EXH | MOTION Taylor
SECOND Newman
ACTION APPROVED BY THE REGENTS
JUL 21 2005

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Annual Business Plan

ACTION REQUESTED: Approve the MHC FY2006 Annual Business Plan and Budget

BUSINESS PLAN:

The Bylaws of MHC provide that MHC will annually submit a business plan to the Board of Regents for approval. MHC submitted its last business plan to the Board of Regents in July 2004. Since that time, MHC has focused on the operations of its existing subsidiaries. MHC has also entered into a radiation oncology venture with Central Michigan Community Hospital and invested in mobile lithotripsy.

In September 1996, the Regents approved the initial business plan and capitalization for MHC through a loan agreement from the University of Michigan Hospitals and Health Centers (HHC) in the amount of $30,000,000. MHC has committed $23,151,417 to existing projects, and has expended $19,635,176 as projects are in various stages of development and operation.

The source of funding is determined based on the needs of the University of Michigan Health System (UMHS) and the specific benefit to the UMHS of the project requesting funding. In addition, future capitalization for MHC will be considered as part of the UMHS capital planning and allocation process. As of June 2005, $7,932,683 has been transferred as equity transfers and $11,702,493 as lines of credit to MHC for investment in MHC subsidiaries and MHC Administration. These amounts reflect cash payments MHC has received from the MHC subsidiaries totaling $7,723,377. Not included are the annual ancillary benefits to UMHS in the areas of research and expanded patient care, estimated to be several million dollars.

At the June Board meetings, the Board of MHC and the Sole Member Representative unanimously approved the FY2006 Business Plan for submission to the Board of Regents.

APPROVAL REQUESTED:

The Board of MHC recommends that the Board of Regents approve the MHC FY2006 Annual Business Plan and Budget.

Robert P. Kelch

Robert P. Kelch, M.D.
Executive Vice President for Medical Affairs
Chair, Chief Executive Officer & Sole Member Representative, MHC

July 2005

MICHIGAN HEALTH CORPORATION
FISCAL YEAR 2006 ANNUAL BUSINESS PLAN

June 2005

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June 2005

I. MHC OVERVIEW

A. Introduction

The Fiscal Year 2006 (FY2006) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its tenth year of operation.

The subsidiary organizations are divided as to whether they are consolidated or unconsolidated on MHC's financial statements. Consolidated subsidiaries are organizations in which MHC maintains greater than fifty percent ownership. Unconsolidated subsidiaries are organizations in which MHC maintains ownership of fifty percent or less.

An overview of MHC, an operational and financial assessment, and the MHC Fiscal Year 2006 Budget are included in this business plan. In the Operational and Financial Assessment section, information is provided regarding capital allocation, management of MHC, future subsidiaries and capitalization, and subsidiary financial performance reviews. The MHC Fiscal Year 2006 Budget section highlights elements of the FY2006 budget and is followed by the MHC FY2006 budget statements.

B. Structure and Governance

MHC is a non-profit, non-stock membership corporation solely owned and operated by the University. MHC, the University of Michigan Medical School (UMMS), the University of Michigan Hospitals and Health Centers (HHC), and M-CARE comprise the University of Michigan Health System (UMHS). The Executive Vice President for Medical Affairs is the Member Representative of MHC.

The MHC Board meets on a quarterly basis or as necessary to conduct business. The Board of Directors are: Robert Kelch, M.D., Executive Vice President for Medical Affairs (Chair and Chief Executive Officer); Larry Warren, Executive Director of the Hospitals and Health Centers (Vice Chair and Chief Operating Officer); Timothy Slottow, Chief Financial Officer of the University (Treasurer); John Billi, M.D., Associate Dean for Clinical Affairs of the Medical School and Associate Vice President for Medical Affairs of the University of Michigan Health System (Secretary); and Glenna Schweitzer, Assistant Provost and Director of the Office of Budget and Planning of the University.

