

***The Ohio State
University Managed
Health Care Systems, Inc.***

*Financial Statements for the Years
Ended June 30, 2002 and 2001
and Independent Auditors' Report*



**Auditor of State
Betty Montgomery**

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Board of Directors
Ohio State University Managed Health Care Systems, Inc.
2080 Blankenship Hall
901 Woody Hayes Drive
Columbus, Ohio 43210-4016

We have reviewed the Independent Auditor's Report of the Ohio State University Managed Health Care Systems, Inc., Franklin County, prepared by Deloitte & Touche LLP, for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio State University Managed Health Care Systems, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 22, 2003

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Deloitte & Touche LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Ohio State University
Managed Health Care Systems, Inc.:

We have audited the accompanying statements of financial position of The Ohio State University Managed Health Care Systems, Inc. (the Corporation) as of June 30, 2002 and 2001 and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Corporation at June 30, 2002 and 2001 and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

September 23, 2002

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**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.**

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2002 AND 2001**

ASSETS	2002	2001
CURRENT ASSETS:		
Cash	\$ 293,370	\$ 496,338
Accounts receivable	35,432	28,874
Prepaid expenses	<u>21,198</u>	<u>3,822</u>
Total current assets	350,000	529,034
PROPERTY AND EQUIPMENT:		
Furniture and equipment	199,266	199,266
Accumulated depreciation	<u>(190,578)</u>	<u>(174,596)</u>
Total property and equipment, net	8,688	24,670
DEFERRED INCOME TAXES	16,901	16,508
OTHER ASSETS - DEPOSIT	<u>14,704</u>	<u> </u>
TOTAL ASSETS	<u>\$ 390,293</u>	<u>\$ 570,212</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable to affiliate	\$ 114,363	\$ 151,112
Income taxes payable	27,246	22,646
Accrued salaries, wages and related liabilities	93,013	100,572
Deferred revenue	<u> </u>	<u>174,299</u>
Total current liabilities	234,622	448,629
ADVANCE PAYABLE TO AFFILIATE	<u> </u>	71,917
NET ASSETS - Unrestricted	<u>155,671</u>	<u>49,666</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 390,293</u>	<u>\$ 570,212</u>

See notes to financial statements.

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.**

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

	2002	2001
REVENUES:		
Capitation fees from affiliate	\$2,148,620	\$1,995,265
Other capitation fees	150,795	146,151
Forgiveness of affiliate debt	71,917	
Other revenue	<u>49,824</u>	<u>20,254</u>
Total revenues	<u>2,421,156</u>	<u>2,161,670</u>
EXPENSES:		
Salaries	1,461,421	1,331,099
Employee benefits	378,484	301,903
General and administrative	146,109	182,552
Purchased services	113,237	55,130
Office rental	92,780	82,415
Supplies	13,499	17,905
Reproduction services	33,627	45,567
Communications	6,201	6,560
Depreciation	<u>15,982</u>	<u>20,208</u>
Total expenses	<u>2,261,340</u>	<u>2,043,339</u>
INCREASE IN UNRESTRICTED NET ASSETS BEFORE INCOME TAX EXPENSE	159,816	118,331
INCOME TAX EXPENSE	<u>(53,811)</u>	<u>(10,331)</u>
INCREASE IN UNRESTRICTED NET ASSETS	106,005	108,000
NET ASSETS (DEFICIT):		
Beginning of year	<u>49,666</u>	<u>(58,334)</u>
End of year	<u>\$ 155,671</u>	<u>\$ 49,666</u>

See notes to financial statements.

**THE OHIO STATE UNIVERSITY
MANAGED HEALTH CARE SYSTEMS, INC.**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

	2002	2001
OPERATING ACTIVITIES:		
Change in net assets	\$ 106,005	\$ 108,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,982	20,208
Deferred income taxes	(393)	(13,282)
Changes in assets and liabilities:		
Accounts receivable	(6,558)	642
Prepaid expenses	(17,376)	(617)
Accounts payable to affiliate	(108,666)	(150,338)
Deferred revenue	(174,299)	174,299
Other assets - deposit	(14,704)	
Accrued salaries, wages and related liabilities	(7,559)	(24,034)
Income taxes payable	<u>4,600</u>	<u>22,646</u>
Net cash provided by operating activities	<u>(202,968)</u>	<u>137,524</u>
NET (DECREASE) INCREASE IN CASH	(202,968)	137,524
CASH AT BEGINNING OF YEAR	<u>496,338</u>	<u>358,814</u>
CASH AT END OF YEAR	<u>\$ 293,370</u>	<u>\$ 496,338</u>

See notes to financial statements.

