was asked how operations were going at Staub Pediatric Group. He reported that there were some problems in UAFP's payment of bills, and that some bills were being paid late and some were being paid twice. Concern was expressed at that state of affairs and there was some preliminary discussion of other possible sources of administrative services for UMHSAC, until such time as UMHSAC may have its own, comprehensive administrative staff.

9. **Strategic Issues.** Following the financial report and discussion on UMHSAC's finances, Dr. McLellan asked whether there had been any further, formal thinking on UMHSAC's longer term strategy. That triggered discussion of which the following are some highlights:

- This meeting had originally been intended to be a strategic planning meeting. But intense activity with the Mesaba Clinic and Mesabi Regional Medical Center transactions prevented the requisite preparation or time commitment. It was felt that a strategic planning meeting for UMHSAC was still essential, but probably would have to be postponed until at least April.

- The main thrusts for new clinical activities by UMHS, and probably UMHSAC, probably would be working on CISN's with the Community Clinic Consortium in the Twin Cities metropolitan area, and focusing on the Iron Range outstate (particularly the East Range Clinic, if it would have an interest). A lesser priority should be assigned to smaller clinics, particularly in the metropolitan area where the first priority for time and effort should be with the Community Clinic Consortium.

- A question was raised as to whether UMHSAC has enough staff for clinic administration and to adequately pursue possible acquisitions of additional practices.

10. Future Meetings. Mike Fay asked if future meetings could be rescheduled to occur after the standing monthly meeting of UMHS's Board of Governors (generally on the last Wednesday of every month). He suggested the meeting could occur commencing at 7:30 o'clock a.m. on the Thursday following the UMHS Board of Governors meetings. That was agreeable to the directors present, and the next meeting was scheduled for 7:30 o'clock a.m. on Thursday, February 23, 1995 at UMHS (specific location to be announced).

There being no further business to come before the meeting, the meeting adjourned at approximately 9:03 o'clock a.m.

Respectfully submitted,

Keith A. Dunder, Secretary of University of Minnesota Health System Affiliated Clinics, Inc.

The foregoing minutes were approved by the Board of Directors of UMHSAC at their meeting of _____, 1995.

_____

Keith A. Dunder, Secretary of
University of Minnesota Health System
Affiliated Clinics, Inc.

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Hinckley Health Care Center
Activity Update

- **Finalize Building and Equipment Lease Agreements between Band and UMHS by 3/17/95**
  - ► **Sovereign Immunity**
  - ► **Tribal Court Jurisdiction**
  - ► **Landlord Entity**
  - ► **Land Ownership**
  - ► **Amount of Rent and ROI**
  - ► **Land Purchase 3/17/95**

- **Create Management Svcs Agmt between UMHS and Gateway Clinic**

- **Complete Facility Role and Program Planning and Facility Sizing Activities**
  - ► **Must complete in next 60 days for Fall 1995 opening**

Mille Lacs Band Purchases Property For New Clinic

Representatives of the Mille Lacs Band of Ojibwe attended the meeting of the Hinckley City Council last Tuesday evening and reached an agreement on the purchase of a parcel of land at Hinckley's Industrial Park.

The Mille Lacs Band purchased an 8 acre parcel located just south of the water tower, between I-35 and Pine County Road 140. The purchase price of $48,000 was agreed upon and, after discussion about other matters concerning the development, the Council unanimously agreed to the sale.

The property will be used as the site of a new medical clinic. The Mille Lacs Band has entered into an agreement with the University of Minnesota for management of the public medical clinic.

The Council expressed concern on the immediate use of the property. Members insisted that the purchase agreement include a phrase stating, in effect, that if the property was not developed for the stated intentions, ownership of the property would revert back to the City of Hinckley.

"We need that protection for the taxpayers," stated Councilman Skip Fagerstrom.

Mille Lacs Band Commissioner Doug Twait stated that this was not a problem.

"We're going to build and operate a first class clinic," said Twait.

Twait also agreed that for the term of the 30 year agreement with the University of Minnesota, trust status would not be sought on the property.

In other City Council business: The Council accepted the purchase of the parcel known as the "Old Phillips 66" site by the Moose Lake Federal Credit Union.

The Credit Union entered into agreement with the City some time ago to purchase the property located across from Marge's Cafe on Old Highway 61. However, due to the fact that the site formerly held a bulk fuel distribution station with tanks buried in the ground, the property had to undergo extensive soil testing.

The City had the necessary tests performed and the property was cleared by the Minnesota Pollution Control Agency, allowing MLFCU to purchase the parcel and begin construction.

The Credit Union intends to build a new facility at the site and move their Hinckley Office from where it is presently located on Lawler Avenue.

• Pine County Sheriff Steve Haavisto was present at the meeting to discuss the new policing contract for the upcoming year.

The contract reflected a minor rate increase and, after discussion concerning, among other things, increased protection during the summer, was approved by the council.

Haavisto also requested that a committee be formed to discuss issues between his department and the council. The City Police Commission is already in place with council members Beutel, Lymburner and City Clerk/Administrator Aumsus serving.

• City water and sewer users can expect an increase in rates. After the Water and Sewer Commission met with city staff, they recommended an increase of 10% now and another 5% increase in July or August.

The latest increase in rates came in 1993. This was a 1.8% increase for water and a 2.7% increase for sewer. Prior to that, the last increase in rates occurred in 1987.

The Council compared rates in Hinckley to rates in surrounding communities. They found the rates here to be considerably lower than most. Typical monthly bills for water and sewer service (7000 gallons) were reported as follows:

Hinckley	$27.22
Pine City	$23.05
Sandstone	$54.50
Mora	$38.05

With the increase, the typical Hinckley bill would move to $30.13 per month. These rates do not reflect additional service charges which may be added to the accounts in different communities.

The increase is intended to meet depreciation and debt service expenses and reflects no new debt service.

After consideration, the Council

(continued on page 14)

New Clinic

(continued from page 1)

approved the increase.

• Peoples Service, who holds a contract to operate the City water and sewer systems, requested an amendment to their contract for additional funding.

The request made was to increase the contract from $10,567 per month to $12,036 per month.

Peoples cited the addition of another lift station, a new well and the additional time that has been put in by their personnel to meet the needs of the City with all the construction activities as reasons for the request.

Water use has increased by 12.6% over 1993 and has increased 63% from 1990 to 1993. This has meant more cost of operation since Peoples took on the contract.

The Water and Sewer Commission met with Peoples prior to the council meeting and recommended that the request be approved, which it was.

• Appointments were made to the newly formed Airport Commission. Bob Bircher was appointed for a 3 year term, Don Zeman was appointed to a 2 year term and Darryl Nemetz was appointed to serve a 1 year term.

They join 3 people from the Sandstone area in forming the new commission.

UMHSAC Practice Acquisition Status

Version: 20-Feb-95

	Phase I				Phase II		Phase III		Phase IV	Phase V
	(A)	(B)	(C)	(D)	(A)	(B)	(A)	(B)		
Staub Pediatric Group	X	X	X	X	X	X	X	X	X	X
Palen Clinic	X	X	X	X	X	X	X	X	X	X
Hinckley (New Clinic)	X	X	X	X	X	X	X			
Rush City Clinic	X	X	X	X	X	X	X			
Grand Rapids	X	X								
Central Internal Medicine	X	X	X	X	X	X	X			
Mesaba Clinic	X	X	X	X	X	X	X	X	X	
Granite Falls	X	X								
Mankato										
Mesabi Regional Medical Cntr										
West Side Comm Health Cntr	X	X	X							
East Range Clinics	X									

Definitions:

Phase I (A)	*Introductory Meeting*
Phase I (B)	*UMHSAC follow-up*
Phase I (C)	*Clinic Confirmation; UMHSAC originated Letter-of-Intent, Micro-process outline, detailed financial information request*
Phase I (D)	*Information receipt by UMHSAC*
Phase II (A)	*Tangible and Intangible Valuations (Bldg, Eqpt & Practice)*
Phase II (B)	*UMHSAC offer presentation*
Phase III (A)	*Offer Negotiation*
Phase III (B)	*Offer Agreement*
Phase IV	*UMHSAC Due Diligence*
Phase V	*Closing*

Proposed
UMHSAC Non-Physician Salary Plan
FY 1996

Version: February 20, 1995

1. **Maximum of 3.25% combined COLA and Merit Increase provided on 7/1/95 with actual increase being a function of performance evaluation outcomes.**

2. **All UMHSAC Non-Physician employees will have a performance evaluation completed prior to 7/1/95.**

3. **All UMHSAC Non-physician employees will move to a July 1 anniversary date for purposes of future salary increases.**

4. **July 1 eligibility rules:**

   - **Annual Increase applied without respect to % time**
   - **If hired between 7/1 and 12/31 of current fiscal year, salary change will be effective on 7/1 of Budget fiscal year.**
   - **If hired between 1/1 and 6/30 of current fiscal year, salary change will be effective on 12/31 of Budget fiscal year; anniversary date will change to 7/1 during the next fiscal year.**

University of Minnesota Health System
Affiliated Clinics, Inc.

Consolidated Income Statement

For the Period Ended July 1, 1994 to December 31, 1994

December MTD					December YTD			
Budget	Actual	Variance Over(Under) Budget	Variance %		Budget	Actual	Variance Over(Under) Budget	Variance %
$104,041	$95,118	($8,923)	-9.4%	Patient Service Charges	$513,493	$457,443	($56,050)	-12.3%
787	5,089	4,302	84.5%	Other	3,884	25,461	21,577	84.7%
104,828	100,207	(4,621)	-4.6%	**Total Revenue**	517,377	482,903	(34,474)	-7.1%
26,010	28,220	2,210	7.8%	Deductions From Charges	128,373	115,177	(13,196)	-11.5%
78,818	71,987	(6,830)	-9.5%	**Net Revenue**	389,004	367,726	(21,278)	-5.8%
25,055	25,442	387	1.5%	Physician Compensation	123,658	145,583	21,925	15.1%
2,506	1,598	(908)	-56.8%	Physician Taxes & Benefits	12,366	10,975	(1,391)	-12.7%
27,560	27,040	(521)	-1.9%	Total Physican Comp & FB	136,024	156,558	20,534	13.1%
19,109	21,288	2,179	10.2%	Non-Physician Compensation	94,310	102,674	8,364	8.1%
3,214	1,258	(1,956)	-155.6%	Non-Physician Taxes & Benefits	15,863	18,683	2,820	15.1%
22,323	22,545	223	1.0%	Total Non-Physician Comp & FB	110,173	121,357	11,184	9.2%
5,304	270	(5,033)	-1861.9%	Medical Supplies	26,176	621	(25,555)	-4114.1%
1,075	0	(1,075)	0.0%	Medical Consulting Fees	5,307	617	(4,690)	-760.1%
1,478	6,586	5,108	77.6%	Drugs	7,295	37,043	29,748	80.3%
1,368	2,033	664	32.7%	Lab Fees	6,753	23,114	16,361	70.8%
0	20	20	100.0%	Travel	0	77	77	100.0%
2,536	4,872	2,336	47.9%	Billing Fees	12,518	15,149	2,631	17.4%
2,248	2,234	(15)	-0.7%	Office Related Expense	11,097	13,711	2,614	19.1%
9,316	9,406	90	1.0%	Occupancy Expense	45,980	48,728	2,748	5.6%
902	899	(3)	-0.3%	Depreciation	4,450	4,477	27	0.6%
423	913	490	53.7%	Professional Liability Insurance	2,087	2,965	878	29.6%
1,725	6,599	4,874	73.9%	Interest Expense	8,515	26,390	17,875	67.7%
152	231	79	34.3%	Payroll Services	750	1,244	494	39.7%
130	130	(0)	-0.1%	Bad Debt	642	572	(70)	-12.2%
727	380	(346)	-91.0%	Dues and Subscriptions	3,586	2,747	(839)	-30.5%
912	927	15	1.6%	Management Fees	4,500	5,424	924	17.0%
0	683	683	100.0%	MNCare Tax	0	2,033	2,033	100.0%
344	0	(344)	0.0%	Miscellaneous	1,698	613	(1,085)	-177.1%
78,523	85,769	7,245	9.2%	**Total Expenditures**	387,551	463,439	75,888	16.4%
$294	**($13,781)**	**($14,076)**	**102.1%**	**Net Profit(Loss)**	**$1,453**	**($95,712)**	**($97,165)**	**101.5%**

University of Minnesota Health System
Affiliated Clinics, Inc.

Staub Pediatric Clinic

Income Statement

For the Period Ended August 1, 1994 to December 31, 1994

December MTD					December YTD			
Budget	Actual	Variance Over(Under) Budget	Variance %		Budget	Actual	Variance Over(Under) Budget	Variance %
$104,041	$95,118	($8,923)	-9.4%	Patient Service Charges	$513,493	$457,443	($56,050)	-12.3%
787	2,298	1,512	65.8%	Other	3,884	19,678	15,794	80.3%
104,828	97,417	(7,411)	-7.6%	Total Revenue	517,377	477,121	(40,256)	-8.4%
26,010	28,220	2,210	7.8%	Deductions From Charges	128,373	115,177	(13,196)	-11.5%
78,818	69,197	(9,621)	-13.9%	Net Revenue	389,004	361,944	(27,060)	-7.5%
25,055	25,442	387	1.5%	Physician Compensation	123,658	145,583	21,925	15.1%
2,506	1,598	(908)	-56.8%	Physician Taxes & Benefits	12,366	10,975	(1,391)	-12.7%
27,560	27,040	(521)	-1.9%	Total Physican Comp & FB	136,024	156,558	20,534	13.1%
19,109	21,288	2,179	10.2%	Non-Physician Compensation	94,310	102,674	8,364	8.1%
3,214	1,258	(1,956)	-155.6%	Non-Physician Taxes & Benefits	15,863	18,683	2,820	15.1%
22,323	22,545	223	1.0%	Total Non-Physician Comp & FB	110,173	121,357	11,184	9.2%
5,304	270	(5,033)	-1861.9%	Medical Supplies	26,176	621	(25,555)	-4114.1%
1,075	0	(1,075)	0.0%	Medical Consulting Fees	5,307	617	(4,690)	-760.1%
1,478	6,586	5,108	77.6%	Drugs	7,295	37,043	29,748	80.3%
1,368	2,033	664	32.7%	Lab Fees	6,753	23,114	16,361	70.8%
0	20	20	100.0%	Travel	0	77	77	100.0%
2,536	4,872	2,336	47.9%	Billing Fees	12,518	15,149	2,631	17.4%
2,248	1,859	(390)	-21.0%	Office Related Expense	11,097	11,839	742	6.3%
9,316	8,982	(334)	-3.7%	Occupancy Expense	45,980	44,912	(1,068)	-2.4%
902	899	(3)	-0.3%	Depreciation	4,450	4,477	27	0.6%
423	913	490	53.7%	Professional Liability Insurance	2,087	2,965	878	29.6%
1,725	1,999	274	13.7%	Interest Expense	8,515	9,890	1,375	13.9%
152	231	79	34.3%	Payroll Services	750	944	194	20.5%
130	130	(0)	-0.1%	Bad Debt	642	572	(70)	-12.2%
727	380	(346)	-91.0%	Dues and Subscriptions	3,586	2,747	(839)	-30.5%
912	927	15	1.6%	Management Fees	4,500	3,176	(1,325)	-41.7%
0	683	683	100.0%	MNCare Tax	0	2,033	2,033	100.0%
344	0	(344)	0.0%	Miscellaneous	1,698	573	(1,125)	-196.5%
78,523	80,370	1,846	2.3%	Total Expenditures	387,551	438,663	51,112	11.7%
$294	($11,173)	($11,467)	102.6%	Net Profit(Loss)	$1,453	($76,719)	($78,172)	101.9%

University of Minnesota Health System
Affiliated Clinics, Inc.

Administrative

Income Statement

For the Period Ended July 1, 1994 to December 31, 1994

December MTD					December YTD			
Budget	Actual	Variance Over(Under) Budget	Variance %		Budget	Actual	Variance Over(Under) Budget	Variance %
$0	$0	$0	0.0%	Patient Service Charges	$0	$0	$0	0.0%
0	2,790	2,790	100.0%	Other	0	5,782	5,782	100.0%
0	2,790	2,790	100.0%	**Total Revenue**	0	5,782	5,782	100.0%
0	0	0	0.0%	Deductions From Charges	0	0	0	0.0%
0	2,790	2,790	100.0%	**Net Revenue**	0	5,782	5,782	100.0%
0	0	0	0.0%	Physician Compensation	0	0	0	0.0%
0	0	0	0.0%	Physician Taxes & Benefits	0	0	0	0.0%
0	0	0	0.0%	Total Physican Comp & FB	0	0	0	0.0%
0	0	0	0.0%	Non-Physician Compensation	0	0	0	0.0%
0	0	0	0.0%	Non-Physician Taxes & Benefits	0	0	0	0.0%
0								
0	0	0	0.0%	Total Non-Physician Comp & FB	0	0	0	0.0%
0								
0	0	0	0.0%	Medical Supplies	0	0	0	0.0%
0	0	0	0.0%	Medical Consulting Fees	0	0	0	0.0%
0	0	0	0.0%	Drugs	0	0	0	0.0%
0	0	0	0.0%	Lab Fees	0	0	0	0.0%
0	0	0	0.0%	Travel	0	0	0	0.0%
0	0	0	0.0%	Billing Fees	0	0	0	0.0%
0	375	375	100.0%	Office Related Expense	0	1,872	1,872	100.0%
0	424	424	100.0%	Occupancy Expense	0	3,816	3,816	100.0%
0	0	0	0.0%	Depreciation	0	0	0	0.0%
0	0	0	0.0%	Professional Liability Insurance	0	0	0	0.0%
0	4,600	4,600	100.0%	Interest Expense	0	16,500	16,500	100.0%
0	0	0	0.0%	Payroll Services	0	300	300	100.0%
0	0	0	0.0%	Bad Debt	0	0	0	0.0%
0	0	0	0.0%	Dues and Subscriptions	0	0	0	0.0%
0	0	0	0.0%	Management Fees	0	2,249	2,249	100.0%
0	0	0	0.0%	MNCare Tax	0	0	0	0.0%
0	0	0	0.0%	Miscellaneous	0	40	40	100.0%
0	5,399	5,399	100.0%	**Total Expenditures**	0	24,776	24,776	100.0%
$0	($2,609)	($2,609)	100.0%	**Net Profit(Loss)**	$0	($18,994)	($18,994)	100.0%

University of Minnesota Health System
Affiliated Clinics, Inc.