All proposed activities that are presented to the MHC Board for approval are first reviewed and endorsed by the MHC Management Committee. The Committee is chaired by Larry Warren, the Chief Operating Officer of MHC. Members of the Committee include the Associate Dean for Clinical Affairs of the Medical School, the Associate Vice President – Health System Finance and Strategy, the Administrative Director for MHC and representatives from the University Tax Office and the Office of General Counsel. The performance of each MHC subsidiary organization is reviewed annually by the MHC Management Committee. In this process, the initial goals of each subsidiary and its overall performance are reviewed, and goals for the coming year are assessed.

MHC staff monitor the activities of the ventures on an ongoing basis. Financial statements from the ventures are reviewed monthly and various activities are tracked, including trend analyses. The MHC Administrative Director also attends board meetings for most of the subsidiary companies; actively participates in finance and operations committees; and interfaces regularly with venture representatives to assist with problem solving and assuring that venture and MHC needs are being met.

C. Fiscal Year 2005 and 2006 Activities

During this past year, the MHC administrative staff focused on operational and financial reviews of the subsidiaries' performance; examined financial and cash flow relationships between MHC and UMHS and between MHC and its subsidiaries; and completed an MHC return on investment analysis. As a result of this focus and the needs of the subsidiaries, MHC accomplished the following during fiscal year 2005 (FY2005):

1. Worked with Financial Operations, Gift Administration, Development Office, and Michigan Visiting Nurse Corporation (MVNC) leadership to implement reporting of MVNC gift funds in the DAC system;

2. Worked with the University Parking Services, Risk Management, and Tax Offices and MVNC to develop a plan for leased employee vehicles for MVNC staff;

3. Entered into a joint venture with Central Michigan Community Hospital on behalf of the Department of Radiation Oncology;

4. Invested in Great Lakes Lithotripsy, LLC on behalf of the Department of Urology;

5. Worked closely with Renal Research Institute, LLC (RRI) and Michigan Dialysis Services, LLC (MDS) leadership to develop and monitor financial and operational performance of the venture as a result of changes in RRI leadership and billing staff;

6. Reviewed and updated the MDS contracts upon completion of the first five years of operation;

7. Assisted with transition efforts to terminate the Kids Care contract with the State, including a procedures audit with PricewaterhouseCoopers, LLC;

8. Executed an employee services agreement with Eye Care Alliance, LLC (ECA);

9. Actively worked to establish compliance processes within MHC subsidiaries;

10. Distributed audit and business operations recharge costs to the appropriate ventures;

11. Received cash distributions of $1,450,000 from PMHC Cancer Center (PMHC) and $100,000 from North Eastern Michigan Cancer Center (NEMCC);

12. Achieved a net gain in capital available for investment as a result of receiving significant cash distributions from several subsidiaries and determined that it was unnecessary to make significant investments in any of the subsidiaries;
13. Completed an MHC return on investment analysis demonstrating the positive return for the Health System; and
14. Completed the year with only one minor audit comment from the external auditors.

For FY2006, MHC administrative staff will focus on the following activities:

1. Work with project representatives to improve the operational efficiency of the subsidiaries;
2. Evaluate potential for new projects relating to the advances in technology and new projects resulting from changes in the UMHS and health care environment in general;
3. Provide any follow-up necessary with internal and external units to close-out the Kids Care contract with the State;
4. Develop a course of action for the future of Michigan Healthcare Partners, d/b/a Kids Care of Michigan;
5. Continue to work closely with MDS and RRI leadership to improve the financial reporting and viability of MDS;
6. Monitor NEMCC and ECA performance and evaluate continued participation in these ventures;
7. Complete documentation of insurance coverage for all ventures;
8. Work with project representatives to develop specific financial goals for each venture;
9. Work with project representatives to set and achieve the ventures' budgeted expectations;
10. Work with the project representatives in aggregate to reach overall target margins for MHC in support of MHC's financial viability; and
11. Develop a plan for renewing the master loan agreement with HHC.