THE OHIO STATE UNIVERSITY MANAGED HEALTH CARE SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Ohio State University Managed Health Care Systems, Inc. (the Corporation) was organized in December 1991 and began full operations on July 1, 1992 to promote and carry out educational, charitable and scientific purposes by conducting and supporting activities that are for the benefit, perform the functions, or carry out the purpose of The Ohio State University (OSU), principally its health plans, health care facilities and its College of Medicine without regard for profit or financial gain. The Corporation's primary activities are the performance of managed care services which include utilization review, case management and precertification to its contract holders and their participants on a capitation basis. Should the Corporation cease to exist, any net assets remaining after payment of all liabilities would revert to either a selected successor organization established for substantially the same purpose or absent such a selection to OSU.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash - The majority of the Corporation's cash is maintained in OSU's cash account and is commingled with other OSU related entities. It is invested daily in overnight investment vehicles, which are considered cash equivalents. Investment income is allocated to the Corporation based on their ownership of the funds included in the OSU's account.

The bank balance which was uninsured by federal deposit insurance as of June 30, 2002 and 2001 was \$291,030 and \$493,967, respectively. The uninsured balances are collateralized by pools of securities pledged by the depository bank and are held in the name of the respective bank. The bank balance which was insured by federal deposit insurance as of June 30, 2002 and 2001 was \$2,340 and \$2,371, respectively.

Property and Equipment - Property and equipment is stated on the basis of cost. Depreciation of such assets is computed using the straight-line method over their estimated useful lives ranging from 5 to 7 years.

Revenue Recognition - The Corporation earns revenue for services on a predetermined contractual basis. The Corporation recognizes this revenue based upon a fixed fee per covered participant as specified in the participant contracts. Deferred revenue represents monies received in advance of the contract period.

Income Taxes - The Corporation is a taxable entity for Federal tax purposes. The Corporation provides deferred Federal income taxes for all temporary differences between the carrying amounts

of assets and liabilities for financial reporting purposes and the amounts used for Federal income tax purposes. The Corporation is a non-charitable non-profit organization for state tax purposes.

Reclassifications - Reclassifications have been made to the 2001 financial statements to conform to the presentation used in 2002.

2. RELATED PARTY TRANSACTIONS

The Corporation's sole beneficiary is OSU. The Corporation's Board of Directors, consisting of six members, are appointed based on their affiliation with OSU. In addition, the Corporation is associated through both a participant contract for services and an administrative service agreement. Under the terms of the participant contract, the Corporation receives capitation fees for services provided to OSU faculty and administrative staff.

Under the terms of the administrative agreement, the Corporation receives administrative services from OSU, principally personnel, fringe benefits (including employee participation in the OSU pension plan) and other operating items, and reimburses OSU for these services. Substantially all expenses in 2002 and 2001 were incurred under the terms of this agreement. Accounts payable to affiliate of \$114,363 and \$151,112 at June 30, 2002 and 2001, respectively, represent amounts owed to OSU under these arrangements. Additionally, in 1992 OSU advanced funds to the Corporation for the purchase of furniture totaling \$71,917, of which the full amount has been forgiven in 2002 and is included in the accompanying financial statements as a forgiveness of affiliate debt.

3. INCOME TAXES

The provision (benefit) for Federal income taxes is as follows:

	<u>Year Ended June 30</u>	
	<u>2002</u>	<u>2001</u>
Current	\$ 54,204	\$ 23,613
Deferred	<u>(393)</u>	<u>(13,282)</u>
Total	<u>\$ 53,811</u>	<u>\$ 10,331</u>

Components of the Corporation's net deferred tax assets are as follows:

	<u>June 30,</u>	
	<u>2002</u>	<u>2001</u>
Deferred tax assets - excess book depreciation	<u>\$ 16,901</u>	<u>\$ 16,508</u>

During 2001, the NOL was fully utilized to reduce the Company's current taxable income and, accordingly, the valuation allowance was eliminated.

4. SUBSEQUENT EVENT

On June 24, 2002, the client entered into an office lease agreement. The lease term is for five years, beginning on October 7, 2002 and ending on October 6, 2007. Annual base rent will be \$176,445 with monthly installments of \$14,704. The Company has paid a fully refundable security deposit in the amount of \$14,704, which is being accounted for in the financial statements under Other Assets - Deposit.

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THE OHIO STATE UNIVERSITY MANAGED HEALTH CARE SYSTEMS, INC.

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 6, 2003**