Statement of Cash Flows

For the Period July 1, 1994 to December 31, 1994

	Staub Pediatric Clinic	UMHSAC Admin	Consolidated Total
Operating Activities and Non-Operating Revenues:			
Net Profit(Loss)	($11,173)	($2,609)	($13,781)
Adjustments			
Depreciation	899	0	899
Change In Accounts Receivable	5,505	0	5,505
(Increase)Decrease in Prepaid Expense	(1,141)	0	(1,141)
Increase(Decrease) in Accounts Payable	(12,111)	(701)	(12,812)
Increase(Decrease) in Accrued Liabilities	6,398	4,600	10,998
Total Adjustments	(450)	3,899	3,449
Net Cash Provided by Operating Activities	(11,623)	1,291	(10,332)
Investing Activities			
Acquisition of PPE	0	0	0
Change in Promissory Notes	0	0	0
Net Cash From(Used) in Investing Activities	0	0	0
Financing Activities			
Repayment of Notes Payable	(434)	0	(434)
Change in Cash - Operations	**$6,559**	**$1,291**	**($10,766)**
Change in Cash - Payments to Henry Staub	**($18,615)**		
Cash at November 30, 1994	**$208,714**	**$847,969**	**$1,056,682**
Cash at December 31, 1994	**$196,658**	**$849,259**	**$1,045,917**

University of Minnesota Health System
Affiliated Clinics, Inc.

Balance Sheet

12/31/94

	Staub Pediatric Clinic	UMHSAC Admin	Consolidated Total
Cash - Checking	$69,052	$12,758	$81,809
Cash - Savings	127,606	87,359	214,965
Cash - Other	0	749,143	749,143
Total Cash	196,658	849,259	1,045,917
Accounts Receivable	126,838	0	126,838
Allowance For Uncollectibles	(28,175)	0	(28,175)
	98,663	0	98,663
Intangible Asset - Staub Pediatric Clinic	227,800	0	227,800
Prepaid Expenses	12,529	0	12,529
Fixed Assets			
Equipment - Fridley	44,245	0	44,245
Equipment - Shoreview	9,715	0	9,715
Less: Accumulated Depreciation	(4,477)	0	(4,477)
Total Fixed Assets	49,483	0	49,483
Total Assets	$585,133	$849,259	$1,434,392
Accounts Payable			
Trade A/P	$4,899	$375	$5,274
Other - Mgmt Fees	3,194	2,249	5,443
Other - Due to Staub Pediatric Group, P.A.	5,713	0	5,713
Total Accounts Payable	13,806	2,623	16,430
Accrued Expenses			
Accrued Payroll	43,913	0	43,913
Other	2,033	16,500	18,533
Total Accrued Expenses	45,946	16,500	62,446
Long-Term Liabilities			
Working Capital Loan Payable	325,000	0	325,000
Equipment Loan Payable	51,201	0	51,201
Practice Payable	227,800	0	227,800
Loan Payable - Palen	0	749,143	749,143
Total Long-Term Liabilities	604,001	749,143	1,353,144
Total Liabilities	617,807	751,766	1,369,574
Fund Balance	(1,902)	99,987	98,085
YTD Net Income	(76,719)	(18,994)	(95,712)
Total Liabilities and Fund Balance	$585,133	$849,259	$1,434,392

UMHSAC Budgeting Process
FY 1995-96

- **<u>March and April 1995</u> Work with Clinic Managers and Clinic Medical Directors on detailed Revenue, Supply, Support Staff and Equipment Budgets.**

  - ► **Staub Clinic minimum Physician Compensation levels set through 12/31/97 (subject to Production Level and Employer Match Adjustments).**

  - ► **Palen and Heights Physician Compensation guidelines for the period 1/1/96 - 12/31/96.**

- **<u>May 1995</u> Submit UMHSAC proposed budget to UMHSAC and UMHS Boards for information.**

- **<u>June 1995</u> UMHSAC proposed budget to UMHSAC and UMHS Boards for action.**

- **<u>July 1995</u> Beginning of UMHSAC 1995-96 fiscal year**

INTERNAL REVENUE SERVICE
DISTRICT DIRECTOR
P O BOX A-3290 DPN 22-2
CHICAGO, IL 60690

DEPARTMENT OF THE TREASURY

Date: MAR 1 : 1995

UNIVERSITY OF MINNESOTA HEALTH
SYSTEM AFFILIATED CLINICS INC
C/O STEPHEN C GRYGAY ADMIN
C/O THOMAS J DOYLE
FELHABER LARSON FENLON & VOGT P A
4200 FIRST BANK PLACE
MINNESOTA, MN 55402-4302

Employer Identification Number:
41-1763975
Case Number:
364347047
Contact Person:
J. WOHLRAB
Contact Telephone Number:
(312) 886-6532

Copy given to all UMHSAC directors at 3/21/95 meeting. TJDoyle

Accounting Period Ending:
JUNE 30.
Form 990 Required:
YES.
Addendum Applies:
NO.

Dear Applicant:

Based on information supplied, and assuming your operations will be as stated in your application for recognition of exemption, we have determined you are exempt from Federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3).

We have further determined that you are not a private foundation within the meaning of section 509(a) of the Code, because you are an organization scribed in sections 509(a)(1) and 170(b)(1)(A)(iii).

If your sources of support, or your purposes, character, or method of operation change, please let us know so we can consider the effect of the change on your exempt status and foundation status. In the case of an amendment to your organizational document or bylaws, please send us a copy of the amended document or bylaws. Also, you should inform us of all changes in your name or address.

As of January 1, 1984, you are liable for taxes under the Federal Insurance Contributions Act (social security taxes) on remuneration of $100 or more you pay to each of your employees during a calendar year. You are not liable for the tax imposed under the Federal Unemployment Tax Act (FUTA).

Since you are not a private foundation, you are not subject to the excise taxes under Chapter 42 of the Code. However, you are not automatically exempt from other Federal excise taxes. If you have any questions about excise, employment, or other Federal taxes, please let us know.

Grantors and contributors may rely on this determination unless the Internal Revenue Service publishes notice to the contrary. However, if you lose your section 509(a)(4) status, a grantor or contributor may not rely on this determination if he or she was in part responsible for, or was aware of, the act or failure to act, or the substantial or material change on the part of the organization that resulted in your loss of such status, or if he or e acquired knowledge that the Internal Revenue Service had given notice that u would no longer be classified as a section 509(a)(4) organization.

UNIVERSITY OF MINNESOTA HEALTH

Donors may deduct contributions to you as provided in section 170 of the Code. Bequests, legacies, devises, transfers, or gifts to you or for your use are deductible for Federal estate and gift tax purposes if they meet the applicable provisions of Code sections 2055, 2106, and 2522.

Contribution deductions are allowable to donors only to the extent that their contributions are gifts, with no consideration received. Ticket purchases and similar payments in conjunction with fundraising events may not necessarily qualify as deductible contributions, depending on the circumstances. See Revenue Ruling 67-246, published in Cumulative Bulletin 1967-2, on page 104, which sets forth guidelines regarding the deductibility, as charitable contributions, of payments made by taxpayers for admission to or other participation in fundraising activities for charity.

In the heading of this letter we have indicated whether you must file Form 990, Return of Organization Exempt From Income Tax. If Yes is indicated, you are required to file Form 990 only if your gross receipts each year are normally more than $25,000. However, if you receive a Form 990 package in the mail, please file the return even if you do not exceed the gross receipts test. If you are not required to file, simply attach the label provided, check the box in the heading to indicate that your annual gross receipts are normally $25,000 or less, and sign the return.

If a return is required, it must be filed by the 15th day of the fifth month after the end of your annual accounting period. A penalty of $10 a day is charged when a return is filed late, unless there is reasonable cause for the delay. However, the maximum penalty charged cannot exceed $5,000 or 5 percent of your gross receipts for the year, whichever is less. This penalty may also be charged if a return is not complete, so please be sure your return is complete before you file it.

You are not required to file Federal income tax returns unless you are subject to the tax on unrelated business income under section 511 of the Code. If you are subject to this tax, you must file an income tax return on Form 990-T, Exempt Organization Business Income Tax Return. In this letter we are not determining whether any of your present or proposed activities are unrelated trade or business as defined in section 513 of the Code.

You need an employer identification number even if you have no employees. If an employer identification number was not entered on your application, a number will be assigned to you and you will be advised of it. Please use that number on all returns you file and in all correspondence with the Internal Revenue Service.

If we have indicated in the heading of this letter that an addendum applies, the enclosed addendum is an integral part of this letter.

Because this letter could help resolve any questions about your exempt status and foundation status, you should keep it in your permanent records.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

Marilyn M. Day

Marilyn M. Day
District Director

Charitable Contributions - Substantiation and Disclosure Requirements

UNDER THE NEW LAW, CHARITIES WILL NEED TO PROVIDE NEW KINDS OF INFORMATION TO DONORS. Failure to do so may result in denial of deductions to donors and the imposition of penalties on charities.

Legislation signed into law by the President on August 10, 1993, contains a number of significant provisions affecting tax-exempt charitable organizations described in section 501(c)(3) of the Internal Revenue Code. These provisions include: (1) new substantiation requirements for donors, and (2) new public disclosure requirements for charities (with potential penalties for failing to comply). Additionally, charities should note that donors could be penalized by loss of the deduction if they fail to substantiate. **THE SUBSTANTIATION AND DISCLOSURE PROVISIONS APPLY TO CONTRIBUTIONS MADE AFTER DECEMBER 31, 1993.**

Charities need to familiarize themselves with these tax law changes in order to bring themselves into compliance. This Publication alerts you to the new provisions affecting tax-exempt charitable organizations. Set forth below are brief descriptions of the new law's key provisions. The Internal Revenue Service plans to provide further guidance in the near future.

Donor's Substantiation Requirements

Documenting Certain Charitable Contributions. — Beginning January 1, 1994, no deduction will be allowed under section 170 of the Internal Revenue Code for any charitable contribution of $250 or more unless the donor has contemporaneous written substantiation from the charity. In cases where the charity has provided goods or services to the donor in exchange for making the contribution, this contemporaneous written acknowledgement must include a good faith estimate of the value of such goods or services. Thus, taxpayers may no longer rely solely on a cancelled check to substantiate a cash contribution of $250 or more.

The substantiation must be "contemporaneous." That is, it must be obtained by the donor no later than the date the donor actually files a return for the tax year in which the contribution was made. If the return is filed after the due date or extended due date, then the substantiation must have been obtained by the due date or extended due date.

The responsibility for obtaining this substantiation lies with the donor, who must request it from the charity. The charity is not required to record or report this information to the IRS on behalf of donors.

The legislation provides that substantiation will not be required if, in accordance with regulations prescribed by the Secretary, the charity reports directly to the IRS the information required to be provided in the written substantiation. At present, there are no regulations establishing procedures for direct reporting by charities to the IRS of charitable contributions made in 1994. Consequently, charities and donors should be prepared to provide/obtain the described substantiation for 1994 contributions of $250 or more.

There is no prescribed format for the written acknowledgement. For example, letters, postcards or computer-generated forms may be acceptable. The acknowledgement does not have to include the donor's social security or tax identification number. It must, however, provide sufficient information to substantiate the amount of the deductible contribution. The acknowledgement should note the amount of any cash contribution. However, if the donation is in the form of property, then the acknowledgement must describe, but need not value, such property. Valuation of the donated property is the responsibility of the donor.

The written substantiation should also note whether the donee organization provided any goods or services in consideration, in whole or in part, for the contribution and, if so, must provide a description and good-faith estimate of the value of the goods or services. In the new law these are referred to as "quid pro quo contributions."

Please note that there is a new law requiring charities to furnish disclosure statements to donors for such quid pro quo donations in excess of $75. This is addressed in the next section regarding Disclosure By Charity.

If the goods or services consist entirely of intangible religious benefits, the statement should indicate this, but the statement need not describe or provide an estimate of the value of these benefits. "Intangible religious benefits" are also discussed in the following section on Disclosure By Charity. If, on the other hand, the donor received nothing in return for the contribution, the written substantiation must so state.

The present law remains in effect that, generally, if the value of an item or group of like items exceeds $5,000, the donor must obtain a qualified appraisal and submit an appraisal summary with the return claiming the deduction.

The organization may either provide separate statements for each contribution of $250 or more from a taxpayer, or furnish periodic statements substantiating contributions of $250 or more.

Separate payments are regarded as independent contributions and are not aggregated for purposes of measuring the $250 threshold. However, the Service is authorized to establish anti-abuse rules to prevent avoidance of the substantiation requirement by taxpayers writing separate smaller checks on the same date.

If donations are made through payroll deductions, the deduction from each paycheck is regarded as a separate payment.

A charity that knowingly provides false written substantiation to a donor may be subject to the penalties for aiding and abetting an understatement of tax liability under section 6701 of the Code.

Disclosure by Charity of Receipt of Quid Pro Quo Contribution

Beginning January 1, 1994, under new section 6115 of the Internal Revenue Code, a charitable organization must provide a written disclosure statement to donors who make a payment, described as a "quid pro quo contribution," in excess of $75. This requirement is separate from the written substantiation required for deductibility purposes as discussed above. While, in certain circumstances, an organization may be able to meet both requirements with the same written document, an organization must be careful to satisfy the section 6115 written disclosure statement requirement in a timely manner because of the penalties involved.

A quid pro quo contribution is a payment made partly as a contribution and partly for goods or services provided to the donor by the charity. An example of a quid pro quo contribution is where the donor gives a charity $100 in consideration for a concert ticket valued at $40. In this example, $60 would be deductible. Because the donor's payment (quid pro quo contribution) exceeds $75, the disclosure statement must be furnished, even though the deductible amount does not exceed $75.

Separate payments of $75 or less made at different times of the year for separate fundraising events will not be aggregated for purposes of the $75 threshold. However, the Service is authorized to develop anti-abuse rules to prevent avoidance of this disclosure requirement in situations such as the writing of multiple checks for the same transaction.

The required written disclosure statement must:

(1) inform the donor that the amount of the contribution that is de-

ductible for federal income tax purposes is limited to the excess of any money (and the value of any property other than money) contributed by the donor over the value of goods or services provided by the charity, and

(2) provide the donor with a good-faith estimate of the value of the goods or services that the donor received.

The charity must furnish the statement in connection with either the solicitation or the receipt of the quid pro quo contribution. If the disclosure statement is furnished in connection with a particular solicitation, it is not necessary for the organization to provide another statement when the associated contribution is actually received.

The disclosure must be in writing and must be made in a manner that is reasonably likely to come to the attention of the donor. For example, a disclosure in small print within a larger document might not meet this requirement.

In the following three circumstances, the disclosure statement is not required.

(1) Where the only goods or services given to a donor meet the standards for "insubstantial value" set out in section 3.01, paragraph 2 of Rev. Proc. 90-12, 1990-1 C.B. 471, as amplified by section 2.01 of Rev. Proc. 92-49, 1992-1 C.B. 987 (or any updates or revisions thereof);

(2) Where there is no donative element involved in a particular transaction with a charity, such as in a typical museum gift shop sale.

(3) Where there is only an intangible religious benefit provided to the donor. The intangible religious benefit must be provided to the donor by an organization organized exclusively for religious purposes, and must be of a type that generally is not sold in a commercial transaction outside the donative context. An example of an intangible religious benefit would be admission to a religious ceremony. The exception also generally applies to de minimis tangible benefits, such as wine, provided in connection with a religious ceremony. The intangible religious benefit exception, however, does not apply to such items as payments for tuition for education leading to a recognized degree, or for travel services, or consumer goods.

A penalty is imposed on charities that do not meet the disclosure requirements. For failure to make the required disclosure in connection with a quid pro quo contribution of more than $75, there is a penalty of $10 per contribution, not to exceed $5,000 per fundraising event or mailing. The charity may avoid the penalty if it can show that the failure was due to reasonable cause.

Please note that the prevailing basic rule allowing donor deductions only to the extent that the payment exceeds the fair market value of the goods or services received in return still applies generally to all quid pro quo contributions. The $75 threshold pertains only to the obligation to disclose and the imposition of the $10 per contribution penalty, not the rule on deductibility of the payment.

Department of the Treasury
Internal Revenue Service
Publication 1771 (11-93)
Catalog Number 20054Q

Internal Revenue Service
1111 Constitution Avenue, NW
Washington, D.C. 20224

Bulk Rate
Postage and Fees Paid
IRS
Permit No. G-48

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.

Staub Pediatric Clinic
Heights Medical Clinic
Palen Clinic

Board of Directors Meeting
March 21, 1995

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.
("UMHSAC")

3/21/95 Meeting of the Board of Governors

AGENDA

1. **Approval of 2/23/95 Minutes**
2. **Hinckley Health Care Center Status**
3. **Central Internal Medicine, P.A. - Purchase Offer Status**
4. **West Side Community Clinic Status**
5. **Mesaba Clinic Status**
6. **Practice Acquisition Status**
7. **January, 1995 FYTD Financial Statements**

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.

TABLE OF CONTENTS

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC. ("UMHSAC")
Minutes of the 2/23/95 Meeting of the Board of Directors

Attendees

In Person

Pat Board
Michael Fay
Clifford Fearing
Daniel McLellan, M.D.
Helen Pitt

Non-Director Attendees

Keith A. Dunder, Hospital Counsel
Stephan C. Grygar, UMHC Finance Department
Thomas J. Doyle, Attorney

Location

The University of Minnesota Hospital & Clinic (in the Bridges Board Room, Harvard Street at East River Road, Minneapolis, Minnesota).

Order of Business

Cliff Fearing called the meeting to order at 7:38 o'clock a.m., pursuant to prior notice. All directors had received a packet (the "Directors' Packet"), including the Agenda, the minutes of the 1/27/95 meeting of the Board of Directors, an activity update and newspaper clipping on Hinckley Health Care Center, a summary of practice acquisition status, a proposed non-physician salary plan for fiscal year 1996, December, 1994 fiscal year-to-date financial statements and a proposed budget process for fiscal year 1995-96.

1. **Approval of Prior Minutes.** Cliff Fearing called for any changes to the minutes of the January 27, 1995 Meeting. Mike Fay moved to accept the minutes and Helen Pitt seconded the motion, which was approved by voice vote with no dissenting votes being heard.