D. MHC Subsidiary Organizations

As MHC completes its ninth year of operation, the MHC Board has approved a total of seventeen (17) subsidiary organizations since its activation in 1996. Seven subsidiaries, or proposed subsidiaries, have been terminated and ten subsidiaries are operational. The following chart shows each of the current subsidiary organizations under MHC. The subsidiaries are divided as to whether they are consolidated or unconsolidated on MHC's financial statements. Consolidated subsidiaries are organizations where MHC maintains greater than a fifty percent ownership.

Regents of the University of Michigan

- **Michigan Health Corporation (MHC)**
  (Non-profit membership corporation wholly owned by the Regents)
  - ***Consolidated Ventures***
    Ventures consolidated on MHC's financial statement
    (e.g., greater than 50% ownership)
    - **Michigan Healthcare Partners d/b/a Kids Care of Michigan**
      Non-profit membership corporation wholly owned by MHC
    - **Michigan Dialysis Services**
      LLC jointly owned by Renal Research Institute of Michigan, LLC (49%) and MHC (51%)
    - **Michigan Health Management Corporation**
      Non-profit taxable membership corporation wholly owned by MHC
    - **Michigan Visiting Nurse Corporation**
      Non-profit membership corporation wholly owned by MHC
  - ***Unconsolidated Ventures***
    Ventures unconsolidated on MHC's financial statements
    (e.g., 50% or less ownership)
    - **Eye Care Alliance**
      LLC jointly owned by five eye care affiliated organizations and MHC
    - **Joint Venture Hospital Laboratories**
      LLC jointly owned by eight hospital-based laboratories and MHC
    - **Central Michigan Community Hospital Radiation Oncology**
      Non-profit membership corporation jointly owned by Central Michigan Community Hospital and MHC
    - **North Eastern Michigan Cancer Center**
      Non-profit membership corporation jointly owned by Alpena General Hospital and MHC
    - **PMHC Cancer Center**
      Non-profit membership corporation jointly owned by Providence Hospital and MHC
    - **Radiation Oncology Alliance**
      Non-profit membership corporation jointly owned by Michigan Affiliated Health Care Systems, Inc., Michigan State University and MHC

II. OPERATIONAL & FINANCIAL ASSESSMENT

A. Capital Allocation

Capitalization for MHC is provided predominantly by a loan under the Loan Agreement with the HHC or equity transfers from HHC and the clinical departments. Decisions to provide capitalization to MHC subsidiary organizations through a loan or through an equity transfer from the MHC are made based on an evaluation of the needs of the system as a whole. This evaluation includes the prospects for a return on investment to MHC as well as to the Hospitals and Health Centers and/or the Faculty Group Practice of the Medical School.

As of June 30, 2005, $23,151,417 of the initial capitalization has been committed to the subsidiary organizations undertaken by MHC, of which $19,635,176 has been invested (See Table 1 below).

Table 1. MHC Capital Allocation for Board Approved Subsidiaries

	MHC Approved Commitment	Net Commitment/ (Repayment)	MHC Approved Commitment	MHC Current Investment	Net Investment/ (Repayment)	MHC Current Investment
	6/30/04	Changes	6/30/05	6/30/04	Changes	6/30/05
MHC Current Subsidiaries						
Central Michigan Community Hospital Radiation Oncology	$0	$1,000,000	$1,000,000	$0		$0
Eye Care Alliance	$267,600	$47,200	$314,800	$255,800	$30,000	$285,800
Joint Venture Hospital Laboratories	$15,000		$15,000	$15,000		$15,000
Kids Care of Michigan (Michigan Healthcare Partners)	$0		$0	$0		$0
Michigan Dialysis Services	$4,389,743		$4,389,743	$3,046,381		$3,046,381
Michigan Health Management Corporation	$1,550,000		$1,550,000	$1,200,000		$1,200,000
Michigan Visiting Nurse Corporation	$219,569		$219,569	$219,569		$219,569
North Eastern Michigan Cancer Center	$2,270,127	($100,000)	$2,170,127	$2,270,127	($100,000)	$2,170,127
PMHC Cancer Center	$8,352,685	($750,000)	$7,602,685	$8,352,685	($1,450,000)	$6,902,685
Radiation Oncology Alliance	$50,000		$50,000	$50,000		$50,000
Subtotal	**$17,114,724**	**$197,200**	**$17,311,924**	**$15,409,562**	**($1,520,000)**	**$13,889,562**
MHC Terminated Subsidiaries						
South Central Practice Association	$177,789		$177,789	$177,789		$177,789
MHC Administrative Operations *	$4,751,704	$910,000	$5,661,704	$4,657,825	$910,000	$5,567,825
Totals	**$22,044,217**	**$1,107,200**	**$23,151,417**	**$20,245,176**	**($610,000)**	**$19,635,176**

* This includes a $210,000 investment in mobile Lithotripsy.

