

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

**Financial Statements for the Years Ended  
June 30, 2005 and 2004**

**And  
Independent Auditors' Report**

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**PARMS & COMPANY, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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**Auditor of State  
Betty Montgomery**

The 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 Parns & Company LLC for the audit period July 1, 2004 through June 30, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

December 27, 2005

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of The Ohio State University Managed Health Care Systems, Inc. (the Corporation) as of June 30, 2005 and June 30, 2004, and the related statements of income 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ohio State University Managed Health Care Systems, Inc. at June 30, 2005 and June 30, 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Parms & Company, LLC*

October 31, 2005

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

**Balance Sheets**

**As of June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 136,385	\$ 230,090
Accounts receivable	27,355	272,480
Prepaid expenses	12,500	-
Total current assets	<u>176,240</u>	<u>502,570</u>
Property and Equipment:		
Furniture and equipment	206,843	206,843
Less: accumulated depreciation	<u>(203,055)</u>	<u>(200,529)</u>
Net property and equipment	3,788	6,314
Deferred Tax Asset	29,250	25,852
Other Assets - Deposit	<u>14,704</u>	<u>14,704</u>
Total Assets	<u>\$ 223,982</u>	<u>\$ 549,440</u>
<u>LIABILITIES AND RETAINED EQUITY</u>		
Current Liabilities:		
Account payables	\$ 34,398	\$ 52,301
Income taxes (refundable) payable	(112,279)	53,997
Accrued salaries, wages, and related liabilities	<u>116,731</u>	<u>133,026</u>
Total current liabilities	38,850	239,324
Retained Earnings	<u>185,132</u>	<u>310,116</u>
Total Liabilities and Retained Earnings	<u>\$ 223,982</u>	<u>\$ 549,440</u>

The accompanying notes are an integral part of this financial statements.

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

**Income Statements**

**For the Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>		
Capitation fees from affiliate	\$ 2,347,382	\$ 2,876,363
Other capitation fees	140,381	157,581
Other revenues	676	908
Total revenues	2,488,439	3,034,852
<b>Expenses:</b>		
Salaries	1,702,713	1,588,570
Employee benefits	511,036	470,814
Purchased services	67,964	347,484
Office rental	156,298	143,655
Supplies	28,527	29,298
Reproduction services	28,252	31,726
Communications	63,475	66,196
Travel	20,935	25,930
Non-Cap Equipment, Equipment Repair & Maintenance and Equipment Rental	21,048	6,355
Mailing Services	19,856	22,583
Other Expenses	58,206	83,204
Depreciation	2,526	1,935
Total expenses	2,680,836	2,817,750
Net Income (Loss) Before Income Tax Expense	(192,397)	217,102
Income Tax Expense (Benefit)	(67,413)	70,330
Net Income (Loss)	(124,984)	146,772
Retained Earnings, Beginning	310,116	163,344
Retained Earnings, Ending	\$ 185,132	\$ 310,116

The accompanying notes are an integral part of this financial statements.

**THE OHIO STATE UNIVERSITY**  
**MANAGED HEALTH CARE SYSTEMS, INC.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$ (124,984)	\$ 146,772
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	2,526	1,935
Deferred income taxes	(3,398)	7,614
Changes in assets and liabilities:		
Accounts receivable	245,125	(206,041)
Prepaid expenses	(12,500)	79,321
Accounts payable	(17,903)	(62,157)
Accrued salaries, wages and related liabilities	(16,295)	21,006
Income taxes payable	(166,276)	57,716
	<u>(93,705)</u>	<u>46,166</u>
Net cash provided by operating activities		
<b>INVESTING ACTIVITIES:</b>		
Purchase of Fixed Assets	-	(7,577)
	<u>-</u>	<u>(7,577)</u>
Net cash provided by investing activities		
NET DECREASE IN CASH	(93,705)	38,589
CASH AT BEGINNING OF YEAR	<u>230,090</u>	<u>191,501</u>
CASH AT END OF YEAR	<u>\$ 136,385</u>	<u>\$ 230,090</u>

The accompanying notes are an integral part of this financial statements.