2. **Heights Medical Clinic Report.** Steve Grygar reported on the closing of the acquisition of the assets of Palen Clinic, P.A. on February 2, 1995. He advised that the remaining open issue is to finalize the identification of accounts receivable being purchased by UMHSAC. He predicted this would be done in a couple of days. Steve advised of his intention to account for the two separate components of Heights Medical Clinic as separate revenue and cost centers, one being the clinic site on Lake Street in Minneapolis, and the other being the clinic site in Columbia Heights.

3. **General Discussion on Certain Physician and Billing Issues.** In response to some questions asked by Dr. McLellan, Steve advised that Dr. Cortez is the medical director

of Heights Medical Clinic. This was accepted by the Board. Dr. McLellan then asked if that meant there was a Physicians Committee now in existence, consisting of him and Dr. Cortez. That was accepted by consensus of the Board and Dr. McLellan was encouraged to meet with Dr. Cortez, and for the two of them to start functioning as a Physicians Committee.

That discussion led to some discussion about privileges available to UMHSAC physicians. Currently only those UMHSAC physicians who have faculty appointments at the University of Minnesota Hospital & Clinic ("UMHC") have privileges at UMHS.

Cliff Fearing raised issues of billing and administration for multiple clinics. He raised the issue of what consolidation might be appropriate, what resources UMHSAC might draw on or what collaborations UMHSAC might enter into for billing and administrative services. He also raised the issue of whether the Columbia Heights site might become a pediatric care site. Discussion ensued. In the course of that discussion, Steve Grygar advised that Heights Clinic in Columbia Heights has hardware and software that could be used for all UMHSAC billing and collection functions at the present time. Pat Board advised that University of Minnesota Clinical Associates ("UMCA") will have the capacity to provide billing, commencing perhaps in August. Steve Grygar noted that all governmental pay payments to a single provider number must go to a single address. But it was acknowledged in discussion that would not preclude UMHSAC from either consolidating its billing and collection services at the Columbia Heights location or contracting with UMCA or any other entity for billing and collection services. Steve Grygar was then asked to prepare an analysis as to options for consolidating billing and collection services within UMHSAC or contracting it out, and the relative projected costs and savings involved.

4. **Hinckley Clinic Report.** It was reported that there seem to be three sets of issues: lease issues, financing issues, and issues concerning the role of Gateway Family Health Clinic. Tom Doyle commented upon lease issues, including issues as to tribal sovereignty and jurisdiction. He advised that Jim Blomquist in his office is attempting to set up a meeting with representatives of the Mille Lacs Band of Ojibwe.

5. **Discussion on Quality of Care Issues.** The discussion of some sort of management arrangement with Gateway Family Health Clinic led to discussion of how UMHSAC would handle quality of care issues. It was pointed out that there was a need for demonstrable quality assurance, both to ensure UMHSAC's competitiveness and to address potential liability. After general discussion on this point, the consensus of the directors was to keep up general discussions on the issue in future meetings, with the intention of evolving to a point where UMHSAC can develop and state particular practices and policies with respect to quality assurance matters. It was felt that any attempt to do anything more specific within the next 60 days or so would not be possible given other commitments of UMHSAC's officers and directors.

6. **Central Internal Medicine Associates ("CIMA").** Steve Grygar reported on the January 30 meeting between representatives of CIMA, Steve and Tom Doyle. Certain questions were asked about the level of clinical visits to CIMA. There was general discussion on the possible acquisition of CIMA and on clinical acquisitions in general. Tom Doyle outlined the general terms of a possible offer by UMHSAC to acquire assets of CIMA. Steve Grygar noted that compensation will be principally production based. There seemed to be general concurrence on the part of the directors to proceed with discussions along the lines outlined by Tom Doyle and Steve Grygar - certainly no objections were heard.

7. **West Side Community Clinic.** Steve Grygar reported on attempts to obtain financial information about this clinic. So far, the clinic has not fully responded to requests for that information. Cliff Fearing reported on preliminary discussions between the University of Minnesota Health System ("UMHS") and the Community Clinic Consortium for the possible formation of two community integrated service networks, one serving principally Saint Paul and the other serving principally Minneapolis. He advised that West Side Community Clinic, if it affiliates with UMHSAC or UMHS, might serve as the anchor for such a network in Saint Paul. Cliff advised the Board that he and others would continue meeting with the Community Clinic Consortium and would advise the Board as this possibility develops.

8. **Practice Acquisition Status - Generally.** The practice acquisition status report in the Directors' Packet was reviewed. The status of certain practice acquisition possibilities was discussed.

9. **Non-Physician Salary Plan.** Steve Grygar reviewed the material in the Directors' Packet regarding proposed staff salary adjustments. **ACTION:** Following discussion, Pat Board moved acceptance of the plan. Mike Fay seconded the motion and it was approved by voice vote with no dissenting votes being heard.

10. **Budgeting Process.** Steve Grygar reviewed the proposed budgeting process as set forth in the Director's Packet. It called for a proposed budget at the May, 1995 Board meeting, to be adopted at the June, 1995 Board meeting. The budget must also be approved by UMHS, pursuant to the powers reserved to UMHS as the sole member of UMHSAC. Following discussion, Steve Grygar was directed to have the proposed budget ready for initial consideration by UMHSAC's directors at their April, 1995 meeting, with a special meeting of the UMHSAC Board to be scheduled for approximately two weeks before the May 24, 1995 meeting of the UMHS Board of Governors. UMHSAC's directors will review the budget for their information at their April meeting and discuss necessary changes. They will reconsider and adopt the revised budget at the special meeting in early May. The budget will be presented for the information of the UMHS Board of Governors at the meeting of that Board on May 24, 1995. This schedule should allow the UMHS Board of Governors to adopt a final budget in June, reflecting any revisions made as a

consequence of the May 24 presentation. This schedule will enable UMHSAC to have the budget in place prior to the commencement of UMHSAC's 1996 fiscal year, on July 1, 1995.

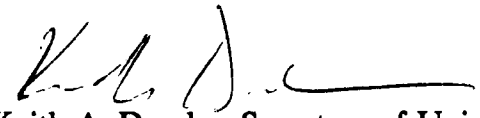
11. **Financial Statements.** The financial statements in the Directors' Packet were reviewed. Particular questions were asked regarding billing fees and other particular line items. There was further discussion about the possibility of reducing billing fees by consolidating UMHSAC's billing functions, with the thought that might enable UMHSAC to reach a break-even point. Other cost savings possibilities were touched upon.

NEXT MEETING SET: Mike Fay departed at 9:28 o'clock a.m. Before he did so, he raised the issue of inviting Dr. Cortez to the next meeting of UMHSAC's Directors. It was agreed by consensus that should be done, so as to introduce Dr. Cortez to the group and formalize the establishment of a Physicians Committee consisting of Drs. McLellan and Cortez. In connection with that, there was discussion of rescheduling the next meeting of UMHSAC's Board of Directors. It was determined to set the next meeting for the evening of March 21, 1995.

12. **Staff Privilege Dues.** Steve Grygar raised the issue of UMHSAC's payment of annual hospital dues, principally in terms of seeking guidance as to the number of hospitals for which UMHSAC should pay annual staff privilege dues. Discussion followed. Dr. McLellan was asked to speak to the issue of where physicians in Staub Pediatric Group needed privileges. He discussed the need for the physicians to maintain a presence in the broader pediatric community. Also their use of hospitals facilities. It was concluded by consensus of the remaining directors that UMHSAC would pay for hospital staff privileges at those hospitals at which UMHSAC physicians have privileges and are admitting patients utilizing the facilities, without at this point restricting the number or identity of those hospitals beyond a reasonableness standard.

There being no further business to come before the meeting, the meeting adjourned by consensus of the Directors at approximately 9:35 o'clock a.m.

Respectfully submitted,



Keith A. Dunder, Secretary of University of Minnesota Health System Affiliated Clinics, Inc.

The foregoing minutes were approved by the Board of Directors of UMHSAC at their meeting of March 21, 1995.

Keith A. Dunder, Secretary of
University of Minnesota Health System
Affiliated Clinics, Inc.

mtjd3103.du8

UMHSAC Practice Acquisition Status

Version: 16-Mar-95

	Phase I				Phase II		Phase III		Phase IV	Phase V
	(A)	(B)	(C)	(D)	(A)	(B)	(A)	(B)		
Staub Pediatric Group	X	X	X	X	X	X	X	X	X	X
Palen Clinic	X	X	X	X	X	X	X	X	X	X
Hinckley (New Clinic)	X	X	X	X	X	X	X			
Rush City Clinic	X	X	X	X	X	X	X			
Grand Rapids	X	X								
Central Internal Medicine	X	X	X	X	X	X	X			
Mesaba Clinic	X	X	X	X	X	X	X	X	X	4/3/95
Granite Falls	X	X								
Mankato										
Mesabi Regional Medical Cntr										
West Side Comm Health Cntr	X	X	X							
East Range Clinics	X									

Definitions:

Phase I (A)	***Introductory Meeting***
Phase I (B)	***UMHSAC follow-up***
Phase I (C)	***Clinic Confirmation; UMHSAC originated Letter-of-Intent, Micro-process outline, detailed financial information request***
Phase I (D)	***Information receipt by UMHSAC***
Phase II (A)	***Tangible and Intangible Valuations (Bldg, Eqpt & Practice)***
Phase II (B)	***UMHSAC offer presentation***
Phase III (A)	***Offer Negotiation***
Phase III (B)	***Offer Agreement***
Phase IV	***UMHSAC Due Diligence***
Phase V	***Closing***

University of Minnesota Health System
Affiliated Clinics, Inc.

Consolidated Income Statement

For the Period Ended July 1, 1994 to January 31, 1995

January MTD					January YTD			
Budget	Actual	Variance Over(Under) Budget	Variance %		Budget	Actual	Variance Over(Under) Budget	Variance %
$108,203	$97,820	($10,383)	-10.6%	Patient Service Charges	$621,696	$555,263	($66,433)	-12.0%
797	4,761	3,965	83.3%	Other	4,681	30,222	25,541	84.5%
108,999	102,581	(6,418)	-6.3%	**Total Revenue**	626,376	585,485	(40,892)	-7.0%
27,051	12,143	(14,908)	-122.8%	Deductions From Charges	155,424	127,320	(28,104)	-22.1%
81,948	90,438	8,490	9.4%	**Net Revenue**	470,952	458,164	(12,788)	-2.8%
26,071	24,844	(1,227)	-4.9%	Physician Compensation	149,729	170,427	20,699	12.1%
2,607	3,147	540	17.2%	Physician Taxes & Benefits	14,973	14,122	(851)	-6.0%
28,677	27,991	(686)	-2.5%	Total Physican Comp & FB	164,701	184,549	19,848	10.8%
19,750	20,026	276	1.4%	Non-Physician Compensation	114,060	122,700	8,640	7.0%
3,527	4,411	883	20.0%	Non-Physician Taxes & Benefits	19,390	23,093	3,703	16.0%
23,278	24,437	1,159	4.7%	Total Non-Physician Comp & FB	133,451	145,794	12,343	8.5%
5,549	84	(5,465)	-6543.9%	Medical Supplies	31,725	705	(31,020)	-4402.0%
472	0	(472)	0.0%	Medical Consulting Fees	5,779	617	(5,162)	-836.6%
1,546	7,816	6,269	80.2%	Drugs	8,841	44,858	36,017	80.3%
1,432	2,481	1,050	42.3%	Lab Fees	8,185	25,595	17,411	68.0%
0	0	0	0.0%	Travel	0	77	77	100.0%
2,344	2,670	326	12.2%	Billing Fees	14,862	17,819	2,957	16.6%
1,550	2,138	588	27.5%	Office Related Expense	12,647	15,849	3,202	20.2%
9,747	9,428	(319)	-3.4%	Occupancy Expense	55,727	58,156	2,429	4.2%
567	899	333	37.0%	Depreciation	5,017	5,376	360	6.7%
527	1,257	729	58.0%	Professional Liability Insurance	2,614	4,222	1,608	38.1%
1,844	6,767	4,923	72.8%	Interest Expense	10,359	33,157	22,798	68.8%
166	153	(13)	-8.2%	Payroll Services	916	1,397	481	34.4%
73	0	(73)	0.0%	Bad Debt	715	572	(143)	-25.0%
760	1,036	276	26.6%	Dues and Subscriptions	4,346	3,783	(563)	-14.9%
917	919	2	0.2%	Management Fees	5,417	6,343	926	14.6%
0	750	750	100.0%	MNCare Tax	0	2,783	2,783	100.0%
495	218	(277)	-126.9%	Miscellaneous	2,193	831	(1,362)	-163.9%
79,944	89,043	9,100	11.4%	**Total Expenditures**	467,495	552,482	84,987	15.4%
$2,005	**$1,395**	**($610)**	**-43.7%**	**Net Profit(Loss)**	**$3,458**	**($94,318)**	**($97,775)**	**103.7%**

University of Minnesota Health System
Affiliated Clinics, Inc.

Staub Pediatric Clinic

Income Statement

For the Period Ended August 1, 1994 to January 31, 1995

January MTD					January YTD			
Budget	Actual	Variance Over(Under) Budget	Variance %		Budget	Actual	Variance Over(Under) Budget	Variance %
$108,203	$97,820	($10,383)	-10.6%	Patient Service Charges	$621,696	$555,263	($66,433)	-12.0%
$797	1,928	1,132	58.7%	Other	4,681	21,607	16,926	78.3%
108,999	99,748	(9,251)	-9.3%	**Total Revenue**	626,376	576,870	(49,507)	-8.6%
27,051	12,143	(14,908)	-122.8%	Deductions From Charges	155,424	127,320	(28,104)	-22.1%
81,948	87,605	5,657	6.5%	**Net Revenue**	470,952	449,549	(21,403)	-4.8%
26,071	24,844	(1,227)	-4.9%	Physician Compensation	149,729	170,427	20,699	12.1%
2,607	3,147	540	17.2%	Physician Taxes & Benefits	14,973	14,122	(851)	-6.0%
28,677	27,991	(686)	-2.5%	Total Physican Comp & FB	164,701	184,549	19,848	10.8%
19,750	20,026	276	1.4%	Non-Physician Compensation	114,060	122,700	8,640	7.0%
3,527	4,411	883	20.0%	Non-Physician Taxes & Benefits	19,390	23,093	3,703	16.0%
23,278	24,437	1,159	4.7%	Total Non-Physician Comp & FB	133,451	145,794	12,343	8.5%
5,549	84	(5,465)	-6543.9%	Medical Supplies	31,725	705	(31,020)	-4402.0%
472	0	(472)	0.0%	Medical Consulting Fees	5,779	617	(5,162)	-836.6%
1,546	7,816	6,269	80.2%	Drugs	8,841	44,858	36,017	80.3%
1,432	2,481	1,050	42.3%	Lab Fees	8,185	25,595	17,411	68.0%
0	0	0	0.0%	Travel	0	77	77	100.0%
2,344	2,670	326	12.2%	Billing Fees	14,862	17,819	2,957	16.6%
1,550	2,138	588	27.5%	Office Related Expense	12,647	13,977	1,331	9.5%
9,747	9,004	(743)	-8.3%	Occupancy Expense	55,727	53,917	(1,811)	-3.4%
567	899	333	37.0%	Depreciation	5,017	5,376	360	6.7%
527	1,257	729	58.0%	Professional Liability Insurance	2,614	4,222	1,608	38.1%
1,844	1,997	153	7.7%	Interest Expense	10,359	11,887	1,528	12.9%
166	153	(13)	-8.2%	Payroll Services	916	1,097	181	16.5%
73	0	(73)	0.0%	Bad Debt	715	572	(143)	-25.0%
760	1,036	276	26.6%	Dues and Subscriptions	4,346	3,783	(563)	-14.9%
917	919	2	0.2%	Management Fees	5,417	4,095	(1,323)	-32.3%
0	750	750	100.0%	MNCare Tax	0	2,783	2,783	100.0%
495	218	(277)	-126.9%	Miscellaneous	2,193	791	(1,402)	-177.3%
79,944	83,849	3,906	4.7%	**Total Expenditures**	467,495	522,512	55,017	10.5%
$2,005	$3,756	$1,751	46.6%	**Net Profit(Loss)**	$3,458	($72,963)	($76,421)	104.7%

University of Minnesota Health System
Affiliated Clinics, Inc.

Administrative

Income Statement

For the Period Ended July 1, 1994 to January 31, 1995

January MTD					January YTD			
Budget	Actual	Variance Over(Under) Budget	Variance %		Budget	Actual	Variance Over(Under) Budget	Variance %
$0	$0	$0	0.0%	Patient Service Charges	$0	$0	$0	0.0%
0	2,833	2,833	100.0%	Other	0	8,615	8,615	100.0%
0	2,833	2,833	100.0%	**Total Revenue**	0	8,615	8,615	100.0%
0	0	0	0.0%	Deductions From Charges	0	0	0	0.0%
0	2,833	2,833	100.0%	**Net Revenue**	0	8,615	8,615	100.0%
0	0	0	0.0%	Physician Compensation	0	0	0	0.0%
0	0	0	0.0%	Physician Taxes & Benefits	0	0	0	0.0%
0	0	0	0.0%	Total Physican Comp & FB	0	0	0	0.0%
0	0	0	0.0%	Non-Physician Compensation	0	0	0	0.0%
0	0	0	0.0%	Non-Physician Taxes & Benefits	0	0	0	0.0%
0								
0	0	0	0.0%	Total Non-Physician Comp & FB	0	0	0	0.0%
0								
0	0	0	0.0%	Medical Supplies	0	0	0	0.0%
0	0	0	0.0%	Medical Consulting Fees	0	0	0	0.0%
0	0	0	0.0%	Drugs	0	0	0	0.0%
0	0	0	0.0%	Lab Fees	0	0	0	0.0%
0	0	0	0.0%	Travel	0	0	0	0.0%
0	0	0	0.0%	Billing Fees	0	0	0	0.0%
0	0	0	0.0%	Office Related Expense	0	1,872	1,872	100.0%
0	424	424	100.0%	Occupancy Expense	0	4,240	4,240	100.0%
0	0	0	0.0%	Depreciation	0	0	0	0.0%
0	0	0	0.0%	Professional Liability Insurance	0	0	0	0.0%
0	4,770	4,770	100.0%	Interest Expense	0	21,270	21,270	100.0%
0	0	0	0.0%	Payroll Services	0	300	300	100.0%
0	0	0	0.0%	Bad Debt	0	0	0	0.0%
0	0	0	0.0%	Dues and Subscriptions	0	0	0	0.0%
0	0	0	0.0%	Management Fees	0	2,249	2,249	100.0%
0	0	0	0.0%	MNCare Tax	0	0	0	0.0%
0	0	0	0.0%	Miscellaneous	0	40	40	100.0%
0	5,194	5,194	100.0%	**Total Expenditures**	0	29,970	29,970	100.0%
$0	($2,361)	($2,361)	100.0%	**Net Profit(Loss)**	$0	($21,355)	($21,355)	100.0%

University of Minnesota Health System
Affiliated Clinics, Inc.