B. Management

The operation and management of MHC is provided through a Management Agreement with the University. As a result, the business, administrative and management services are provided by employees of UMHS. MHC has 2.85 full time equivalents dedicated to the operations, management and financial reporting of MHC. This will change to 2.90 beginning July 1, 2005.

PricewaterhouseCoopers LLP, MHC's auditors, performed an independent audit of MHC's activities for the fiscal year ending June 30, 2004, and issued an unqualified opinion.

C. Future Capitalization and Development

The sole member representative of MHC, together with the Board of MHC, will allocate any additional capitalization for MHC for development of new MHC projects and subsidiary organizations up to the initially approved capitalization of $30,000,000. The initial approval in September 1996 made financing available through a combination of equity transfers and loan agreements between MHC and the Regents. The HHC was identified as the primary source of financing. Future capitalization for MHC is considered as part of the UMHS capital planning and allocation process.

The Board of MHC will continue to meet as necessary to review the status of its current subsidiaries and develop and approve new projects, based on the needs of UMHS and the changing health care environment. MHC will also continue to perform the necessary legal and financial due diligence for every new project it considers. All projects approved by MHC will remain consistent with and supportive of the University's missions and the purpose and intent of MHC. Future projects that MHC participates in during the term of this business plan will be reported to the Board of Regents as necessary.

D. Financial Performance of Subsidiaries

Most MHC subsidiaries are past their development and start-up stages and are now ongoing operations. In this next year, MHC will continue to focus on operational and financial performance reviews and address what management and funding actions to take if subsidiaries do not meet their activity and financial goals.

Although MHC operates with a July 1 to June 30 fiscal year, many of MHC's subsidiaries operate with a different fiscal year. This creates timing difficulties in developing and reporting budgets and projections to MHC and particularly in developing the MHC Annual Business Plan. Currently, the subsidiaries are held accountable for the annual budgets approved during the year by MHC, not necessarily the revenue and expense reflected in the July to June period of the MHC Annual Business Plan.

The Consolidated Statement of Operations on page ten summarizes the projected net gain or loss for MHC as a whole and by venture. In FY2005, MHC is projected to have a loss of $584,840 that compares unfavorably to the budgeted loss of $155,136 for FY2005. This difference is primarily the result of Michigan Dialysis Services, LLC (MDS) having a projected negative variance of

$198,064 to budget and Michigan Visiting Nurse Corporation (MVNC) having a projected negative variance of $482,925 to budget, both due to revenue not reaching targeted levels.

III. MHC FISCAL YEAR 2006 BUDGET

The MHC fiscal year 2006 budget was developed from each subsidiary's financial plan, MHC's financial statements, projected results of the subsidiary's operations, and known/planned changes for the coming fiscal year.

MHC consolidated financial statements are displayed beginning on page nine. Highlights of those financial statements are identified below.

A. Schedule of Investments Summary

This Schedule of Investments displayed on page nine outlines the expected changes in approved capitalization for each subsidiary and MHC Administration from FY2005 to FY2006.

Currently, the MHC Board has approved commitments in the amount of $23.2 million, including $17.5 million to projects and $5.7 million to MHC Administration. Of this approved commitment, $14.0 million is projected to be transferred to the subsidiaries and $5.6 million to MHC Administration as of June 30, 2005. MHC will have secured $19.6 million for investment through $7.9 million as equity transfers and $11.7 million as loans. The $5.6 million for MHC Administration includes $4.3 million for interest costs.