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

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

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**NOTE 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 (the University), 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 pre-certification 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 the University.

**Basis of Presentation** - The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**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 Corporation maintains a cash account with the University. The University's cash holdings on behalf of the Corporation are commingled with other University related entities and 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 University's account. As of June 30, 2005 and 2004, primarily all cash holdings of the Corporations were cash holdings held in bank accounts. Of the cash holdings as of June 30, 2005 and 2004, \$100,000 were subject to federal deposit insurance (FDIC). As of June 30, 2005 and 2004, balances \$36,335 and \$58,046, were held in bank accounts in excess of FDIC insurance, 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.

**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. Following University policy and accounting standards, equipment costing less than \$5,000 is not capitalized.

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

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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.

**NOTE 2 - RELATED PARTY TRANSACTIONS**

The Corporation's sole beneficiary is the University. The Corporation's Board of Directors, consisting of six members, are appointed based on their affiliation with the University. 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 the University faculty and administrative staff.

Under the terms of the administrative agreement, the Corporation receives administrative services from the University, principally personnel, fringe benefits (including employee participation in the University pension plan) and other operating items, and reimburses the University for these services. Substantially all expenses in 2005 and 2004 were incurred under the terms of this agreement. Included in accounts payable were amounts due to the University and affiliated organizations of \$25,982 and \$47,793 as of June 30, 2005 and 2004, respectively.

**NOTE 3 - ACCOUNTS RECEIVABLE**

As of June 30, 2005 and 2004, accounts receivables represent amounts due from the University related to capitation fees earned. All amounts were deemed fully collectible.

**NOTE 4 - INCOME TAXES**

The provision (benefit) for Federal income taxes for the years ended June 30, 2005 and 2004, respectively, are as follows:

	<u>2005</u>	<u>2004</u>
Current	\$ (64,015)	\$ 62,716
Deferred	<u>(3,398)</u>	<u>7,614</u>
Total	<u>\$ (67,413)</u>	<u>\$ 70,330</u>

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

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

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**NOTE 4 - INCOME TAXES** (continued)

The Corporation's net deferred tax assets as of June 30, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
Deferred tax asset	<u>\$ 29,250</u>	<u>\$ 25,852</u>

The deferred tax assets reflect timing differences between deductions for book and tax reporting for prepaid expenses, depreciation and accrued vacation & sick leave.

Income taxes (refundable) payable as of June 30, 2005 and 2004, consisted of the following:

	<u>2005</u>	<u>2004</u>
Estimated taxes paid	\$ (48,264)	\$ (8,719)
Taxes payable on current year income	-	62,716
Net operating loss carry-back benefit refundable	<u>(64,015)</u>	<u>-</u>
Income taxes (refundable) payable	<u>\$(112,279)</u>	<u>\$ 53,997</u>

**NOTE 5 - PRIOR PERIOD RESTATEMENT**

The financial statements have been restated to account for an error in accounting for deferred taxes in prior years. The error affected the carrying value of deferred tax assets. The following adjustment has been made to the retained earnings of the corporation as of July 1, 2003:

Retained Earnings as Previously Stated	\$ 137,492
Adjustment to Record Deferred Tax Asset	<u>25,982</u>
Retained Earnings as Restated	<u>\$ 163,344</u>

**NOTE 6 - RECLASSIFICATION**

Certain accounts in the prior financial statements ended June 30, 2004 have been reclassified for comparative purposes to conform with the presentation in the current year financial statements ended June 30, 2005.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of The Ohio State University Managed Health Care Systems, Inc. (the Corporation) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the use of the board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

October 31, 2005

*Parms & Company, LLC*



**Auditor of State  
Betty Montgomery**

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800-282-0370  
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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  
DECEMBER 30, 2005**