Statement of Cash Flows

For the Period July 1, 1994 to January 31, 1995

	Staub Pediatric Clinic	UMHSAC Admin	Consolidated Total
Operating Activities and Non-Operating Revenues:			
Net Profit(Loss)	$3,756	($2,361)	$1,395
Adjustments			
Depreciation	899	0	899
Change In Accounts Receivable	(33,691)	0	(33,691)
(Increase)Decrease in Prepaid Expense	5,205	0	5,205
Increase(Decrease) in Accounts Payable	8,631	(375)	8,256
Increase(Decrease) in Accrued Liabilities	4,935	4,770	9,705
Total Adjustments	(14,020)	4,395	(9,625)
Net Cash Provided by Operating Activities	(10,264)	2,034	(8,230)
Investing Activities			
Acquisition of PPE	0	0	0
Change in Promissory Notes	0	0	0
Net Cash From(Used) in Investing Activities	0	0	0
Financing Activities			
Repayment of Notes Payable	(436)	0	(436)
Change in Cash - Operations	**($10,700)**	**$2,034**	**($8,666)**
Change in Cash - Payments to Henry Staub	**($3,007)**		
Cash at December 31, 1994	**$196,658**	**$849,259**	**$1,045,917**
Cash at January 31, 1995	**$182,951**	**$851,293**	**$1,034,244**

University of Minnesota Health System
Affiliated Clinics, Inc.

Balance Sheet

1/31/95

	Staub Pediatric Clinic	UMHSAC Admin	Consolidated Total
Cash - Checking	$54,922	$11,959	$66,880
Cash - Savings	128,029	90,191	218,221
Cash - Other	0	749,143	749,143
Total Cash	182,951	851,293	1,034,244
Accounts Receivable	160,529	0	160,529
Allowance For Uncollectibles	(28,175)	0	(28,175)
	132,354	0	132,354
Intangible Asset - Staub Pediatric Clinic	227,800	0	227,800
Prepaid Expenses	7,324	0	7,324
Fixed Assets			
Equipment - Fridley	44,245	0	44,245
Equipment - Shoreview	9,715	0	9,715
Less: Accumulated Depreciation	(5,376)	0	(5,376)
Total Fixed Assets	48,584	0	48,584
Total Assets	**$599,013**	**$851,293**	**$1,450,306**
Accounts Payable			
Trade A/P	$12,575	$0	$12,575
Other - Mgmt Fees	4,150	2,249	6,398
Other - Due to Staub Pediatric Group, P.A.	2,706	0	2,706
Total Accounts Payable	19,431	2,249	21,679
Accrued Expenses			
Accrued Payroll	48,098	0	48,098
Other	2,783	21,270	24,053
Total Accrued Expenses	50,881	21,270	72,151
Long-Term Liabilities			
Working Capital Loan Payable	325,000	0	325,000
Equipment Loan Payable	50,765	0	50,765
Practice Payable	227,800	0	227,800
Loan Payable - Palen	0	749,143	749,143
Total Long-Term Liabilities	603,565	749,143	1,352,708
Total Liabilities	622,996	751,392	1,374,388
Fund Balance	(1,902)	99,987	98,085
YTD Net Income	(72,963)	(21,355)	(94,318)
Total Liabilities and Fund Balance	**$599,013**	**$851,293**	**$1,450,306**

Ensuring adequate return on investment for primary care networks

By Daniel K. Zismer, PhD

Developing and managing a successful primary care network requires a vision of what that network must accomplish, realistic performance objectives, well-designed management and support systems, and methods to reverse adverse performance trends if they occur. This article offers suggestions for fulfilling each of these requirements to help a healthcare organization achieve its long-term financial goal in a healthcare environment dominated by managed care.

Developing integrated primary care networks has become a priority for many healthcare organizations, including hospitals and healthcare systems. A primary care network can help a healthcare organization expand its market share, gain access to managed care populations, and manage quality of care and resource use. While some healthcare organizations are making satisfactory progress toward developing primary care networks, many are experiencing disappointing operating and financial results.

Five basic questions must be answered to analyze the performance of an integrated primary care network:

- Does the healthcare organization have a clear vision of what the network should accomplish?
- Are expectations and performance objectives for the network well articulated and realistic?
- Are management staff and support systems adequate to accomplish the objectives?
- Is the network's performance properly measured?
- Does the healthcare organization have methods to reverse any adverse trends identified?

Creating a vision

Too often, primary care networks are formed through evolution rather than planning, with executives of the parent organization giving little thought to the network's objectives or the form it must take to meet those objectives. If the characteristics of the fully developed network are not articulated early in the network-development process, rational evaluations of interim progress are difficult at best. For example, if a 50-physician system is required to secure 60 percent of its available primary care market, a $1 million operating loss in the network's third year may be reasonable as the network builds to its full size and capability. However, determining whether such an operating loss is reasonable would be difficult without an articulation of the network's objectives—in this case, a specified percentage of market controlled by a prescribed number of physicians.

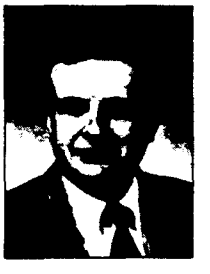
In short, a well-articulated vision statement provides initial goals against which progress may be measured. For example:

"Memorial Hospital, along with its physician partners, will develop a large, well-distributed primary care network sufficient to serve 60 percent of the service area's need for primary care. The network will position itself as an accessible, high-quality, cost-accountable system, with the goal of becoming the preferred provider of primary care services to individuals, third-party purchasers, managed care plans, and the community as a whole. The network will become a solid foundation on which to recruit and retain high-quality primary care physicians."

Setting expectations for the network

Few large, freestanding primary care physician networks—and even fewer hospital-initiated integrated delivery systems—have long operating histories. Therefore, little experience exists on which to base planning and performance evaluations. Even when healthcare executives turn to medical group practice management organizations for reference, they find little reliable history against which to compare the performance of a

About the author



ZISMER

Daniel K. Zismer, PhD, is president, Partners Consulting Group, Ltd., Minneapolis, Minnesota.

system-based primary care network.

In the absence of extensive knowledge about how a primary care network operates, healthcare executives often find themselves with mistaken expectations about a network's operations. Among the most prevalent misconceptions about operating a primary care network are the following:

- Physicians can be compensated as a percentage of net cash receipts, and under such an arrangement, managing physicians' productivity is unnecessary;
- A healthcare organization (eg, a hospital) will be able to enhance its operating economies by using its own management personnel and systems to operate a primary care network;
- All the patients of a primary care network who need outpatient ancillary services may come to the parent organization to receive these services, with revenues and costs accounted on the parent organization's income statements; and
- The network will operate at a fully cost-accounted break-even level.

Such expectations must be compared to the vision statement that the healthcare organization created for the network. If the vision describes the primary care network as a foundation for an overall organizational strategy, one set of expectations would be appropriate. If the network is a sideline business to be evaluated solely on the basis of its profit and loss, another set of expectations would apply.

Healthcare executives should realize, however, that a primary care network is most effective as a keystone for establishing a strategic position in a market dominated by managed care or a market in which managed care penetration is increasing. Primary care networks are not effective as "low maintenance" systems intended only to feed referrals to a healthcare system.

Capitalization, staffing, and management

A primary care network serves a long-term strategic goal that may override certain short-term expectations for operating efficiency and profit. This long-term view has important implications for an organization's approaches to the capitalization, structure, operation, and financial management of a fledgling primary care network.

Number of physicians needed and their compensation. To calculate the number primary care physicians a network may need, consider that:

- The average primary care physician may have between 2,000 and 2,400 or more patient encounters per year. Therefore, a 50-physician network "delivers" from 100,000 to 120,000 patients to a system.
- Patients in an average primary care physician's practice account for $2.8 million to $3.2 million in total annual healthcare expenditures on either a fee-for-service or capitated basis.[a]

To break even, a healthcare organization must assure that each satellite facility in its primary care network is properly sized (many organizations have found that four to six physicians in a satellite will be necessary to achieve a satisfactory revenue-to-overhead ratio) and has physician productivity expectations that are clearly defined and managed. To help ensure that physicians accept these expectations, physician leaders should define the expectations and assess performance.

Another important means for a primary care network to maximize its earnings is to equip satellite facilities with a full complement of ancillary and procedural technology (to allow physicians to use their full range of clinical capabilities). A recent study of five Midwestern multispecialty group practices with a total of 95 primary care physicians showed that, on average, a physician's total professional charges for one year totaled $240,552 compared to $198,390

a. Zismer, Daniel K., and Fansler, Davis D. "Valuing the Primary Care Patient Base," *Minnesota Medicine*, Volume 25, September 1993, pp. 43-45.

total ancillary charges. These findings indicate the significant revenues that on-site ancillary care can generate for a primary care network. Without adequate on-site technology, however, patients needing ancillary services must be referred elsewhere in the system, or will go outside the system; in either case, these revenues will not show up on the primary care network's income statement.

Because primary care satellites are intended to satisfy an organization's strategic objectives before its short-term financial objectives, staffing and supplying each satellite facility according to financial performance guidelines alone may not be feasible. For example, some sites may have to be staffed with fewer than four to six physicians. Under such circumstances, those sites may not, by themselves, break even, but they will be serving a greater good for the healthcare system as a whole.

Besides staffing, another important performance and financial management consideration is physician compensation. Compensating physicians on a percentage of net cash receipts is, on the surface, an appealing method because it is clear and easy to administer. However, this method is not sustainable or productive in an evolving managed care environment. Moreover, if primary care physicians preferred a system in which hospitals and subspecialists captured the attractive ambulatory procedure and ancillary revenue streams, leaving primary care physicians a relatively smaller portion of hands-on piece work in their offices, they would stay in private practice.

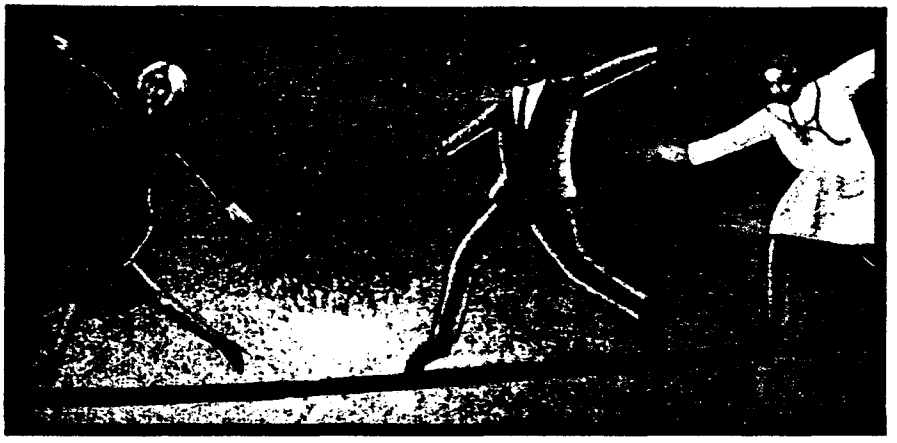
Compensation systems in primary care networks are evolving; currently, the preferred system includes base salaries with incentive bonus opportunities that favor managed care incentives. Base salaries from $90,000 to $130,000 are becoming common, with bonus potential at levels equivalent to 25 percent to 35 percent of the base. The market may continue to "bid up" the salaries of primary care physicians as the number of these physicians remains limited and as markets demand enhanced access to primary care.

Network management. Hospital management systems are not well suited to physician network management, nor are hospital management staff particularly well equipped to handle the challenges of running physician practices. If a healthcare organization's vision calls for a sizeable primary care network, management systems and staffing requirements must be sized and structured accordingly.

Common management and operations problems include:

- Under-investing in executive management talent;
- Compensating clinic support staff at hospital rates (rather than the lower rates typically paid to clinic support staff);
- Adapting hospital information, accounting, and reporting systems to network management;
- "Stepping down" excessive hospital overhead to the network's operating statement;
- Neglecting to involve physicians in management decisions; and
- Amortizing practice asset acquisition costs over artificially compressed time frames.

Even in well-managed networks, site revenues minus overhead and physician compensation may leave an operating deficit of from $18,000 to $25,000 per physician per annum. Deficits in growth-oriented networks may be greater. This experi-



ence is consistent with that of large multispecialty group practices that operate strategically positioned satellite networks.

Evaluating performance and reversing adverse trends

The overall financial performance of a primary care network cannot be measured solely by the bottom line profitability of each satellite facility. However, sometimes a primary care network will not perform up to even realistic financial projections. If this situation arises, organization executives should not automatically assume that the entire primary care strategy is inappropriate. Rather, they should examine and improve execution. Understanding the following performance factors can help executives better assess a primary care network's financial performance and reverse adverse trends as necessary.

Growth curve impact. Net operating results must be evaluated within a framework that adequately considers the financial effects of a relatively steep growth curve. In building realistic financial projections, healthcare executives should assume that costs of recruiting, equipping, and funding a new physician to an operating break-even position will range from $150,000 to $200,000 within 12 to 18 months. The cash requirements of network financing are considerable. An aggressive network-building strategy requires financial projections that take into account the effect of this financing on hospital balance sheets as well as network operating statements.

An examination of net bottom line results alone often is misleading when judging the network's progress and performance at a specific point in time. Revenue and productivity "ramp-up" results (that is, the rate at which a new physician generates charges relative to break-even projections) must be tested against projections. In addition, individual physician performance must be examined. For example, if a physician two years into his or her network tenure is producing at two-thirds of expected rates, a careful examination of practice style, patient satisfaction, and overall market availability is needed.

Physician compensation and incentives. Whether physicians are compensated with salaries or payment that varies based on productivity—or a combination of the two—physician compensation should be evaluated in relation to the expense required to support physician productivity. If physicians' compensation is not linked to the expense associated with productivity, physicians have no incentive to influence variable costs.

If a salary is accompanied by incentive bonus opportunities, productivity objectives should be developed in a context of overall network financial performance. Consider the following hypothetical situation. A mature network may produce a 10 percent negative net bottom line. Its base physician compensation is $140,000, including benefits, and annual direct and indirect costs total $180,000 per physician. Under these budget circumstances, average annual net office productivity per physician is $288,000. Productivity above that mark would improve network performance and, therefore, should result in a bonus opportunity for physicians. Productivity below that mark should be cause for examination of a physician's practice style, base compensation levels and other cost management, and methods for capturing revenue. Bonus payments for overall network performance are likely to become more common despite possible physician objections to incentives that are beyond their direct control.

Pricing and revenue capture. Poorly managed pricing and revenue-capture procedures can hurt a network's financial performance. Some physicians, once they are employed by a network, may become less concerned with accuracy of service coding and changes overall than they were in private practice. Frequently, charges of employed physicians do not capture all services rendered in a patient encounter, resulting in a charge that is lower than what a third-party payer is willing to pay.

Networks can easily lose from 8 percent to 12 percent of potential revenues—from $1 million to $2 million annually—in a 50-physician network.

Further, if multiple existing practices are woven into a network, fee disparity is common. A fully integrated network should have a common fee schedule. Rational pricing strategies should be pursued, and individual physician and office coding practices should be monitored. Routine analysis of explanations of benefits and other third-party payment reports is essential. Pricing strategies should be presented and justified to physicians as a group. This approach is important because physicians may resist price increases once they have become salaried employees.

Support system sizing and cost structure. In a 50-physician system with $15 million in annual revenues, approximately $8.5 million will be spent on direct and indirect costs, excluding physician compensation.[b] At maturity, a 50-physician network may employ more than 160 support staff and manage from 10 to 15 locations.

Common problems in support systems that manage cost structure include:

- Excessive staffing and functional inefficiency;
- Uncoordinated and unmanaged purchasing;
- Poorly managed staffing mix;
- Inefficient use of facilities (eg, hours that do not meet patient needs, poor productivity per square foot); and
- Payment of clinic support staff at hospital rates.

b. American Group Practice Association (AGPA): *1993 Group Practice Compensation Trends and Productivity Correlations*. Arlington, VA: AGPA, 1994.

Central administrative services, including executive staffing, information systems, and so forth, must be sized to fulfill the needs of the fully realized network. Often, healthcare organizations set up central administrative services that are not large enough to meet the needs of a physician network at full capacity. In contrast, some organizations have oversized central administrative services. Setting clear goals for the fully realized physician network can help executives judge the adequacy of central administrative services.

Progress with managed care contracts. Many managed care plans require that their providers have an organized and sophisticated primary care network. While success in managed care contracting may not depend entirely on a provider's primary care network, the success of a primary care network must be measured, to a great extent, by number of "covered lives" delivered to the system under managed care contracts. Therefore, any effort to identify or reverse adverse financial trends should consider the progress toward gaining managed care market position.

Summary

Hospitals and other healthcare organizations that are developing integrated primary care networks must clarify their vision, expectations for size and return on investment, and capitalization needs before they commit to a network-building strategy. Once a primary care network is underway, keys to success include financial incentives that complement the organization's overall goals (for example, gaining market share, gaining managed care contracts) and attention to execution of the network's business strategy.