Assuming the MHC Board approves all of the anticipated capital requests from its subsidiaries in FY2006, the total commitment level that the MHC Board will have approved for its subsidiaries and Administration will be $22.8 million. Of this approved amount, MHC is projecting to have transferred funds totaling $20.3 million as of June 30, 2006, with $2.5 million approved for future year transfers. With $22.8 million of the original $30 million capitalization designated for investment in current subsidiaries and MHC Administration, $7.2 million will be available for other projects or venture needs as of June 30, 2006.

B. Consolidated Statement of Operations Summary

The statement on page ten summarizes the FY2005 projected net gain or loss and the FY2006 budget for MHC as a whole and by venture. This summary identifies the direct results of operations of the subsidiaries, but does not reflect ancillary benefits to the Health System such as increased research funding or expanded patient care service opportunities for the Hospitals and Health Centers and the Medical School Faculty Group Practice. It is estimated that the activities of MHC and its subsidiaries contribute over several million dollars annually to other segments of the Health System.

MHC is budgeting an overall gain of $55,658 for FY2006 compared to a projected loss of $584,840 for FY2005. The primary reasons for this change are a $145,873 improvement in the MDS bottom line as a result of increase activity and improved collections; a $240,419 improvement in the MVNC operating margin due to improved case weight mix (acuity level), with level payor mix and 3% increase in admissions, the same as HHC. MHC is also recording $315,000 in investment income applicable to the Department of Urology's Lithotripsy investment and will be transferring these funds to the Department of Urology.

It should be noted that each of the consolidated ventures is being budgeted to achieve a positive operating margin. All unconsolidated ventures are also expected to have a positive operating margin for FY2006, with the exception of North Eastern Michigan Cancer Center (NEMCC) and Eye Care Alliance (ECA).

C. MHC Administrative Activity Summary

The FY2006 budget on page eleven reflects a budget increase for MHC Administration. Interest expense is expected to decrease over the current year projection by $29,960 as a result of increasing interest rates more than offset by significant loan repayments in the second half of FY2005, one of which is being made in the last month of FY2005. Increases in salary and wages and fringe benefits represent a $33,018 increase over the FY2005 projection. This is primarily the result of no longer recharging a portion of salaries related to Kids Care effective for the entire fiscal year, and increased fringe benefit costs. Finally, the increase in investment income relates to budgeted proceeds from the MHC investment in lithotripsy beginning in FY2006.

D. MHC Consolidated Financial Statements

MHC consolidated financial statements follow on pages nine through eleven.

Michigan Health Corporation
Schedule of Investments
Projected for June 30, 2006

	MHC Approved Commitment as of FY2005	Expected Changes in Commitment	MHC Expected Commitment as of FY2006	MHC Total Investment as of FY2005	Expected Changes in Investment	MHC Total Expected Investment as of FY2006
Consolidated Joint Ventures (A)						
Kids Care of Michigan (Michigan Healthcare Partners)	$ 0	$ -	$ 0	$ 0	$ -	$ 0
Michigan Dialysis Services	4,389,743	-	4,389,743	3,046,381	-	3,046,381
Michigan Health Management Corporation	1,550,000	-	1,550,000	1,200,000	-	1,200,000
Michigan Visiting Nurses - Consolidated	219,569	-	219,569	219,569	-	219,569
Total Consolidated Joint Ventures	$ 6,159,312	$ -	$ 6,159,312	$ 4,465,950	$ -	$ 4,465,950
Unconsolidated Joint Ventures (B)						
Central Michigan Community Hospital Radiation Oncology	$ 1,000,000	-	$ 1,000,000	$ -	$ 334,000 (D)	$ 334,000
Eye Care Alliance	314,800	-	314,800	285,800	24,000 (D)	309,800
Joint Venture Hospital Laboratories	15,000	-	15,000	15,000	-	15,000
North Eastern Michigan Cancer Center (Alpena)	2,170,127	(172,459)	1,997,669	2,170,127	(172,459) (E)	1,997,669
PMHC Cancer Center	7,602,685	(980,168)	6,622,517	6,902,685	(280,168) (E)	6,622,517
Radiation Oncology Alliance (Lansing)	50,000	-	50,000	50,000	-	50,000
Total Unconsolidated Joint Ventures	$ 11,152,612	$ (1,152,627)	$ 9,999,986	$ 9,423,612	$ (94,627)	$ 9,328,985
Terminated Ventures						
Michigan Provider Network						
South Central Practice Association (Foote) (Jackson)	177,789	0	177,789	177,789	0	177,789
Total Terminated Ventures	$ 177,789	$ 0	$ 177,789	$ 177,789	$ 0	$ 177,789
Subtotal for All Ventures	$ 17,489,713	$ (1,152,626)	$ 16,337,087	$ 14,067,351	$ (94,626)	$ 13,972,724
Michigan Health Corporation - Administrative Activity	5,451,704	800,000 (C)	6,251,704	5,357,825	800,000 (D)	6,157,825
Mobile Lithotripsy	210,000		210,000	210,000		210,000
Funds Still Available to be Committed by the MHC Board	6,848,583		7,201,209			
Regental Approved Limit on Capital Investment	$ 30,000,000		$ 30,000,000			
Remaining Funds Not Currently Invested				$ 10,364,824		$ 9,659,451
Regental Approved Limit on Capital Investment				$ 30,000,000		$ 30,000,000

