

MEDICAL COLLEGE OF OHIO

LUCAS COUNTY

JULY 1, 2000 TO JUNE 30, 2001

PREPARED BY: ERNST & YOUNG LLP



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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Board of Trustees
Medical College of Ohio
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We have reviewed the Independent Auditor's Report of the Medical College of Ohio, Lucas County, prepared by Ernst & Young, LLP, for the audit period July 1, 2000 through June 30, 2001. 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 Medical College of Ohio is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

December 21, 2001

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REPORT OF INDEPENDENT AUDITORS
ON BASIC FINANCIAL STATEMENTS AND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Trustees
Medical College of Ohio

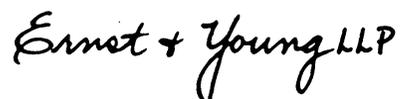
We have audited the accompanying balance sheets of the Medical College of Ohio (see Note 1) as of June 30, 2001 and 2000, and the related statements of current funds revenues, expenditures and other changes and changes in fund balances for the years then ended. These financial statements are the responsibility of 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 and the standards applicable to financial statement audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical College of Ohio as of June 30, 2001 and 2000, its current funds revenues, expenditures and other changes, and the changes in its fund balances for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued reports dated September 28, 2001, on our consideration of the Medical College of Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Medical College of Ohio taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2001, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



September 28, 2001

MEDICAL COLLEGE OF OHIO
Balance Sheets
As of June 30, 2001 and 2000

LIABILITIES AND FUND BALANCES

ASSETS

	June 30,	
	2001	2000
ASSETS		
Current Funds		
Unrestricted-Educational and General		
Pooled Cash and Investments	\$ 14,379,454	\$ 6,270,441
Accounts Receivable	2,968,571	3,385,385
Inventories, at Cost	27,923	40,834
Prepaid Expense	131,017	117,927
	<u>\$ 17,506,965</u>	<u>\$ 9,814,587</u>
Total Unrestricted-Educational and General	\$ 17,506,965	\$ 9,814,587
Designated - Educational and General		
Pooled Cash and Investments	\$ 8,399,660	\$ 6,997,436
Accounts Receivable	145,844	169,036
	<u>\$ 8,545,504</u>	<u>\$ 7,166,472</u>
Total Designated - Educational and General	\$ 8,545,504	\$ 7,166,472
Enterprise Operations		
Pooled Cash and Investments	\$ 501,600	\$ 653,334
Accounts Receivable	93,719	117,802
Inventories, at Cost	428,829	411,303
	<u>\$ 1,024,148</u>	<u>\$ 1,182,439</u>
Total Enterprise Operations	\$ 1,024,148	\$ 1,182,439
Subsidized Programs		
Pooled Cash and Investments	\$ 12,668	\$ 343,410
	<u>\$ 12,668</u>	<u>\$ 343,410</u>
Total Subsidized Programs	\$ 12,668	\$ 343,410
LIABILITIES AND FUND BALANCES		
Current Funds		
Unrestricted-Educational and General		
Accounts Payable	\$ 1,044,910	\$ 66,200
Accrued Liabilities	10,499,991	10,833,759
Fund Balance:		
Allocated for Early Retirement Incentive	(536,124)	(1,343,394)
Reserved for Encumbrances	91,928	66,347
Unreserved	6,406,260	191,675
Total Fund Balance	<u>5,962,064</u>	<u>(1,085,372)</u>
	<u>\$ 17,506,965</u>	<u>\$ 9,814,587</u>
Total Unrestricted-Educational and General	\$ 17,506,965	\$ 9,814,587
Designated - Educational and General		
Accounts Payable	\$ 532,269	\$ 1,740
Fund Balance:		
Reserved for Encumbrances	74,426	22,837
Unreserved	7,938,809	7,141,895
Total Fund Balance	<u>8,013,235</u>	<u>7,164,732</u>
	<u>\$ 8,545,504</u>	<u>\$ 7,166,472</u>
Total Designated - Educational and General	\$ 8,545,504	\$ 7,166,472
Enterprise Operations		
Accounts Payable	\$ 227,217	\$ 253,734
Accrued Liabilities	248,751	398,566
Fund Balance	548,180	530,139
	<u>\$ 1,024,148</u>	<u>\$ 1,182,439</u>
Total Enterprise Operations	\$ 1,024,148	\$ 1,182,439
Subsidized Programs		
Accounts Payable	\$ 12,668	\$ 4,392
Accrued Liabilities	-	339,018
	<u>\$ 12,668</u>	<u>\$ 343,410</u>
Total Subsidized Programs	\$ 12,668	\$ 343,410