A primary care network's return on investment should be measured primarily on the basis of "consolidated" results—that is, how well the integrated healthcare system as a whole performs financially and in comparison to other systems in the market. When performance does not meet expectations, executives should not necessarily abandon their primary care strategy; rather, they should examine its execution. □

UNIVERSITY OF MINNESOTA HEALTH SYSTEM AFFILIATED CLINICS, INC.
a Minnesota corporation ("UMHSAC")

Proposed Actions for Adoption by Directors at 3/29/95 Meeting

Recitals

WHEREAS, The Regents of the University of Minnesota, acting by and through the University of Minnesota Health System ("UMHS"), which is the sole member of UMHSAC, seeks to develop an integrated service network ("ISN") serving the Iron Range of Minnesota and surrounding areas, and

WHEREAS, to attain that goal, UMHS has sought an affiliation with both the Mesaba Clinic, a 15-physician clinic in Hibbing and Chisholm, Minnesota, and with Mesabi Regional Medical Center in Hibbing, Minnesota, and

WHEREAS, development of an Iron Range ISN will further the goals of the Minnesota Legislature as expressed in recent years' MinnesotaCare legislation and specifically will help UMHS carry out its missions in providing care to the people of the State of Minnesota and furthering medical and community education, and

WHEREAS, UMHSAC was formed in part as a vehicle by which UMHS could carry out its health care, education and research missions for the benefit of the people of the State of Minnesota, and

WHEREAS, the main activities of UMHSAC per its Articles of Incorporation are to include operation of multi-specialty medical clinics providing health care services and promoting health in various locations in the State of Minnesota, operating programs for medical education, community health education and specialty outreach programs, engaging in clinical research and scientific investigation, and doing other acts and things necessary, advisable, desirable or expedient in accomplishment of its purposes, and

WHEREAS, UMHSAC presently operates clinics in the Twin Cities metropolitan area, and

WHEREAS, UMHS is providing to UMHSAC the opportunity to operate clinics in Hibbing and Chisholm, Minnesota, now operated by Mesaba Clinic, by contracting with the existing Mesaba Clinic entity for facilities, equipment and non-physician staff, and by contracting with a new Minnesota non-profit corporation, Range Physicians, for physician services at the Hibbing and Chisholm clinics, and

WHEREAS, UMHSAC does not itself have the funds available to operate the clinics in Hibbing and Chisholm, but UMHS has indicated a willingness to make a capital contribution to UMHSAC that will enable it to operate those clinics, and

WHEREAS, UMHSAC's management has negotiated a proposed Medical Services Agreement with Range Physicians, and a proposed Lease of Premises, Equipment, Name and Good Will and a proposed Non-Physician Staff Services Agreement with Mesaba Clinic, pursuant to the first of which UMHSAC will obtain physician services from Range Physicians for current and future clinical operations in Hibbing and Chisholm (and perhaps in other satellite clinics as a part of the Iron Range ISN), and pursuant to the latter two of which UMHSAC will obtain from Mesaba Clinic the existing clinical facilities and equipment for the clinics in Hibbing and Chisholm, Minnesota, and the services of non-physician staff for operation of those clinics, and

WHEREAS, the said Medical Services Agreement, Lease and Non-Physician Staff Services Agreement are collectively termed the "Contracts", and

WHEREAS, operation of clinics in Hibbing and Chisholm, and possible future operations of additional clinics as part of an Iron Range ISN certainly is consistent with the fundamental reasons for the existence of UMHSAC as well as its mission and its purposes as expressed in its Articles of Incorporation, and

WHEREAS, since UMHS is willing to make this opportunity available to UMHSAC and provide a capital contribution essential to initial financing of the operation of these clinics, we find that UMHSAC's acceptance of the opportunity to be in the best interests of UMHSAC,

Resolutions

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

1. The role of UMHSAC in operating clinics in Hibbing and Chisholm, Minnesota, which have previously been operated by Mesaba Clinic, as described in the Recitals to this Consent, is hereby approved.

2. The officers of UMHSAC, jointly and singly, are authorized and directed to negotiate the terms of and enter into and cause UMHSAC to perform the Contracts, for the general purposes described in the Recitals to this Consent, and are further authorized and directed to negotiate, execute and deliver, and cause UMHSAC to perform under, any agreement, document or instrument to be executed and delivered pursuant to the terms of a Contract or that the officers find to be necessary, appropriate or helpful in connection with UMHSAC's performance under any Contract.

3. UMHSAC hereby accepts a contribution to its capital from UMHS in an amount of up to $1,669,000, and each officer of UMHSAC is jointly and singly authorized to evidence acceptance of that contribution to the capital of UMHSAC by execution and delivery of an appropriate certificate or other instrument evidencing the same.

4. The officers of UMHSAC are jointly and singly authorized and directed to take any and all action that any such officer deems necessary, appropriate or helpful to enable UMHSAC to efficiently and effectively operate the clinics in Hibbing and Chisholm that have previously been identified in this Consent, including making arrangements for one or more accounts, credit facilities, and/or any and all other banking relationships as those officers deem necessary or appropriate for the conduct of UMHSAC's present and prospective activities with respect to those clinics, to execute and deliver to any bank with which any such relationship has established those instruments as the signatory officer(s) deem(s) necessary, appropriate or helpful to establish, determine and maintain the relationship, including identifying authorized signatory(ies) and other information, the same as if each such instrument and every resolution of this Board of Directors in each such instrument was set forth here in full (and we hereby approve and adopt each resolution set forth in each such instrument and authorize the Secretary of this Corporation to certify as to or due approval of the same). It is the intention of the undersigned that the grant of authority in the preceding sentence shall be plenary with respect to actions that the officers of UMHSAC deem necessary or appropriate to prepare UMHSAC for operating the said clinics, and following such preparation to thereafter operate the said clinics.

MEMORANDUM

TO: ALL UMHSAC DIRECTORS

FROM: THOMAS J. DOYLE
FELHABER, LARSON, FENLON & VOGT, P.A.

DATE: MARCH 27, 1995

RE: UMHSAC/MESABA CLINIC
OUR FILE NO. 09506/006

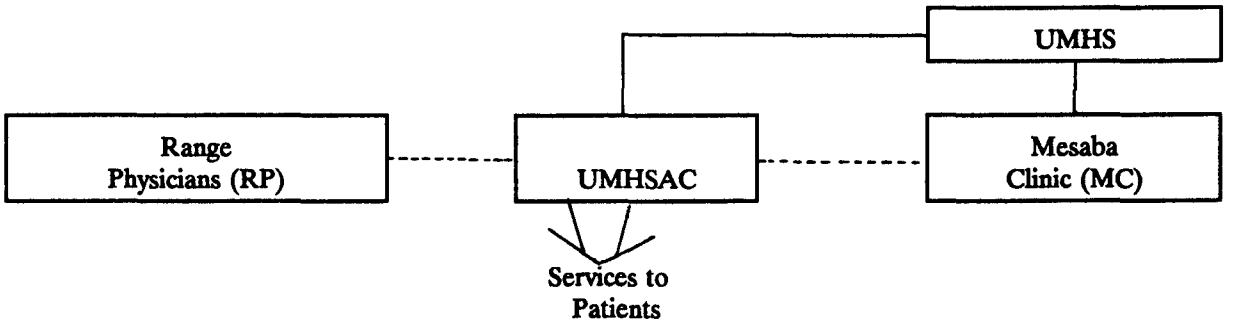
A special meeting of UMHSAC's Board of Directors will be held at _____ o'clock __.M. on _____, March __, 1995. The meeting will be held at _____, at the University of Minnesota Hospital and Clinic. Arrangements will be made for you to participate by telephone if it is inconvenient to attend in person. The business to come before the special meeting will be consideration of UMHSAC's role in operating clinics in Hibbing and Chisholm, Minnesota, now owned and operated by Mesaba Clinic. This transaction has been the subject of presentation and discussion at past meetings of UMHSAC's Board of Directors. A current Transaction Summary, further explaining the role of UMHSAC, follows this Memorandum.

At the special meeting UMHSAC's Board of Directors will be asked to approve the role of UMHSAC in operating the clinics, and to approve the contracts between UMHSAC and Mesaba Clinic (one a lease for facilities, equipment, name and good will, and the other an agreement for non-physician staff and medical supplies), and between UMHSAC and Range Physicians for the provision of physician services. Assuming approval of UMHSAC's role and of the concepts underlying the contracts, UMHSAC's Board of Directors will also be asked generally to authorize UMHSAC's officers to approve the finally agreed terms of those contracts, also to approve any ancillary documents or instruments that they find appropriate or helpful, UMHSAC's acceptance of a capital contribution from UMHS to provide initial funding under those contracts (until Clinic revenues can be collected), and otherwise to take any and all action that those officers find to be necessary, appropriate or helpful to enable UMHSAC to perform under the contract and otherwise to prepare for operations and thereafter to operate the clinics.

dzg

ATTORNEY-CLIENT PRIVILEGED COMMUNICATION

Mesaba Clinic Transaction Summary - 3/27/95



Overview - An important goal of UMHS is the development of an integrated service network (ISN) serving the Iron Range and surrounding areas. To attain that goal, UMHS has sought an affiliation with both Mesaba Clinic, a 15-physician clinic in Hibbing and Chisholm, Minnesota, and with Mesabi Regional Medical Center in Hibbing, Minnesota. Development of an Iron Range ISN will further the goals of the Minnesota Legislature as expressed in recent years' MinnesotaCare legislation. More specifically, it will help UMHS carry out its missions of providing care to the people of the State of Minnesota, and furthering medical and community education. Given the increasing need for family practitioners, and certain unique aspects of providing care in smaller communities and rural areas, UMHS sees an outstate presence as crucial to the future of its educational and research roles.

Proposed Use of UMHSAC - To carry out its mission vis-a-vis an Iron Range ISN, to avoid an unwieldy administrative burden from the creation of additional new entities, and to facilitate some degree of autonomy in the operation of clinics in Hibbing and Chisholm (and thereby assure responsiveness to community needs), UMHS planned to directly operate the clinics in Hibbing and Chisholm now operated by Mesaba Clinic (together the "Clinic"), and to contract with the existing Mesaba Clinic entity to provide facilities, equipment and non-physician staff for the Clinic. In addition, UMHS planned to contract with a new entity formed by the Mesaba Clinic physicians, Range Physicians, for that entity to provide physician services to the Clinic. Although UMHS planned to operate the Clinic, it was recognized that this presents a possible opportunity to UMHSAC. One of the "main activities" of UMHSAC as stated in its Articles of Incorporation is to "Operat[e] multispecialty medical clinics providing health care services and promoting health in various locations in the State of Minnesota." Thus the opportunity to operate the Clinic fits squarely within the very purposes for which UMHSAC was formed.

Relationships - UMHS is the sole member of UMHSAC. It will be the sole member of Mesaba Clinic (MC), which will be a nonprofit but taxable corporation. MC will lease facilities and equipment, and provide non-physician support staff, to UMHSAC for purposes of operating the Clinic. Range Physicians (RP) will be a nonprofit, but taxable, corporation. It will provide physician services to UMHSAC for the Clinic, again by contract. The provisions of the contracts between UMHSAC and MC, and between UMHSAC and RP, have been negotiated by UMHSAC management. The contracts are for 20-year terms. Although there certainly cannot be a guarantee as to future financial performance of the Clinic, per budgets that have been approved by UMHSAC's management it is expected that prospective Clinic revenues will enable UMHSAC to meet its obligations under the contracts.

Governance/Clinic Management - MC will have a six-person Board of Directors, three RP physicians and three UMHS appointees. UMHS will hold reserved powers similar to those that it holds with respect to UMHSAC (including approval of the annual budget, approval of changes to the Articles of Incorporation or Bylaws of MC, and the like). RP will have a five-person Board of Directors, three physician appointees and two UMHS appointees. The contract with RP for the provision of physician services for the Clinic calls for a Clinical Affairs Committee, consisting of the Clinic's Medical Director (expected to be an RP physician), the administrator of the Clinic, and a UMHSAC appointee. The Clinical Affairs Committee is to address day-to-day administrative matters that cannot be handled solely by the administrator. It is expected that the MC Board of Directors will be well positioned to formulate the annual budgets for the Clinic, since that group includes physician and UMHS representatives.

As noted above, UMHSAC's management projects that the Clinic will be self-sustaining. However, strictly from a cash flow standpoint there will be some delay in the collection of initial revenues, from the point in time at which UMHSAC starts to operate the Clinic. It is understood that UMHS is willing to make a capital contribution to UMHSAC in an amount calculated to enable UMHSAC to fund Clinic operations (essentially the payments under the contracts with MC and RP) until a normal revenue stream from Clinic operations is expected.

RP has asked that one of its physicians be able to attend meetings of UMHSAC's directors. A "standing invitation" will be written into the contract between UMHSAC and RP.

Risks - UMHSAC is a tax-exempt entity. Any contract between a tax-exempt and a taxable entity can raise the question of whether it presents any potential for inurement to the benefit of one or more private persons. The contracts proposed between UMHSAC and MC, and UMHSAC and RP, have been the result of arms-length negotiations. In addition, it is expected that UMHSAC will receive a letter from independent counsel (McDermott, Will & Emery) addressing and providing comfort with respect to any risks as to UMHSAC's tax-exempt status.

Any contract between a health care provider and one or more physicians can also present the question of whether there is any prohibited remuneration for referrals (prohibited under federal and Minnesota law), and whether there is any ownership or compensation arrangement that would preclude reimbursement from Medicare or Medicaid. (These issues arise under what are commonly known as "Fraud and Abuse" prohibitions and the "Stark" legislation.) Again, UMHSAC management expects a letter from independent legal counsel addressing these risks. Conversations with independent legal counsel to date lead UMHSAC's management to believe there should be no significant tax, Fraud and Abuse or Stark risks in the current proposed structure of the transaction.

There is always the risk that the Clinic could fail to be self-sustaining. In the contract with RP, a Clinic operating loss will be grounds for renegotiating the amounts payable to RP if the loss is due in whole or in part to the fact that budgeted revenue targets are not being met. Thus, the risk of bad performance is ameliorated except to the extent the bad performance results from inability to control costs. Given UMHS representation on the Board of Directors of MC, and the terms of the contracts between UMHSAC and MC that provide in most instances for adjustment of amounts payable by UMHSAC to MC in the event of decreased expenses, Clinic management should be able to keep operating costs in line with revenues. Major capital expenditures, if any, will need to be financed.

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.

Staub Pediatric Clinic
Heights Medical Clinic
Palen Clinic
Mesaba Clinic

Board of Directors Meeting
April 27,1995

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.
("UMHSAC")

4/27/95 Meeting of the Board of Governors

AGENDA

1. **Approval of 3/21/95 Minutes**
2. **Approval of 3/29/95 Minutes**
3. **Hinckley Health Care Center Status**
4. **Central Internal Medicine, P.A. - Purchase Offer Status**
5. **West Side Community Clinic Status**
6. **Mesaba Clinic Status**
7. **Practice Acquisition Status**
8. **February, 1995 FYTD Financial Statements**
9. **Information item:**
   FY 1995-96 UMHSAC Operating Budget

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.

TABLE OF CONTENTS

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC. ("UMHSAC")
Minutes of the 3/21/95 Meeting of the Board of Directors

Attendees

In Person

Pat Board
Michael Fay
Clifford Fearing
Daniel McLellan, M.D. (arrived at 6:30 o'clock p.m.)
Helen Pitt

Non-Director Attendees

Daniel P. Cortez, M.D.
Keith A. Dunder, Hospital Counsel
Stephan C. Grygar, UMHC Finance Department
Thomas J. Doyle, Attorney

Location

The University of Minnesota Hospital & Clinic (in Room C-361 Mayo Building, Harvard Street at East River Road, Minneapolis, Minnesota).

Order of Business

Cliff Fearing called the meeting to order at 6:12 o'clock p.m., pursuant to prior notice. All directors had received a packet (the "Directors' Packet"), including the Agenda, the minutes of the 2/23/95 meeting of the Board of Directors, a summary report on practice acquisition status, the January, 1995 fiscal year-to-date financial statements and some planning-related information.

1. **Approval of Prior Minutes.** Cliff Fearing called for any changes to the minutes of the February 23, 1995 Meeting. None were offered. Helen Pitt moved to accept the minutes and Pat Board seconded the motion, which was approved by voice vote with no dissenting votes being heard.

2. **Hinckley Clinic.** Steve Grygar, Tom Doyle and Cliff Fearing all reported on various aspects of negotiations with respect to the Hinckley Clinic and possible management and operation of the same by Gateway Family Health Clinic (or one or more of its physicians).

3. **Central Internal Medicine Associates.** Steve Grygar and Cliff Fearing reported on the status of considerations by UMHSAC management as to whether or not to make an offer for the purchase of assets of this clinic.

4. **West Side Community Health Center.** Steve Grygar and Cliff Fearing reported on the status of this, and on discussion for one or more community integrated service networks, one of which may include this clinic. The upshot is that UMHSAC management is waiting on clinic management for additional information.

5. **UMHSAC's Tax-Exempt Status.** Tom Doyle advised the directors that the Internal Revenue Service had recognized the tax-exempt status of UMHSAC under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. He distributed to each director a copy of the March 16, 1995 letter to that effect from the Internal Revenue Service.

6. **Practice Acquisition Status.** The practice acquisition report in the directors' Packet was reviewed. There was an update on the status of negotiations with respect to the acquisition of Mesaba Clinic. That report was expanded to include the proposal that UMHSAC might be accorded the opportunity to operate clinics in Hibbing and Chisholm, by contracting with Mesaba Clinic for facilities, equipment and non-physician staff, and by contracting with Range Physicians, a Minnesota non-profit corporation, for physician services. After brief discussion it is agreed that the opportunity would be further explored by UMHSAC management and that management was to call a special meeting of the Board of Directors for further consideration of the opportunity, and requisite contracts, should the opportunity in fact be available to UMHSAC. There was also discussion in connection with the general practice acquisition discussion of the need for more in-depth strategic planning for UMHSAC and its future direction.

7. **Financial Statements.** The financial statements in the directors' Packet were reviewed. Particular questions were asked and addressed.

There being no further business to come before the meeting, the meeting adjourned by consensus of the Directors at approximately 7:12 o'clock p.m.

Respectfully submitted,

Keith A. Dunder, Secretary of University of Minnesota Health System Affiliated Clinics, Inc.

The foregoing minutes were approved by the Board of Directors of UMHSAC at their meeting of April __, 1995.

Keith A. Dunder, Secretary of
University of Minnesota Health System
Affiliated Clinics, Inc.

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UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC. ("UMHSAC")
Minutes of the 3/29/95 Meeting of the Board of Directors

Attendees

In Person

Pat Board
Michael Fay
Clifford Fearing
Daniel McLellan, M.D.
Helen Pitt

Non-Director Attendees

Keith A. Dunder, Hospital Counsel
Stephan C. Grygar, UMHC Finance Department
Thomas J. Doyle, Attorney

Location

The meeting was by telephone conference call. Clifford Fearing, Keith Dunder, Stephan C. Grygar and Thomas J. Doyle were together in Clifford P. Fearing's office at the University of Minnesota Hospital & Clinic, Harvard Street at East River Road, Minneapolis, Minnesota. Each of the other directors was at a separate location, but all participated by telephone conference call through which all could simultaneously hear each other.