Notes:
(A) Consolidated joint ventures are entities where MHC has an ownership percentage greater than 50%.
(B) Unconsolidated joint ventures are entities where MHC has an ownership percentage up to 50%.
(C) MHC-Admin's additional $800,000 was approved with approval of the business plan.
(D) Joint ventures receiving additional investments in FY2006 include: CMCHRO $334,000, ECA $24,000 and MHC-Admin $800,000.
CMCHRO funding for operations beginning in the fall 2005, will be provided by the Department of Radiation Oncology.
(E) Ventures making cash distributions to MHC in FY2006 include: NEMCC-$172,459 and PMHC-$280,168.
(All of these transactions will be used to decrease the loan between HHC and MHC.)

Michigan Health Corporation
Consolidated Statement of Operations
Summary of Net Gain / (Loss) by Joint Venture
as of June 30, 2006

	FY2004 Actual	FY2005 Budget	FY2005 Projection	FY2006 Budget
Consolidated Joint Ventures				
Kids Care of Michigan	$ 0	$ 0	$ 0	$ 0
Michigan Dialysis Services (51.00%)	1,656	91,322	(106,742)	39,131
Michigan Health Management Corporation	42,147	5,680	11,657	11,739
Michigan Visiting Nurses - Consolidated	124,834	312,328	(170,597)	69,822
Net Gain / (Loss) in Consolidated Joint Ventures	$ 168,637	$ 409,331	$ (265,683)	$ 120,692
Unconsolidated Equity in Joint Ventures				
Central Michigan Community Hospital Radiation Oncology (18.00%)	$ 0	$ 0	$ 0	$ 24,704
Eye Care Alliance (18.3%)	(34,442)	(28,381)	(18,934)	(21,793)
Joint Venture Hospital Laboratories (11.11%)	0	0	0	0
NEMCC (50.00%)	(139,673)	(29,874)	(51,068)	(35,141)
PMHC Cancer Center (50.00%)	109,043	0	338,187	280,168
Radiation Oncology Alliance (33.33%)	46,755	31,397	73,285	78,304
Equity in Net Gain / (Loss) in Unconsolidated Joint Ventures	$ (18,317)	$ (26,859)	$ 341,469	$ 326,241
Michigan Health Corporation - Administrative Activity	(265,768)	(303,589)	(312,803)	(344,489)
Gain / (Loss) from Operations	$ (115,448)	$ 78,884	$ (237,016)	$ 102,444
Gifts and donations	39,875	125,292	67,792	30,000
Investment income / (loss)	24,275	28,563	42,673	344,592
Interest expense	(326,825)	(387,118)	(450,491)	(420,531)
Minority investor equity - MDS interest	(947)	(756)	(2,816)	(848)
Prior year adjustments	0	0	(12,853)	0
Gain / Loss on asset disposal	(6,810)	0	0	0
Reserve for Income Taxes	0	0	7,871	0
Total Excess Revenue / (Expenses)	$ (385,881)	$ (155,136)	$ (584,840)	$ 55,658