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

MEDICAL COLLEGE OF OHIO
Balance Sheets
As of June 30, 2001 and 2000

ASSETS

	June 30,	
	2001	2000
Restricted		
Pooled Cash and Investments	\$ 1,692,782	\$ 2,472,757
Accounts Receivable	2,416,841	1,704,714
Total Restricted	<u>\$ 4,109,623</u>	<u>\$ 4,177,471</u>
Total Current Funds - College	<u>\$ 31,198,908</u>	<u>\$ 22,684,379</u>

Current Funds		
Unrestricted-Hospital		
Pooled Cash and Investments	\$ 1,738,890	\$ 10,294,275
Investments Held in Trust	1,914,918	1,748,583
Accounts Receivable (Less Allowances of \$5,278,000 in 2001 and \$4,165,000 in 2000)	35,633,223	28,811,576
Inventories, at Cost	2,984,730	3,180,866
Prepaid Expense	329,095	245,838

Total Unrestricted-Hospital	<u>\$ 42,600,856</u>	<u>\$ 44,281,138</u>
Designated - Hospital		
Pooled Cash and Investments	\$ 82,478	\$ 50,783
Total Designated - Hospital	<u>\$ 82,478</u>	<u>\$ 50,783</u>
Total Current Funds - Hospital	<u>\$ 42,683,334</u>	<u>\$ 44,331,921</u>
Total Current Funds	<u>\$ 73,882,242</u>	<u>\$ 67,016,300</u>

LIABILITIES AND FUND BALANCES

	June 30,	
	2001	2000
Restricted		
Accounts Payable	\$ 624,224	\$ 338,630
Accrued Liabilities	609,594	1,050,982
Fund Balance:		
Reserved for Encumbrances	72,089	125,218
Unreserved	2,803,716	2,662,641
Total Fund Balance	<u>2,875,805</u>	<u>2,787,859</u>
Total Restricted	<u>\$ 4,109,623</u>	<u>\$ 4,177,471</u>
Total Current Funds - College	<u>\$ 31,198,908</u>	<u>\$ 22,684,379</u>

Current Funds		
Unrestricted-Hospital		
Accounts Payable	\$ 3,215,197	\$ 5,987,161
Accrued Liabilities	15,935,080	12,270,372
Fund Balance:		
Reserved for Encumbrances	249,713	858,078
Unreserved	23,200,866	25,165,527
Total Fund Balance	<u>23,450,579</u>	<u>26,023,605</u>

Total Unrestricted-Hospital	<u>\$ 42,600,856</u>	<u>\$ 44,281,138</u>
Designated - Hospital		
Accrued Liabilities	\$ 2,358	\$ 6,423
Fund Balance	80,120	44,360
Total Designated - Hospital	<u>\$ 82,478</u>	<u>\$ 50,783</u>
Total Current Funds - Hospital	<u>\$ 42,683,334</u>	<u>\$ 44,331,921</u>
Total Current Funds	<u>\$ 73,882,242</u>	<u>\$ 67,016,300</u>