Order of Business

Cliff Fearing called the meeting to order at 9:04 o'clock a.m., pursuant to prior notice to all directors and after all directors were linked into the teleconference. All directors other than Helen Pitt had received a written notice of the meeting including a description of the business to come before the special meeting (as consideration of UMHSAC's role in operating clinics in Hibbing and Chisholm, Minnesota, presently owned and operated by Mesaba Clinic). (Notice of the meeting and its purpose had been given verbally to Helen Pitt.) The material received by the directors (other than Helen Pitt) also included a written summary of UMHSAC's proposed role, contracts to be entered into by UMHSAC, benefits and risks, and other information. Separately all the directors other than Helen Pitt had also received proposed resolutions for adoption.

Cliff summarized the purpose of the meeting, UMHSAC's proposed role in connection with the operation of clinics in Hibbing and Chisholm, Minnesota, presently operated by Mesaba Clinic, the contracts that UMHSAC would enter into with a "new" Mesaba Clinic and with Range Physicians, both newly incorporated Minnesota non-profit corporations (for facilities, equipment, non-physician staff and physician staff), and certain proposed operational matters. Several of the directors raised questions concerning proposed operations and various specific terms or other aspects of the contracts UMHSAC would enter into. Those questions were addressed principally by Cliff Fearing, with Tom Doyle

supplementing his response in a few instances, as to particular terms of the proposed contracts. Tom Doyle also summarized the resolutions proposed for action by the directors at the special meeting.

Action: Upon motion made by Mike Fay, seconded by Pat Board and adopted by unanimous voice vote of the directors (with no dissenting votes being heard upon Cliff Fearing's specific request for any dissenting votes after the affirmative votes had been heard), the directors approved the following Recitals and Resolutions:

Recitals

WHEREAS, The Regents of the University of Minnesota, acting by and through the University of Minnesota Health System ("UMHS"), which is the sole member of UMHSAC, seeks to develop an integrated service network ("ISN") serving the Iron Range of Minnesota and surrounding areas, and

WHEREAS, to attain that goal, UMHS has sought an affiliation with both the Mesaba Clinic, a 15-physician clinic in Hibbing and Chisholm, Minnesota, and with Mesabi Regional Medical Center in Hibbing, Minnesota, and

WHEREAS, development of an Iron Range ISN will further the goals of the Minnesota Legislature as expressed in recent years' MinnesotaCare legislation and specifically will help UMHS carry out its missions in providing care to the people of the State of Minnesota and furthering medical and community education, and

WHEREAS, UMHSAC was formed in part as a vehicle by which UMHS could carry out its health care, education and research missions for the benefit of the people of the State of Minnesota, and

WHEREAS, the main activities of UMHSAC per its Articles of Incorporation are to include operation of multi-specialty medical clinics providing health care services and promoting health in various locations in the State of Minnesota, operating programs for medical education, community health education and specialty outreach programs, engaging in clinical research and scientific investigation, and doing other acts and things necessary, advisable, desirable or expedient in accomplishment of its purposes, and

WHEREAS, UMHSAC presently operates clinics in the Twin Cities metropolitan area, and

WHEREAS, UMHS is providing to UMHSAC the opportunity to operate clinics in Hibbing and Chisholm, Minnesota, now operated by Mesaba Clinic, by contracting with the existing Mesaba Clinic entity for facilities, equipment and non-

physician staff, and by contracting with a new Minnesota non-profit corporation, Range Physicians, for physician services at the Hibbing and Chisholm clinics, and

WHEREAS, UMHSAC does not itself have the funds available to operate the clinics in Hibbing and Chisholm, but UMHS has indicated a willingness to make a capital contribution to UMHSAC that will enable it to operate those clinics, and

WHEREAS, UMHSAC's management has negotiated a proposed Medical Services Agreement with Range Physicians, and a proposed Lease of Premises, Equipment, Name and Good Will ("Lease") and a proposed Non-Physician Staff Services Agreement with Mesaba Clinic, pursuant to the first of which UMHSAC will obtain physician services from Range Physicians for current and future clinical operations in Hibbing and Chisholm (and perhaps in other satellite clinics as a part of the Iron Range ISN), and pursuant to the latter two of which UMHSAC will obtain from Mesaba Clinic the existing clinical facilities and equipment for the clinics in Hibbing and Chisholm, Minnesota, and the services of non-physician staff for operation of those clinics, and

WHEREAS, the said Medical Services Agreement, Lease and Non-Physician Staff Services Agreement are collectively termed the "Contracts", and

WHEREAS, operation of clinics in Hibbing and Chisholm, and possible future operations of additional clinics as part of an Iron Range ISN certainly is consistent with the fundamental reasons for the existence of UMHSAC as well as its mission and its purposes as expressed in its Articles of Incorporation, and

WHEREAS, since UMHS is willing to make this opportunity available to UMHSAC and provide a capital contribution essential to initial financing of the operation of these clinics, we find that UMHSAC's acceptance of the opportunity to be in the best interests of UMHSAC,

Resolutions

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

1. The role of UMHSAC in operating clinics in Hibbing and Chisholm, Minnesota, which have previously been operated by Mesaba Clinic, as described in the Recitals to this Consent, is hereby approved.

2. The officers of UMHSAC, jointly and singly, are authorized and directed to negotiate the terms of and enter into and cause UMHSAC to perform the Contracts, for the general purposes

described in the Recitals to this Consent, and are further authorized and directed to negotiate, execute and deliver, and cause UMHSAC to perform under, any agreement, document or instrument to be executed and delivered pursuant to the terms of a Contract or that the officers find to be necessary, appropriate or helpful in connection with UMHSAC's performance under any Contract.

3. UMHSAC hereby accepts a contribution to its capital from UMHS in an amount of up to $1,669,000, and each officer of UMHSAC is jointly and singly authorized to evidence acceptance of that contribution to the capital of UMHSAC by execution and delivery of an appropriate certificate or other instrument evidencing the same.

4. The officers of UMHSAC are jointly and singly authorized and directed to take any and all action that any such officer deems necessary, appropriate or helpful to enable UMHSAC to efficiently and effectively operate the clinics in Hibbing and Chisholm that have previously been identified in this Consent, including making arrangements for one or more accounts, credit facilities, and/or any and all other banking relationships as those officers deem necessary or appropriate for the conduct of UMHSAC's present and prospective activities with respect to those clinics, to execute and deliver to any bank with which any such relationship has established those instruments as the signatory officer(s) deem(s) necessary, appropriate or helpful to establish, determine and maintain the relationship, including identifying authorized signatory(ies) and other information, the same as if each such instrument and every resolution of this Board of Directors in each such instrument was set forth here in full (and we hereby approve and adopt each resolution set forth in each such instrument and authorize the Secretary of this Corporation to certify as to or due approval of the same). It is the intention of the undersigned that the grant of authority in the preceding sentence shall be plenary with respect to actions that the officers of UMHSAC deem necessary or appropriate to prepare UMHSAC for operating the said clinics, and following such preparation to thereafter operate the said clinics.

(Immediately following the vote, Tom Doyle called the roll to ensure all directors were present at the time of casting the voice vote. All directors responded to the roll call, to indicate that they were present.)

There being no further business to come before the meeting, the meeting adjourned by consensus of the Directors at approximately 8:30 o'clock a.m.

Respectfully submitted,

Keith A. Dunder, Secretary of University of Minnesota Health System Affiliated Clinics, Inc.

The foregoing minutes were approved by the Board of Directors of UMHSAC at their meeting of April __, 1995.

Keith A. Dunder, Secretary of
University of Minnesota Health System
Affiliated Clinics, Inc.

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UMHSAC Practice Acquisition Status

Version: 24-Apr-95

	Phase I				Phase II		Phase III		Phase IV	Phase V
	(A)	(B)	(C)	(D)	(A)	(B)	(A)	(B)		
Staub Pediatric Group	X	X	X	X	X	X	X	X	X	X
Palen Clinic	X	X	X	X	X	X	X	X	X	X
Hinckley (New Clinic)	X	X	X	X	X	X	X			
Grand Rapids	X	X								
Central Internal Medicine	X	X	X	X	X	X	X			
Mesaba Clinic	X	X	X	X	X	X	X	X	X	X
Granite Falls	X	X								
Mankato										
West Side Comm Health Cntr	X	X	X	X	X					
East Range Clinics	X									

Definitions:

Phase I (A)	*Introductory Meeting*
Phase I (B)	*UMHSAC follow-up*
Phase I (C)	*Clinic Confirmation; UMHSAC originated Letter-of-Intent, Micro-process outline, detailed financial information request*
Phase I (D)	*Information receipt by UMHSAC*
Phase II (A)	*Tangible and Intangible Valuations (Bldg, Eqpt & Practice)*
Phase II (B)	*UMHSAC offer presentation*
Phase III (A)	*Offer Negotiation*
Phase III (B)	*Offer Agreement*
Phase IV	*UMHSAC Due Diligence*
Phase V	*Closing*

University of Minnesota Health System
Affiliated Clinics, Inc.

Consolidated Income Statement

For the Period Ended July 1, 1994 to February 28, 1995

February MTD					February YTD			
Budget	Actual	Variance Over(Under) Budget	Variance %		Budget	Actual	Variance Over(Under) Budget	Variance %
$200,057	$186,874	($13,183)	-7.1%	Patient Service Charges	$821,753	$742,136	($79,616)	-10.7%
2,317	3,649	1,332	36.5%	Other	6,998	33,871	26,873	79.3%
0	32,312	32,312	100.0%	Gain on Sale Of AR	0	32,312	32,312	100.0%
202,374	222,835	20,461	9.2%	Total Revenue	828,751	808,320	(20,431)	-2.5%
50,526	57,297	6,771	11.8%	Deductions From Charges	205,950	184,617	(21,333)	-11.6%
151,848	165,539	13,690	8.3%	Net Revenue	622,801	623,703	902	0.1%
36,908	55,795	18,888	33.9%	Physician Compensation	186,637	226,223	39,586	17.5%
4,091	6,305	2,213	35.1%	Physician Taxes & Benefits	19,064	20,427	1,362	6.7%
40,999	62,100	21,101	34.0%	Total Physician Comp & FB	205,701	246,649	40,948	16.6%
43,845	36,413	(7,432)	-20.4%	Non-Physician Compensation	157,905	159,114	1,209	0.8%
7,454	4,188	(3,266)	-78.0%	Non-Physician Taxes & Benefits	26,844	27,206	362	1.3%
51,299	40,601	(10,698)	-26.3%	Total Non-Physician Comp & FB	184,749	186,320	1,571	0.8%
15,206	166	(15,040)	-9049.7%	Medical Supplies	46,931	871	(46,060)	-5289.0%
1,016	200	(817)	-409.4%	Medical Consulting Fees	6,795	1,299	(5,496)	-423.1%
1,397	2,468	1,071	43.4%	Drugs	10,238	47,326	37,089	78.4%
1,253	11,952	10,699	89.5%	Lab Fees	9,438	37,065	27,626	74.5%
0	1,450	1,450	100.0%	X-Ray Supplies	0	1,450	1,450	100.0%
192	0	(192)	-100.0%	Travel	192	0	(192)	-100.0%
2,117	2,628	511	19.4%	Billing Fees	16,979	20,447	3,468	17.0%
6,245	9,047	2,802	31.0%	Office Related Expense	18,892	25,081	6,188	24.7%
15,335	8,908	(6,427)	-72.1%	Occupancy Expense	71,062	67,065	(3,997)	-6.0%
4,395	4,989	593	11.9%	Depreciation	9,412	10,365	953	9.2%
1,371	127	(1,244)	-979.2%	Professional Liability Insurance	3,985	4,349	364	8.4%
5,484	16,929	11,445	67.6%	Interest Expense	15,843	50,086	34,243	68.4%
283	257	(26)	-10.0%	Payroll Services	1,199	1,654	455	27.5%
112	149	37	24.7%	Bad Debt	827	721	(106)	-14.7%
936	2,268	1,332	58.7%	Dues and Subscriptions	5,282	6,126	844	13.8%
2,301	777	(1,524)	-196.3%	Management Fees	7,718	7,120	(598)	-8.4%
1,143	1,685	542	32.1%	MNCare Tax	1,143	4,468	3,325	74.4%
764	3,728	2,964	79.5%	Miscellaneous	2,957	4,451	1,494	33.6%
151,849	170,429	18,580	12.2%	Total Expenditures	619,344	722,911	103,567	14.3%
($0)	($4,890)	($4,890)	100.0%	Net Profit(Loss)	$3,458	($99,208)	($102,665)	103.5%

University of Minnesota Health System
Affiliated Clinics, Inc.

Income Statement

For the Period Ended July 1, 1994 to February 28, 1995

February MTD					February YTD			
Staub Pediatric Clinic	Palen/ Heights Clinic	UMHSAC Admin	Consolidated Total		Staub Pediatric Clinic	Palen/ Heights Clinic	UMHSAC Admin	Consolidated Total
$99,629	$87,245	$0	$186,874	Patient Service Charges	$654,892	$87,245	$0	$742,136
1,943	1,370	337	3,649	Other	23,550	1,370	8,952	33,871
0	32,312	0	32,312	Gain on Sale Of A/R	0	32,312	0	32,312
101,572	120,926	337	222,835	Total Revenue	678,442	120,926	8,952	808,320
27,644	29,652	0	57,297	Deductions From Charges	154,964	29,652	0	184,617
73,928	91,274	337	165,539	Net Revenue	523,477	91,274	8,952	623,703
22,590	33,205	0	55,795	Physician Compensation	193,017	33,205	0	226,223
3,684	2,621	0	6,305	Physician Taxes & Benefits	17,806	2,621	0	20,427
26,274	35,826	0	62,100	Total Physican Comp & FB	210,823	35,826	0	246,649
17,956	18,457	0	36,413	Non-Physician Compensation	140,656	18,457	0	159,114
3,100	1,087	0	4,188	Non-Physician Taxes & Benefits	26,119	1,087	0	27,206
21,056	19,545	0	40,601	Total Non-Physician Comp & FB	166,775	19,545	0	186,320
66	100	0	166	Medical Supplies	771	100	0	871
129	71	0	200	Medical Consulting Fees	1,229	71	0	1,299
1,507	961	0	2,468	Drugs	46,365	961	0	47,326
2,024	9,927	0	11,952	Lab Fees	27,137	9,927	0	37,065
0	1,450	0	1,450	X-Ray Supplies	0	1,450	0	1,450
0	0	0	0	Travel	0	0	0	0
2,628	0	0	2,628	Billing Fees	20,447	0	0	20,447
2,263	6,764	20	9,047	Office Related Expense	16,425	6,764	1,892	25,081
7,755	730	424	8,908	Occupancy Expense	61,671	730	4,664	67,065
899	4,089	0	4,989	Depreciation	6,276	4,089	0	10,365
0	127	0	127	Professional Liability Insurance	4,222	127	0	4,349
1,802	36,397	(21,270)	16,929	Interest Expense	13,689	36,397	0	50,086
212	45	0	257	Payroll Services	1,309	45	300	1,654
0	149	0	149	Bad Debt	572	149	0	721
2,015	253	0	2,268	Dues and Subscriptions	5,873	253	0	6,126
259	518	0	777	Management Fees	4,353	518	2,249	7,120
715	970	0	1,685	MNCare Tax	3,498	970	0	4,468
71	3,637	20	3,728	Miscellaneous	754	3,637	60	4,451
69,677	121,557	(20,805)	170,429	Total Expenditures	592,189	121,557	9,164	722,911
4,251	($30,283)	$21,142	($4,890)	Net Profit(Loss)	(68,712)	(30,283)	(213)	($99,208)

University of Minnesota Health System
Affiliated Clinics, Inc.

Statement of Cash Flows

For the Period July 1, 1994 to February 28, 1995

	Staub Pediatric Clinic	Palen/ Heights Clinic	UMHSAC Admin	Consolidated Total
Operating Activities and Non-Operating Revenues:				
Net Profit(Loss)	$4,251	($30,283)	$21,142	($4,890)
Adjustments				
Depreciation	899	4,089	0	4,989
Change in Accounts Receivable	(10,370)	(170,711)	0	(181,080)
(Increase)Decrease in Prepaid Expense	183	(5,832)	0	(5,648)
Increase(Decrease) in Accounts Payable	(7,909)	18,501	20	10,612
Increase(Decrease) in A/R Payable	0	149,135	0	149,135
Increase(Decrease) in Accrued Liabilities	(1,400)	67,445	(21,270)	44,774
Total Adjustments	(18,597)	62,628	(21,250)	22,781
Net Cash Provided by Operating Activities	(14,346)	32,345	(108)	17,891
Investing Activities				
Acquisition of PPE	0	(489,143)	0	(489,143)
Change in Promissory Notes - Practice Payable	0	(17,500)	0	(17,500)
Net Cash From(Used) in Investing Activities	0	(506,643)	0	(506,643)
Financing Activities				
Repayment of Notes Payable	(464)	0	0	(464)
Transfer From Admin Center	0	749,143	(749,143)	0
Change in Cash - Operations	($14,810)	$274,845	($749,251)	(489,216)
Change in Cash - Payments to Drs. Olson, Cortez		0		0
Change in Cash - Payments to Dr. Staub	(1,812)			(1,812)
Cash at January 31, 1995	$182,951	$0	$851,293	$1,034,244
Cash at February 28, 1995	$166,328	$274,845	$102,043	$543,216

University of Minnesota Health System
Affiliated Clinics, Inc.