Notes:
* MHC ownership interest shown in parenthesis after venture name, if less than 100%.
* Kids Care was terminated 9-30-04; run out of revenue and expenses for following 18 months.
* MDS has shown steady grown in activity, but suffered a significant hit with reimbursement levels per treatment.
* MVNC revenue projections not reaching budget for FY2005; Medicare mix was budgeted at 29% but actual is at 26%.
* Central Michigan Community Hospital Radiation Oncology venture starting up in Fall 2005.
* PMHC returning to profitable status after loss of some key physicians in 2003, and slow building back up referral base.
* Gifts and donations were increasing $110,000 in FY2005 budget applicable to MVNC; gifts and grants have not materialized.
* Interest expense increased as rates began to rise; projected to drop in FY2006 as balance is being significantly reduced.

Michigan Health Corporation - Administrative Activity
FY End: June 30

Financing

Equity $500,000 12/22/99
Equity $1,098,538 11/30/00
Equity $15,298.58 5/1/01
Equity $1,227,142.74 11/30/01
Equity $956,845.33 11/30/02
Equity $860,000 11/30/03
Equity $700,000 11/30/04
Equity $210,000 June 2005

	FY2004 Actual	FY2005 Budget	FY2005 Projection	FY2006 Budget
Expenses				
Salaries and wages	$ 196,514	$ 217,497	$ 212,966	$ 235,120
Staff benefits	56,017	63,074	57,321	68,185
Audit fee	1,011	4,772	23,558	24,458
University recharge of business & finance expense	6,603	10,554	10,555	10,555
Misc expense	5,623	7,691	8,404	6,173
Total administrative expenses before interest	265,768	303,589	312,803	344,489
Interest on notes payable to HHC	326,796	387,118	450,491	420,531
Total expenses	$ 592,564	$ 690,707	$ 763,294	$ 765,020
Gain or (loss) from operations	$ (592,564)	$ (690,707)	$ (763,294)	$ (765,020)
Investment income / (loss)	1,942	1,940	4,352	319,352
Excess revenues / (expenses)	$ (590,622)	$ (688,767)	$ (758,942)	$ (445,668)

Notes to the Administrative Financial Data and MHC Budget.

* The FY2004 actual includes B. Nugent's effort at 85%; this was increased to 95% mid-year for FY2005 as a result of the closing of Kids Care in September 2004 and her effort no longer required there. Effort for B. Nugent then changes to 100% effective FY2006, with no effort covered by Innovative Products.
* The audit fee paid in FY2004 was less than budgeted, and included a credit for over charging MHC in FY2003. In both FY2004 and FY2005, MHC is budgeted to recharge the majority of the audit fee to consolidated ventures, based on data provided by PwC. However, recharge allocations from PwC changed drastically from FY2004 to FY2005, and assumption is trend will continue in FY2006.
* The University began to recharge Business and Finance Expenditures to MHC in FY2001 for its ventures. An applicable portion, based on support of the charges, has been recharged to the consolidated ventures in FY2004, FY2005 and FY2006. This is a flat amount, but a one-time credit from central campus for FY2004 has been removed in FY2005 and FY2006.
* FY2005 budgeted interest expense on notes payable is based on an interest rate of 3.25%. The projected interest rate was provided by University of Michigan Treasurer's Office on 4/1/04, based on several investment bankers forecast for 6/30/04. Actual interest rate at July 1, 2004 turned out to be 3.787%, and the projected rate for FY2006 is 4.0%, provided by the University of Michigan Treasurer's Office on 6/8/05.
* Equity investment of $210,000 is from the Department of Urology for investment in the mobile lithotripsy. Investment income of $315,000 applicable to the mobile lithotripsy is included in FY2006 budget. It is being transferred to the Department of Urology.