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

MEDICAL COLLEGE OF OHIO
Balance Sheets
As of June 30, 2001 and 2000

LIABILITIES AND FUND BALANCES

ASSETS

	June 30,	
	2001	2000
Plant Funds		
Unexpended		
Pooled Cash and Investments	\$ 6,401,262	\$ 6,268,200
Accounts Receivable	1,400,241	326,686
	<u>7,801,503</u>	<u>6,594,886</u>
Total Unexpended	\$ 7,801,503	\$ 6,594,886
Investment in Plant		
Land and Improvements	\$ 3,341,956	\$ 3,415,550
Buildings and Fixtures	202,300,820	200,041,524
Equipment, Furniture, and Vehicles	105,837,203	103,158,029
Construction in Progress	17,510,571	12,500,977
	<u>3,328,990,550</u>	<u>\$ 319,116,080</u>
Total Investment in Plant	\$ 328,990,550	\$ 319,116,080
Total Plant Funds	\$ 336,792,053	\$ 325,710,966
Loan Fund		
Pooled Cash and Investments	\$ 895,562	\$ 678,655
Notes Receivable	5,376,527	5,254,111
	<u>6,272,089</u>	<u>\$ 5,932,766</u>
Total Loan Fund	\$ 6,272,089	\$ 5,932,766
Plant Funds		
Unexpended		
Accounts Payable	\$ 2,002,940	\$ 2,940,820
Fund Balance:		
Reserved for Encumbrances	2,024,868	1,364,091
Reserved for Capital Additions	3,773,695	2,289,975
Total Fund Balance	<u>5,798,563</u>	<u>3,654,066</u>
	<u>7,801,503</u>	<u>\$ 6,594,886</u>
Total Unexpended	\$ 7,801,503	\$ 6,594,886
Investment in Plant		
Capital Lease Obligations	\$ 1,229,464	\$ 2,184,779
Net Investment in Plant	327,761,086	316,931,301
	<u>328,990,550</u>	<u>\$ 319,116,080</u>
Total Investment in Plant	\$ 328,990,550	\$ 319,116,080
Total Plant Funds	\$ 336,792,053	\$ 325,710,966
Loan Fund		
Fund Balance:		
U.S. Government Grants	\$ 5,644,630	5,374,007
Private Grants	615,321	578,364
Unreserved	12,138	(19,605)
	<u>6,272,089</u>	<u>\$ 5,932,766</u>
Total Loan Fund	\$ 6,272,089	\$ 5,932,766

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

Medical College of Ohio
Statement of Current Funds Revenues, Expenditures and Other Changes
Year Ended June 30, 2001

	Unrestricted					Restricted		Total Current Funds
	Educational and General	Educational Designated	Enterprise Operations	Hospital	Hospital Designated	Subsidized Programs	Total Unrestricted	
Revenues								
Tuition, Fees and Other Student Charges	\$ 11,576,480						\$ 11,576,480	\$ -
State Appropriations	37,832,939						37,832,939	
Federal Grants and Contracts	3,329,720						3,329,720	13,502,717
State Grants and Contracts								3,564,443
Private Gifts, Grants and Contracts								2,211,520
Sales and Services	6,730,366	\$ 5,474,198	\$ 4,246,597	\$ 147,685,525	\$ 37,897		5,474,198	158,700,385
Residency Reimbursement	3,223,281						3,223,281	
Investment Income	934,583			805,428			1,740,011	1,740,011
Nursing Instruction	2,528,971						2,528,971	2,528,971
Physical Therapy	800,212						800,212	800,212
Other	946,613			8,249,172			9,195,785	9,195,785
Total Revenues	<u>67,903,165</u>	<u>5,474,198</u>	<u>4,246,597</u>	<u>156,740,125</u>	<u>37,897</u>	<u>-</u>	<u>234,401,982</u>	<u>19,278,680</u>
Expenditures								
Educational and General:								
Instruction and Department Research	41,271,736	3,547,939					44,819,675	1,800,261
Separately Budgeted Research		932,479					932,479	13,655,203
Public Service		2,616					2,616	498,433
Academic Support	4,999,422	370,667					5,370,089	5,370,089
Student Services	1,059,876	333,393					1,393,269	1,558,608
Institutional Support	10,608,984	675,771					11,284,755	429,654
Scholarships and Fellowships	893,339	8,720					902,059	70,298
Plant Operations and Maintenance	5,731,860	39,035					5,770,895	2,240,981
Hospital				148,310,925	27,172	\$ (33,874)	148,304,223	148,304,223
College Auxiliary							3,965,770	3,965,770
Total Expenditures	<u>64,565,217</u>	<u>5,910,620</u>	<u>3,965,770</u>	<u>148,310,925</u>	<u>27,172</u>	<u>(33,874)</u>	<u>222,745,830</u>	<u>18,860,169</u>
Nonmandatory Transfers and Additions (Deductions)								
Net Decrease in Fair Value of Investments	505,970	277,726	22,092	205,989	2,437		1,014,214	85,485
Excess of Restricted Receipts Over Expenditures								
Capital Additions	(1,131,944)	(725,552)	(110,377)	(5,154,256)			(7,122,129)	87,946
Allocated Retirement Incentive Transfers:	(807,271)						(807,271)	(675,518)
Subsidized Program				33,874		(33,874)		
Other Transfers	4,335,463	1,732,751	(174,501)	(6,087,833)	22,598		(171,522)	171,522
Net Increase (Decrease) in Fund Balance	<u>\$ 6,240,166</u>	<u>\$ 848,503</u>	<u>\$ 18,041</u>	<u>\$ (2,573,026)</u>	<u>\$ 35,760</u>	<u>\$ -</u>	<u>\$ 4,569,444</u>	<u>\$ 87,946</u>
								<u>\$ 4,657,390</u>