Balance Sheet

2/28/95

	Staub Pediatric Clinic	Palen/ Heights Clinic	UMHSAC Admin	Consolidated Total
Cash - Checking	$37,828	$31,470	$11,515	$80,812
Cash - Savings	128,500	0	90,528	219,028
Cash - Other	0	243,375	0	243,375
Total Cash	166,328	274,845	102,043	543,216
Accounts Receivable	170,898	237,821	0	408,720
Allowance For Uncollectibles	(28,175)	(67,111)	0	(95,286)
	142,723	170,711	0	313,434
Other A/R	0	26,635	0	26,635
Intangible Asset - Staub Pediatric Clinic	227,800	140,000	0	367,800
Prepaid Expenses	7,141	5,832	0	12,973
Fixed Assets				
Building	0	325,000	0	325,000
Equipment	53,960	164,143	0	218,103
Less: Accumulated Depreciation	(6,276)	(4,089)	0	(10,365)
Total Fixed Assets	47,684	485,054	0	532,738
Total Assets	**$591,677**	**1,103,076**	**$102,043**	**$1,796,795**
Accounts Payable				
Trade A/P	$4,407	$17,591	$20	$22,018
Other - Mgmt Fees	4,408	518	2,249	7,175
Other - Due to Old Corps	894	392	0	1,286
Total Accounts Payable	9,709	18,501	2,269	30,479
Accrued Expenses				
Accrued Payroll	48,236	189,601	0	237,837
Other	1,245	26,978	0	28,223
Total Accrued Expenses	49,481	216,580	0	266,061
Long-Term Liabilities				
Working Capital Loan Payable	325,000	120,000	0	445,000
Equipment Loan Payable	50,301	164,143	0	214,444
Practice Payable	227,800	122,500	0	350,300
Building Payable	0	325,000	0	325,000
A/R Loan Payable	0	149,135	0	149,135
Total Long-Term Liabilities	603,101	880,778	0	1,483,879
Total Liabilities	612,810	899,279	2,269	1,514,358
Fund Balance	(1,902)	17,500	99,987	115,585
YTD Net Income	(68,712)	(30,283)	(213)	(99,208)
Total Liabilities and Fund Balance	**$591,677**	**1,103,076**	**$102,043**	**$1,796,795**

University of Minnesota Health System
Affiliated Clinics, Inc.

Staub Pediatric Clinic

Income Statement

For the Period Ended August 1, 1994 to February 28, 1995

February MTD					February YTD			
Budget	Actual	Variance Over(Under) Budget	Variance %		Budget	Actual	Variance Over(Under) Budget	Variance %
$97,732	$99,629	$1,897	1.9%	Patient Service Charges	$719,428	$654,892	($64,536)	-9.9%
$719	1,943	1,224	63.0%	Other	5,400	23,550	18,149	77.1%
98,451	101,572	3,121	3.1%	Total Revenue	724,828	678,442	(46,386)	-6.8%
24,433	27,644	3,211	11.6%	Deductions From Charges	179,857	154,964	(24,892)	-16.1%
74,018	73,928	(90)	-0.1%	Net Revenue	544,971	523,477	(21,494)	-4.1%
23,548	22,590	(958)	-4.2%	Physician Compensation	173,277	193,017	19,741	10.2%
2,355	3,684	1,330	36.1%	Physician Taxes & Benefits	17,328	17,806	478	2.7%
25,902	26,274	372	1.4%	Total Physican Comp & FB	190,604	210,823	20,219	9.6%
17,839	17,956	117	0.7%	Non-Physician Compensation	131,899	140,656	8,757	6.2%
3,033	3,100	68	2.2%	Non-Physician Taxes & Benefits	22,423	26,119	3,696	14.2%
20,872	21,056	184	0.9%	Total Non-Physician Comp & FB	154,322	166,775	12,453	7.5%
5,012	66	(4,946)	-7495.1%	Medical Supplies	36,737	771	(35,966)	-4666.9%
1,016	129	(887)	-687.8%	Medical Consulting Fees	6,795	1,229	(5,567)	-453.1%
1,397	1,507	110	7.3%	Drugs	10,238	46,365	36,127	77.9%
1,253	2,024	771	38.1%	Lab Fees	9,438	27,137	17,699	65.2%
0	0	0	0.0%	Travel	0	0	0	0.0%
2,117	2,628	511	19.4%	Billing Fees	16,979	20,447	3,468	17.0%
1,400	2,263	863	38.1%	Office Related Expense	14,047	16,425	2,378	14.5%
8,804	7,755	(1,049)	-13.5%	Occupancy Expense	64,531	61,671	(2,860)	-4.6%
512	899	388	43.1%	Depreciation	5,529	6,276	747	11.9%
476	0	(476)	0.0%	Professional Liability Insurance	3,090	4,222	1,132	26.8%
1,666	1,802	136	7.6%	Interest Expense	12,025	13,689	1,664	12.2%
150	212	63	29.6%	Payroll Services	1,066	1,309	244	18.6%
112	0	(112)	0.0%	Bad Debt	827	572	(255)	-44.6%
687	2,015	1,329	65.9%	Dues and Subscriptions	5,033	5,873	841	14.3%
828	259	(570)	-220.1%	Management Fees	6,245	4,353	(1,892)	-43.5%
0	715	715	100.0%	MNCare Tax	0	3,498	3,498	100.0%
445	71	(374)	-523.3%	Miscellaneous	2,638	754	(1,884)	-249.8%
72,649	69,677	(2,972)	-4.3%	Total Expenditures	540,144	592,189	52,045	8.8%
$1,369	$4,251	$2,882	67.8%	Net Profit(Loss)	$4,827	($68,712)	($73,539)	107.0%

University of Minnesota Health System
Affiliated Clinics, Inc.

Palen/Heights Medical Clinic

Income Statement

For the Period Ended February 2, 1995 to February 28, 1995

February MTD					February YTD			
Budget	Actual	Variance Over(Under) Budget	Variance %		Budget	Actual	Variance Over(Under) Budget	Variance %
$102,325	$87,245	($15,081)	-17.3%	Patient Service Charges	$102,325	$87,245	($15,081)	-17.3%
1,598	1,370	(228)	-16.6%	Other	1,598	1,370	(228)	-16.6%
0	32,312	32,312	100.0%	Gain on Sale Of A/R	0	32,312	32,312	100.0%
103,923	120,926	17,004	14.1%	Total Revenue	103,923	120,926	17,004	14.1%
26,093	29,652	3,559	12.0%	Deductions From Charges	26,093	29,652	3,559	12.0%
77,830	91,274	13,444	14.7%	Net Revenue	77,830	91,274	13,444	14.7%
13,360	33,205	19,845	59.8%	Physician Compensation	13,360	33,205	19,845	59.8%
1,737	2,621	884	33.7%	Physician Taxes & Benefits	1,737	2,621	884	33.7%
15,097	35,826	20,729	57.9%	Total Physican Comp & FB	15,097	35,826	20,729	57.9%
26,006	18,457	(7,549)	-40.9%	Non-Physician Compensation	26,006	18,457	(7,549)	-40.9%
4,421	1,087	(3,334)	-306.6%	Non-Physician Taxes & Benefits	4,421	1,087	(3,334)	-306.6%
30,427	19,545	(10,882)	-55.7%	Total Non-Physician Comp & FB	30,427	19,545	(10,882)	-55.7%
10,194	100	(10,094)	-10073.5%	Medical Supplies	10,194	100	(10,094)	-10073.5%
0	71	71	100.0%	Medical Consulting Fees	0	71	71	100.0%
0	961	961	100.0%	Drugs	0	961	961	100.0%
0	9,927	9,927	100.0%	Lab Fees	0	9,927	9,927	100.0%
0	1,450	1,450	100.0%	X-Ray Supplies	0	1,450	1,450	100.0%
192	0	(192)	0.0%	Travel	192	0	(192)	0.0%
0	0	0	0.0%	Billing Fees	0	0	0	0.0%
4,846	6,764	1,918	28.4%	Office Related Expense	4,846	6,764	1,918	28.4%
6,531	730	(5,801)	-794.9%	Occupancy Expense	6,531	730	(5,801)	-794.9%
3,884	4,089	206	5.0%	Depreciation	3,884	4,089	206	5.0%
894	127	(767)	-604.1%	Professional Liability Insurance	894	127	(767)	-604.1%
3,818	36,397	32,579	89.5%	Interest Expense	3,818	36,397	32,579	89.5%
133	45	(89)	-198.9%	Payroll Services	133	45	(89)	-198.9%
0	149	149	100.0%	Bad Debt	0	149	149	100.0%
249	253	3	1.3%	Dues and Subscriptions	249	253	3	1.3%
1,472	518	(955)	-184.4%	Management Fees	1,472	518	(955)	-184.4%
1,143	970	(173)	-17.9%	MNCare Tax	1,143	970	(173)	-17.9%
319	3,637	3,318	91.2%	Miscellaneous	319	3,637	3,318	91.2%
79,200	121,557	42,358	34.8%	Total Expenditures	79,200	121,557	42,358	34.8%
($1,370)	($30,283)	($28,914)	95.5%	Net Profit(Loss)	($1,370)	($30,283)	($28,914)	95.5%

University of Minnesota Health System
Affiliated Clinics, Inc.

Administrative

Income Statement

For the Period Ended July 1, 1994 to February 28, 1995

February MTD					February YTD			
Budget	Actual	Variance Over(Under) Budget	Variance %		Budget	Actual	Variance Over(Under) Budget	Variance %
$0	$0	$0	0.0%	Patient Service Charges	$0	$0	$0	0.0%
0	337	337	100.0%	Other	0	8,952	8,952	100.0%
0	337	337	100.0%	Total Revenue	0	8,952	8,952	100.0%
0	0	0	0.0%	Deductions From Charges	0	0	0	0.0%
0	337	337	100.0%	Net Revenue	0	8,952	8,952	100.0%
0	0	0	0.0%	Physician Compensation	0	0	0	0.0%
0	0	0	0.0%	Physician Taxes & Benefits	0	0	0	0.0%
0	0	0	0.0%	Total Physician Comp & FB	0	0	0	0.0%
0	0	0	0.0%	Non-Physician Compensation	0	0	0	0.0%
0	0	0	0.0%	Non-Physician Taxes & Benefits	0	0	0	0.0%
0								
0	0	0	0.0%	Total Non-Physician Comp & FB	0	0	0	0.0%
0								
0	0	0	0.0%	Medical Supplies	0	0	0	0.0%
0	0	0	0.0%	Medical Consulting Fees	0	0	0	0.0%
0	0	0	0.0%	Drugs	0	0	0	0.0%
0	0	0	0.0%	Lab Fees	0	0	0	0.0%
0	0	0	0.0%	Travel	0	0	0	0.0%
0	0	0	0.0%	Billing Fees	0	0	0	0.0%
0	20	20	100.0%	Office Related Expenses	0	1,892	1,892	100.0%
0	424	424	100.0%	Occupancy Expense	0	4,664	4,664	100.0%
0	0	0	0.0%	Depreciation	0	0	0	0.0%
0	0	0	0.0%	Professional Liability Insurance	0	0	0	0.0%
0	(21,270)	(21,270)	100.0%	Interest Expense	0	0	0	0.0%
0	0	0	0.0%	Payroll Services	0	300	300	100.0%
0	0	0	0.0%	Bad Debt	0	0	0	0.0%
0	0	0	0.0%	Dues and Subscriptions	0	0	0	0.0%
0	0	0	0.0%	Management Fees	0	2,249	2,249	100.0%
0	0	0	0.0%	MNCare Tax	0	0	0	0.0%
0	20	20	100.0%	Miscellaneous	0	60	60	100.0%
0	(20,805)	(20,805)	100.0%	Total Expenditures	0	9,164	9,164	100.0%
$0	$21,142	$21,142	100.0%	Net Profit/(Loss)	$0	($213)	($213)	100.0%

UNIVERSITY OF MINNESOTA
HEALTH SYSTEM AFFILIATED CLINICS, INC.

Corporate Office

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April 25, 1995

TO: Members, Board of Directors

FROM: Stephan C. Grygar

SUBJECT: 1995/96 Budget

The University of Minnesota Health System Affiliated Clinics, Inc. budget period spans from July 1, 1995 through June 30, 1996. Summarized below is a discussion concerning the assumptions incorporated in preparation of the budget followed by budgeted profit and loss statements for each divisional entity.

Staub Pediatric Clinic

°*Gross Fee For Service*

Gross FFS revenue has been based upon actual production data from 12/31/94 with additional adjustments for volume (5%) and price (4%) inflation. The forecasted production assumes normalization for Dr. Chun, who was absent for 2 months in 1994, and for Drs. Heggie and Staub whose FTE status decreased from base period levels. Patient encounters have been forecasted at 14,895 which compares to 14,186 for calendar year 1994.

°*Charge Discounts*

Discounts and adjustments have been budgeted at 25% of charges based upon historic experience in the calendar period ended 12/31/94. Charge discounts also include an estimate for bad debt write-offs.

°*Other Income*

Other income includes rent revenue from sublet agreements ($11,700), capitated insurance payments ($3,800), collection fee revenue from retirement of pre-acquistion receivables ($2,000), holdback refunds ($24,000 - Medica, $2,000 - BCBS) and other miscellaneous revenues.

°*Personnel Related Expense*

FTE levels are projected to remain constant with compensation increasing by a projected 3.25% wage increase effective 7/1/95. Other fringe benefit items including health, dental and life insurance are projected to increase by 7% on the 1/1/96 renewal dates. Federal unemployment insurance taxes have not been budgeted due to 501(c)(3) status. Also included in this category are amounts anticipated to be paid Ann Seltz for audiology services and Dr. Sheridan from UM Department of Pediatrics (UMHSAC does billing for Seltz and Sheridan).

°*Building Related Expense*

Includes rent expense for Fridley and Shoreview locations, telephone costs and depreciation expense related to equipment purchase.

°*Office Related Expense*

Budgeted costs include office supplies, postage and interest expense related to equipment purchase. Amounts were based upon 12/31/94 data with a price level adjustment of 4%.

°*Professional Fees*

Includes fees paid to Nortech, Inc. for billing services based upon 12/31/94 data price adjusted by 4%. Needed

°*Physician Expenses*

Includes salary and benefits for physicians as well as education allowances ($1,000 per), professional liability insurance and professional dues and subscriptions. Salary and benefits are per employment agreements. An assumption has been included increasing Dr. Heggie's FTE status from .10 to .50. Dr. Staub is budgeted at .2 FTE while Drs. Chun, Hauer and McLellan are budgeted at 1.0 FTE each. An additional allowance for Dr. Wegmann has been included for on-call coverage provided one evening per week.

°*Miscellaneous Expenses*

Category includes budgeted expenditures for yellow pages advertising, management fees paid to UAFP for accounting, payroll and human resource consulting, MinnesotaCare taxes and interest on the working capital loan. Variable expenses have been based upon 12/31/94 data with a price level adjustment of 4%.

°*Medical Expenses*

Budgeted costs include medical and lab supplies, pharmaceutical expenses, medical waste destruction and lab fees. Amounts have been based upon 12/31/94 data with a price level adjustment of 4%.

Heights Medical Clinic

°*Gross Fee For Service*

Gross FFS revenue has been based upon actual production data from 12/31/94 with additional adjustments for volume and price (4%) inflation. Forecasted visits of 5,554 represent a 9% decrease from the previous year primarily due to the departure of Dr. Leo. While the physician assistant's and Dr. Olson are budgeted to absorb some of this volume, Dr. Cortez is anticipating to be scheduled 1/2 day off each week to make up for evening and weekend surgeries. Thus his office overall visits are budgeted to decline from 2,252 to 2,100 (and a corresponding decrease in patient revenue). Dr. Have

How to make this up?

°*Charge Discounts*

Discounts and adjustments have been budgeted at 23% of charges based upon historic experience in the calendar period ended 12/31/94. Charge discounts also include an estimate for bad debt write-offs.

°*Other Income*

Other income includes rent revenue from outreach agreements ($12,168), capitated insurance payments ($2,718), medical records copying charges ($2,392) and holdback refunds ($4,593 -Medica).

°*Personnel Related Expense*

FTE levels are projected to remain constant with compensation increasing by a projected 3.25% wage increase effective 7/1/95. Other fringe benefit items including health, dental and life insurance are projected to increase by 7% on the 9/30/95 renewal dates. Federal unemployment insurance taxes have not been budgeted due to 501(c)(3) status.

7%!

°*Building Related Expense*

Includes utilities, office liability and building insurance, telephone and answering service, maintenance, custodian, property taxes (property tax exemption pending; $14,150 per year), depreciation expense, interest on the building loan and other miscellaneous items. Costs have been based upon 12/31/94 data with a price level adjustment of 4%.

Doubtful!

°*Office Related Expense*

Budgeted costs include office supplies, postage, printing, equipment repair and rental and interest expense related to equipment purchase. Amounts have been based on 12/31/94 data with a price level adjustment of 4%.

°*Professional Fees*

Includes 1/2 of fees paid to DISC, Inc. for billing hardware and software lease costs. These costs have been price adjusted by 5%.

5%? else why Everything 4%.

°*Physician Expenses*

Includes salary and benefits for physicians as well as education allowances ($1,000 per), professional liability insurance and professional dues and subscriptions. Salary and benefits for Dr. Cortez are per employment agreement. The physician assistant MD's do not have employment contracts and are projected to receive 3.25% increases on 7/1/95. The staffing complement includes Dr. Cortez at 1.0 FTE, Dr. Argueta (PA) at .6 FTE and Dr. Mendoza (PA) at .4 FTE. Dr. Cortez visits the Palen clinic one day a week but has had 100% of his salary and benefits included in the Heights Medical Clinic budget. Likewise, Dr. Olson visits the Heights Medical Clinic one day per week but has had 100% of his compensation included in the Palen clinic.

°*Miscellaneous Expenses*

Category includes budgeted expenditures for yellow pages advertising, management fees paid to UAFP for accounting, payroll and human resource consulting, MinnesotaCare taxes, interest on the working capital and account's receivable loans and other miscellaneous items. Variable expenses have been based upon 12/31/94 data with a price level adjustment of 4%.

°*Medical Expenses*

Budgeted costs include medical and lab supplies, pharmaceutical expenses, x-ray supplies medical waste destruction, lab fees and medical interpretation fees. These amounts have been based upon 12/31/94 data price adjusted at 4%. Budgeted medical interpretation fees (for EKG readings) have been reduced from prior year assuming the purchase of a new EKG machine which will reduce costs by nearly $4,000 per year.

cost of new EKG machine included?

Palen Clinic

°*Gross Fee For Service*

Gross FFS revenue has been based upon actual production data from 12/31/94 with additional adjustments for volume and price (3%) inflation. Forecasted visits of 6,155 represent a 2% increase from the previous year

°*Charge Discounts*

Discounts and adjustments have been budgeted at 27% of charges based upon historic experience in the calendar period ended 12/31/94. Charge discounts also include an estimate for bad debt write-offs.

°*Other Income*

Other income includes rent revenue from outreach agreements ($12,012), medical records copying charges ($3,321), capitated insurance payments ($2,718) and holdback refunds ($4,593 -Medica).

°*Personnel Related Expense*

FTE levels are projected to remain constant with compensation increasing by a projected 3.25% wage increase effective 7/1/95. Other fringe benefit items including health, dental and life insurance are projected to increase by 7% on the 9/30/95 renewal dates. Federal unemployment insurance taxes have not been budgeted due to 501(c)(3) status.

7%!

°*Building Related Expense*

Includes utilities, office liability insurance, telephone and answering service, custodian, depreciation expense, snow removal/lawn care and building rent. Costs have been based upon 12/31/94 data with a price level adjustment of 4%.

oOffice Related Expense

Budgeted costs include office supplies, postage, printing, equipment repair and rental and interest expense related to equipment purchase. Amounts have been based on 12/31/94 data with a price level adjustment of 4%.

oProfessional Fees

Includes 1/2 of fees paid to DISC, Inc. for billing hardware and software lease costs. These costs have been price adjusted by 5%.

oPhysician Expenses

Includes salary and benefits for physicians as well as education allowances ($1,000 per), professional liability insurance and professional dues and subscriptions. Salary and benefits for Dr. Olson are per employment agreement. The physician assistant MD does not have an employment contract and is projected to receive a 3.25% increase on 7/1/95. The staffing complement includes Dr. Olson at 1.0 FTE, Dr. Peterson .10 FTE and Dr. Sanchez (PA) at 1.0 FTE. Dr. Cortez visits the Palen clinic one day a week but has had 100% of his salary and benefits included in the Heights Medical Clinic budget. Likewise, Dr. Olson visits the Heights Medical Clinic one day per week but has had 100% of his compensation included in the Palen clinic.

oMiscellaneous Expenses

Category includes budgeted expenditures for yellow pages advertising, management fees paid to UAFP for accounting, payroll and human resource consulting, MinnesotaCare taxes, interest on the working capital and account's receivable loans and other miscellaneous items. Variable expenses have been based upon 12/31/94 data with a price level adjustment of 4%.

oMedical Expenses

Budgeted costs include medical and lab supplies, pharmaceutical expenses, x-ray supplies medical waste destruction, lab fees and medical interpretation fees. These amounts have been based upon 12/31/94 data price adjusted at 4%. Budgeted medical interpretation fees (for EKG readings) have been reduced from prior year assuming the purchase of a new EKG machine which will reduce costs by nearly $3,500 per year.

Administrative Office

The budget reflects the addition of a 1.0 FTE accountant to assist with ongoing UMHSAC related financial and operational activities. Other budgeted amounts include interest income on outstanding cash balances related to start-up funding, administrative space rent and miscellaneous sundry items.

Financial Summary

Following this narrative are the proposed (preliminary) FY 1995-96 UMHSAC budgets for Staub Pediatric Clinic, Heights Medical Clinic, Palen Clinic and Administrative Center. The clinic budgets were created from the "bottom up," incorporating the assumptions as described above.

The preliminary budgets roll up to an overall cash flow loss of ($294,177); ($130,518) from Staub, ($74,114) from Heights, ($55,989) from Palen and ($33,556) associated with the non-revenue producing Administrative Center. This projected cash flow loss is an unacceptable financial condition; as the second page financial handout indicates, projected 6/30/96 cash balances will be ($27,336).

Following the two summary pages are individual clinic detail budget sheets. These sheets enable you to see the detail behind each of the summary line items.

Given the projected ($294,177) cash flow loss, between now and the May Board meeting, UMHSAC management will work with the clinics to come up with a plan to significantly reduce (with the idea of eliminating) the projected deficit. To accomplish this, we may very well need to examine changing certain policies that currently exist, e.g., on-call coverage, billing/cash collection, health insurance premiums. We will begin discussing this at our April 27, 1995, meeting.

Attachments

University Of Minnesota Health System
Affiliated Clinics, Inc.

FY 1995-96 Proposed Budget

	Staub Pediatric Clinic	Heights Medical Clinic	Palen Clinic	Administrative Center	Totals
Gross Fee For Service	1,245,874	606,030	730,628	0	2,582,532
Charge Discounts	(310,857)	(147,182)	(212,916)	0	(670,955)
Other Income	46,694	21,871	19,925	2,000	90,490
Total Budgeted Income	**981,711**	**480,719**	**537,637**	**2,000**	**2,002,067**
Personnel Related Expense	374,553	158,816	204,460	31,122	768,951
Building and Maintenance	128,053	96,657	84,380	5,088	314,178
Office Related Expense	16,316	16,956	17,407		50,679
Professional Fees	33,406	5,456	5,456		44,318
Physician Expenses	358,388	151,877	152,310		662,575
Miscellaenous Expenses	47,764	28,304	28,715	500	105,283
Medical Expenses	122,810	61,781	96,427		281,018
Total Budgeted Expense	**1,081,290**	**519,847**	**589,155**	**36,710**	**2,227,002**
Budgeted Net Income (Loss)	**(99,579)**	**(39,128)**	**(51,518)**	**(34,710)**	**(224,935)**
Add:					
Depreciation	10,788	31,164	16,414	0	58,366
Increase in Accrued Employee Benefits	37,449	13,065	16,117	1,154	67,785
Total Additions	**48,237**	**44,229**	**32,531**	**1,154**	**126,151**
Less:					
Increase In A/R	61,588	45,591	6,423	0	113,602
Capital Expenditures	0	5,325	5,325	0	10,650
Debt Service - Working Capital	12,000	4,195	4,195	0	20,390
Debt Service - Equipment	5,588	7,972	7,972	0	21,532
Debt Service - Building	0	3,045	0	0	3,045
Debt Service - Accounts Receivable	0	13,087	13,087	0	26,174
Total Subtractions	**79,176**	**79,215**	**37,002**	**0**	**195,393**
Net Change in Cash	**(130,518)**	**(74,114)**	**(55,989)**	**(33,556)**	**(294,177)**

University Of Minnesota Health System
Affiliated Clinics, Inc.

FY 1995-96 Proposed Budget

	Staub Pediatric Clinic	Heights Medical Clinic	Palen Clinic	Administrative Center	Totals
Gross Fee For Service	1,245,874	606,030	730,628	0	2,582,532
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Debt Service - Equipment	5,588	7,972	7,972	0	21,532
Debt Service - Building	0	3,045	0	0	3,045
Debt Service - Accounts Receivable	0	13,087	13,087	0	26,174
Total Subtractions	**79,176**	**79,215**	**37,002**	**0**	**195,393**
Net Change in Cash	**(130,518)**	**(74,114)**	**(55,989)**	**(33,556)**	**(294,177)**
Beginning Working Capital Loan	325,000	60,000	60,000	100,000	545,000
Less Projected Operating Loss To 6/30/95	(192,049)	(41,381)	(33,829)	(10,900)	(278,159)
Less BY 95/96 Net Change In Cash	(130,518)	(74,114)	(55,989)	(33,556)	(294,177)
Projected Cash Balance - 6/30/96	2,433	(55,495)	(29,818)	55,544	(27,336)

University of Minnesota Health System

Affiliated Clinics, Inc.

1995/96 Budget - Staub Pediatric Clinic

Account #	Description	Total
40000000	Gross Fee for Service	1,245,874
42000000	Charge Discounts	(310,857)
	Other Income	
47007010	Interest Income	0
49009030	Miscellaneous Income	19,967
49009040	Contribution/Donations	0
49009130	Insurance/Withholds	26,727
	Total Budgeted Income	**981,711**
	Personnel Related Expense	
62110000	Salaries	243,474
62130000	Salary Reimbursement	0
62140000	Cross Charges	0
62150000	Employee Benefits	75,570
62160000	Worker's Comp	3,897
62170000	Staff Dues & Conferences	75
62180000	FICA - Employers	38,656
62190000	Unemployment Taxes	4,511
62210000	403B Expense	0
62220000	Temporary Help	8,370
	Building and Maintenance	
63000000	Utilities	0
63100000	Rent	111,076
63200000	Office Liability Insurance	364
63300000	Telephone	5,825

63400000	Maintenance	0
63500000	Custodian	0
63600000	Waste Disposal	0
63700000	Water/Sewer	0
63800000	Snow Removal/Lawn Care	0
63900000	Security	0
63910000	Depreciation Expense	10,788
	Office Related Expense	
64000000	Office Supplies	4,514
64100000	Postage	5,528
64200000	Office Equip < 500	0
64300000	Copier Expense	1,251
64400000	Printing Expense	1,409
64500000	Courier Expense	0
64600000	Document Destruction	0
64700000	Equipment Repair and Rental	708
TBD	Interest Expense	2,906
	Professional Fees	
65000000	Computer and Billing	33,406
65100000	Collection Fees	0
65200000	Legal	0
65300000	Accounting/Audit	0
65400000	Consultants	0
	Physician Expenses	
66200000	Physician Salaries	335,507
TBD	Provider Education	4,000
66000000	Professional Liability	13,768
66100000	Professional Dues/Subscriptions	5,113
	Miscellaneous Expenses	
67000000	Employee Relations	0
67100000	Marketing	3,362

67200000	Magazines/Subscriptions	505
67300000	Laundry	0
67400000	Miscellaneous	775
67500000	Patient Education Materials	0
67600000	Payroll Service	1,286
67700000	Transcription	0
67800000	Parking & Mileage	369
67900000	Books and Pamphlets	84
68800000	Food and beverage	1,881
68810000	MA verification	1,172
68820000	Advertising -Employment	0
68830000	Interpreter	0
68840000	Donations/Contributions	0
68850000	Bad Debt Expense	0
68860000	Management Fees	5,750
TBD	MN Care Tax	12,557
TBD	Sales Tax	30
TBD	Interest - Work Cap Loan	19,993
	Medical Expenses	
70000000	Medical and Lab Supplies	35,998
70100000	Pharmaceutical Expense	79,976
70200000	Medical Equipment < 500	828
70300000	X-Ray Supplies	0
70400000	Medical Waste Destruction	1,158
70500000	Lab Fees	3,848
70600000	Medical Interpretation Fees	1,004
	Total Budgeted Expense	**1,081,290**
	Budgeted Net Income	**(99,579)**
	Add:	

Depreciation	**10,788**
Increase in Employee Benefits	**37,449**
Total Additions	**48,237**
Less:	
Increase in A/R	**61,588**
Capital Expenditures	**0**
Debt Service Principal Payments - Work Cap	**12,000**
- Equip Ln	**5,588**
Total Subtractions	**79,176**
Net Change in Cash	**(130,518)**

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University of Minnesota Health System

Affiliated Clinics, Inc.

1995/96 Budget - Heights Medical Clinic

Account #	Description	Total
40000000	Gross Fee for Service	606,030
42000000	Charge Discounts	(147,182)
	Other Income	
47007010	Interest Income	0
49009030	Miscellaneous Income	14,560
49009040	Contribution/Donations	0
TBD	Capitation Payments	2,718
49009130	Insurance/Withholds	4,593
	Total Budgeted Income	**480,719**
	Personnel Related Expense	
62110000	Salaries	110,118
62130000	Salary Reimbursement	0
62140000	Cross Charges	0
62150000	Employee Benefits	27,103
62160000	Worker's Comp	1,424
62170000	Staff Dues & Conferences	500
62180000	FICA - Employers	17,111
62190000	Unemployment Taxes	2,560
62210000	403B Expense	0
62220000	Temporary Help	0
	Building and Maintenance	
63000000	Utilities	4,839
63100000	Rent	0
63200000	Office Liability Insurance	1,209

TBD	Building insurance	930
63300000	Telephone	7,998
63400000	Maintenance	1,750
63500000	Custodian	6,062
63600000	Waste Disposal	1,277
63700000	Water/Sewer	633
63800000	Snow Removal/Lawn Care	1,529
	Property Taxes	14,722
63900000	Security	320
63910000	Depreciation Expense	31,164
TBD	Interest	24,224
	Office Related Expense	
64000000	Office Supplies	3,083
64100000	Postage	3,503
64200000	Office Equip < 500	500
64300000	Copier Expense	0
64400000	Printing Expense	1,857
64500000	Courier Expense	0
64600000	Document Destruction	0
64700000	Equipment Repair and Rental	2,311
TBD	Interest Expense	5,702
	Professional Fees	
65000000	Computer and Billing	5,456
65100000	Collection Fees	0
65200000	Legal	0
65300000	Accounting/Audit	0
65400000	Consultants	0
	Physician Expenses	
66200000	Physician Salaries	139,636
TBD	Provider Education	1,000
66000000	Professional Liability	9,266
66100000	Professional Dues/Subscriptions	1,975

	Miscellaneous Expenses	
67000000	Employee Relations	1,000
67100000	Marketing	5,009
67200000	Magazines/Subscriptions	624
67300000	Laundry	840
67400000	Miscellaneous	1,000
67500000	Patient Education Materials	0
67600000	Payroll Service	693
67700000	Transcription	0
67800000	Parking & Mileage	300
67900000	Books and Pamphlets	0
68800000	Food and beverage	607
68810000	MA verification	0
68820000	Advertising -Employment	100
68830000	Interpreter	0
68840000	Donations/Contributions	0
68850000	Bad Debt Expense	
68860000	Management Fees	3,125
TBD	MN Care Tax	5,554
TBD	Sales Tax	155
TBD	Interest - A/R Loan	4,843
TBD	Interest - Work Cap Loan	4,454
	Medical Expenses	
70000000	Medical and Lab Supplies	14,928
70100000	Pharmaceutical Expense	9,955
70200000	Medical Equipment < 500	525
70300000	X-Ray Supplies	7,780
70400000	Medical Waste Destruction	480
70500000	Lab Fees	25,616
70600000	Medical Interpretation Fees	2,496
	Total Budgeted Expense	**519,847**

Budgeted Net Income	**(39,128)**
Add:	
Depreciation	**31,164**
Increase in Employee Benefits	**13,065**
Total Additions	**44,229**
Less:	
Increase in A/R	**45,590**
Capital Expenditures	**5,325**
Debt Service Principal Payments - Building	**3,045**
Debt Service Principal Payments - Equipment	**7,972**
Debt Service Principal Payments - A/R Loan	**13,087**
Debt Service Principal Payments - Work Cap	**4,195**
Total Subtractions	**79,215**
Net Change in Cash	**(74,114)**

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University of Minnesota Health System

Affiliated Clinics, Inc.

1995/96 Budget - Palen Clinic

Account #	Description	Total
40000000	Gross Fee for Service	730,628
42000000	Charge Discounts	(212,916)
	Other Income	
47007010	Interest Income	0
49009030	Miscellaneous Income	15,333
49009040	Contribution/Donations	0
49009130	Insurance/Withholds	4,593
	Total Budgeted Income	**537,637**
	Personnel Related Expense	
62110000	Salaries	140,636
62130000	Salary Reimbursement	0
62140000	Cross Charges	0
62150000	Employee Benefits	39,086
62160000	Worker's Comp	1,629
62170000	Staff Dues & Conferences	500
62180000	FICA - Employers	19,862
62190000	Unemployment Taxes	2,747
62210000	403B Expense	0
62220000	Temporary Help	0
	Building and Maintenance	
63000000	Utilities	4,415
63100000	Rent	46,869
63200000	Office Liability Insurance	1,542
63300000	Telephone	8,233

63400000	Maintenance	0
63500000	Custodian	6,407
63600000	Waste Disposal	0
63700000	Water/Sewer	0
63800000	Snow Removal/Lawn Care	500
63900000	Security	0
63910000	Depreciation Expense	16,414
	Office Related Expense	
64000000	Office Supplies	2,274
64100000	Postage	2,335
64200000	Office Equip < 500	500
64300000	Copier Expense	0
64400000	Printing Expense	1,640
64500000	Courier Expense	0
64600000	Document Destruction	0
64700000	Equipment Repair and Rental	4,956
TBD	Interest Expense	5,702
	Professional Fees	
65000000	Computer and Billing	5,456
65100000	Collection Fees	0
65200000	Legal	0
65300000	Accounting/Audit	0
65400000	Consultants	0
	Physician Expenses	
66200000	Physician Salaries	145,080
TBD	Provider Education	1,000
66000000	Professional Liability	5,410
66100000	Professional Dues/Subscriptions	820
	Miscellaneous Expenses	
67000000	Employee Relations	1,000
67100000	Marketing	4,403

67200000	Magazines/Subscriptions	867
67300000	Laundry	1,055
67400000	Miscellaneous	500
67500000	Patient Education Materials	0
67600000	Payroll Service	693
67700000	Transcription	0
67800000	Parking & Mileage	300
67900000	Books and Pamphlets	0
68800000	Food and beverage	288
68810000	MA verification	0
68820000	Advertising -Employment	100
68830000	Interpreter	0
68840000	Donations/Contributions	0
68850000	Bad Debt Expense	0
68860000	Management Fees	3,125
TBD	MN Care Tax	6,871
TBD	Sales Tax	216
TBD	Interest - A/R Loan	4,843
TBD	Interest - Work Cap Loan	4,454
	Medical Expenses	
70000000	Medical and Lab Supplies	27,635
70100000	Pharmaceutical Expense	12,733
70200000	Medical Equipment < 500	500
70300000	X-Ray Supplies	9,266
70400000	Medical Waste Destruction	600
70500000	Lab Fees	28,381
70600000	Medical Interpretation Fees	17,314
	Total Budgeted Expense	**589,155**
	Budgeted Net Income	**(51,518)**

Add:	
Depreciation	**16,414**
Increase In Employee Benefits	**16,117**
Total Additions	**32,531**
Less:	
Increase In A/R	**6,424**
Capital Expenditures	**5,325**
Debt Service Principal Payments - Building	**0**
Debt Service Principal Payments - Equipment	**7,972**
Debt Service Principal Payments - A/R Loan	**13,087**
Debt Service Principal Payments - Work Cap	**4,195**
Total Subtractions	**37,003**
Net Change In Cash	**(55,989)**

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University of Minnesota Health System

Affiliated Clinics, Inc.

1995/96 Budget - Administrative

Account #	Description	Total
47007010	Other Income	
	Interest Income	2,000
	Total Budgeted Income	**2,000**
	Building and Maintenance	
63100000	Rent Expense	5,088
	Personnel Related Expense	
62110000	Salaries	25,000
62150000	Employee Benefits	3,908
62180000	FICA - Employers	2,215
67400000	Miscellaneous Expenses	
	Miscellaneous	500
	Total Budgeted Expenses	**36,710**
	Budgeted Net Income (Loss)	**(34,710)**
	Accountant	
	Vacation	1,154
	Health Insurance	2,400
	Dental Insurance	300
	Life	54
		3,908