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

Medical College of Ohio
Statement of Current Funds Revenues, Expenditures and Other Changes
Year Ended June 30, 2000

	Unrestricted					Restricted			
	Educational and General	Educational Designated	Enterprise Operations	Hospital	Hospital Designated	Subsidized Programs	Total Unrestricted	Educational and General	Total Current Funds
Revenues									
Tuition, Fees and Other Student Charges	\$ 10,808,086						\$ 10,808,086	\$ -	\$ 10,808,086
State Appropriations	37,041,258						37,041,258		37,041,258
Federal Grants and Contracts	2,943,056						2,943,056	12,228,012	15,171,068
State Grants and Contracts							-	5,845,025	5,845,025
Private Gifts, Grants and Contracts		\$ 7,120,334					7,120,334	1,629,177	8,749,511
Sales and Services	4,166,331		\$ 4,225,178	\$ 139,967,123	\$ 78,136		148,436,768		148,436,768
Residency Reimbursement	3,284,095						3,284,095		3,284,095
Investment Income	392,934			967,206			1,360,140		1,360,140
Nursing Instruction	2,532,487						2,532,487		2,532,487
Physical Therapy	1,128,861						1,128,861		1,128,861
Other	863,819			6,047,609			6,911,428		6,911,428
Total Revenues	63,160,927	7,120,334	4,225,178	146,981,938	78,136	-	221,566,513	19,702,214	241,268,727
Expenditures									
Educational and General:									
Instruction and Department Research	38,094,737	4,093,009					42,187,746	1,877,130	44,064,876
Separately Budgeted Research		733,495					733,495	12,036,524	12,770,019
Public Service		12,486					12,486	367,008	379,494
Academic Support	2,993,554	579,195					3,572,749		3,572,749
Student Services	1,162,017	371,186					1,533,203	130,033	1,663,236
Institutional Support	10,520,416	923,375					11,443,791	153,057	11,596,848
Scholarships and Fellowships	881,678	2,500					884,178	98,219	982,397
Plant Operations and Maintenance	5,447,618	3,337					5,450,955	4,691,691	10,142,646
Hospital				138,235,004	122,646	\$ 3,034,775	141,392,425		141,392,425
College Auxiliary					122,646		4,236,596		4,236,596
Total Expenditures	59,100,020	6,718,583	4,236,596	138,235,004	122,646	3,034,775	211,447,624	19,353,662	230,801,286
Nonmandatory Transfers and Additions (Deductions)									
Net Decrease in Fair Value of Investments	(115,878)	(117,718)	(4,801)	(251,543)	(299)		(490,239)	(45,072)	(535,311)
Excess of Restricted Receipts Over Expenditures								90,590	90,590
Capital Additions	(2,077,715)	(1,058,222)	(3,706)	(9,103,878)	(6,342)	(30,090)	(12,279,953)	(451,055)	(12,731,008)
Allocated Retirement Incentive Transfers:	(1,064,457)						(1,064,457)		(1,064,457)
Subsidized Program				(4,632,490)		4,632,490			
Other Transfers	1,252,775	1,702,880	(71,884)	(1,459,784)	(3,937)	(1,567,625)	(147,575)	147,575	
Net Increase (Decrease) in Fund Balance	\$ 2,055,632	\$ 928,691	\$ (91,809)	\$ (6,700,761)	\$ (55,088)	\$ -	\$ (3,863,355)	\$ 90,590	\$ (3,772,745)

MEDICAL COLLEGE OF OHIO
Statement of Changes in Fund Balance
Year Ended June 30, 2001

	Current Funds						Restricted		Plant Funds			
	Unrestricted			Total			Educational and General	Total Current Funds	Loan Fund	Unexpended	Investment in Plant	
Revenues and Other Additions												
Unrestricted Current Fund Revenues	\$ 67,903,165	\$ 5,474,198	\$ 4,246,597	\$ 156,740,125	\$ 37,897	\$ 234,401,982		\$ 234,401,982	\$ -	\$ 3,774,792	\$ -	
State Capital Appropriations							13,896,942	13,896,942	131,816			
Federal Grants and Contracts							3,457,365	3,457,365				
State Grants and Contracts							2,012,319	2,012,319				
Private Gifts, Grants and Contracts									45,464			
Investment Income									118,679			
Interest on Loans Receivable												
Additions to Plant Facilities												
Total Revenues and Other Additions	67,903,165	5,474,198	4,246,597	156,740,125	37,897	234,401,982	19,366,626	253,768,608	295,959	4,258,636	11,445,327	11,445,327
Expenditures and Other Deductions												
Educational and General Expenditures	64,565,217	5,910,620	3,965,770	148,310,925	27,172	148,304,223	18,860,169	89,336,006	(11,621)			
Auxiliary Expenditures								3,965,770				
Hospital Expenditures								148,304,223				
Expended for Plant Facilities										8,721,473		
Net Disposal and Write-off of Plant Facilities												
Total Expenditures and Other Deductions	64,565,217	5,910,620	3,965,770	148,310,925	27,172	222,745,830	18,860,169	241,605,989	(11,621)	8,721,473	2,126,988	2,126,988
Transfers Among Funds - Additions (Deductions)												
Nonmandatory												
Net Decrease in Fair Value of Investments	505,970	277,726	22,092	205,989	2,437	1,014,214	85,485	1,099,699	31,743	321,133		
Capital Additions	(1,131,944)	(725,552)	(110,377)	(5,154,256)		(7,122,129)	(675,518)	(7,797,647)		6,286,201		1,511,446
Allocated Retirement Incentive	(807,271)					(807,271)						
Transfers:												
Subsidized Program	4,335,463	1,732,751	(174,501)	33,874	(33,874)	(171,522)	171,522					
Other Transfers	2,902,218	1,284,925	(262,786)	(6,087,833)	22,598	(7,086,708)	(418,511)		31,743	6,607,334	1,511,446	
Total Transfers	6,240,166	848,503	18,041	(2,573,026)	35,760	4,569,444	87,946	4,657,390	339,323	2,144,497	10,829,785	10,829,785
Net Increase (Decrease) for the Year	258,022	7,194,732	530,139	26,023,605	44,360	34,020,858	2,787,859	36,808,717	5,932,766	3,854,066	316,931,301	316,931,301
Fund Balances at Beginning of the Year	\$ 6,498,188	\$ 8,013,235	\$ 548,180	\$ 23,450,579	\$ 80,120	\$ 38,590,302	\$ 2,875,805	\$ 41,466,107	\$ 6,272,089	\$ 5,798,563	\$ 327,761,086	\$ 327,761,086

MEDICAL COLLEGE OF OHIO
Statement of Changes in Fund Balance
Year Ended June 30, 2000

	Current Funds						Restricted		Plant Funds	
	Unrestricted	Hospital	Hospital Designated	Subsidized Programs	Total Unrestricted	Educational and General	Total Current Funds	Loan Fund	Unexpended	Investment In Plant
Revenues and Other Additions										
Unrestricted Current Fund Revenues	\$ 63,160,927	\$ 7,120,334	\$ 4,225,178	\$ 78,136	\$ 221,566,513	\$ 221,566,513	\$ 221,566,513	\$ -	\$ 2,051,924	\$ -
State Capital Appropriations							11,748,915	128,715		
Federal Grants and Contracts							5,861,323			
State Grants and Contracts							2,182,566	36,779	474,636	
Private Gifts, Grants and Contracts								25,727		
Investment Income								136,667		
Interest on Loans Receivable										
Additions to Plant Facilities										14,335,184
Total Revenues and Other Additions	63,160,927	7,120,334	4,225,178	78,136	221,566,513	19,792,804	241,359,317	327,888	2,526,560	14,335,184
Expenditures and Other Deductions										
Educational and General Expenditures	59,100,020	6,718,583	4,236,596		65,818,603	19,353,662	85,172,265	11,621		
Auxiliary Expenditures					4,236,596		4,236,596			
Hospital Expenditures				122,646	141,392,425		141,392,425		9,548,148	
Expended for Plant Facilities										6,783,821
Net Disposal and Write-off of Plant Facilities										6,783,821
Total Expenditures and Other Deductions	59,100,020	6,718,583	4,236,596	122,646	211,447,624	19,353,662	230,801,286	11,621	9,548,148	6,783,821
Transfers Among Funds - Additions (Deductions)										
Nonmandatory										
Net Decrease in Fair Value of Investments	(115,878)	(117,718)	(4,801)	(299)	(490,239)	(45,072)	(535,311)	(11,566)	(209,073)	
Capital Additions	(2,077,715)	(1,058,222)	(3,706)	(6,342)	(12,279,953)	(451,055)	(12,731,008)		11,181,593	1,549,415
Allocated Retirement Incentive Transfers:	(1,064,457)				(1,064,457)					
Subsidized Program	1,252,775	1,702,880	(71,864)	(3,937)	4,632,490	147,575	0			
Other Transfers	(2,005,275)	526,940	(60,391)	(10,578)	(1,567,625)	(348,552)	(14,330,776)	(11,566)	10,972,520	1,549,415
Total Transfers	2,055,632	928,691	(91,809)	(55,088)	(3,863,335)	90,590	(3,772,745)	304,701	3,950,932	9,100,778
Net Increase (Decrease) for the Year	(1,797,610)	6,236,041	621,948	99,448	37,884,193	2,697,269	40,581,462	5,629,065	(296,866)	307,830,523
Fund Balances at Beginning of the Year	258,022	7,164,732	530,139	44,360	34,020,858	2,787,859	36,808,717	5,932,766	3,654,066	316,931,301
Fund Balances at End of the Year										

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

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting and Reporting Principles

The Medical College of Ohio (MCO), a component unit of the State of Ohio, is a nonprofit, state-supported medical school operating in Toledo, Ohio. Its financial statements have been prepared on an accrual basis in accordance with government accounting principles. Resources for various purposes are classified into funds in accordance with specified activities or objectives with separate accounts maintained for each fund. For reporting purposes, funds with similar characteristics are combined in fund groups and financial transactions are recorded within such fund groups.

Current funds consist of the educational and general, designated, enterprise, hospital, subsidized programs and restricted funds. These funds include all funds which are available for current general operating purposes. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, MCO has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, for its proprietary funds. The designated funds are available for educational or hospital purposes in compliance with management or Board restrictions. The enterprise funds are available for the operation of auxiliary business operations. MCO created a subsidized program fund to account for those costs which cannot be specifically allocated and to provide academic support to the College. The restricted funds are available for current operating purposes in compliance with donor and grantor restrictions. Revenues relating to restricted funds are recognized to the extent expended for the specified purpose. Any variance is reflected as an addition (deduction) to the current restricted fund balance.

Hospital patient service revenue is recorded at established rates and is reduced by contractual allowances and adjustments (representing the difference between established rates and amounts received under the provisions of third party payment formulas).

Loan funds include resources available for loans to students. Loans granted are receivables of the fund until repaid, at which time the money becomes available for new loans. A portion of the loan fund balances are allocations of unrestricted funds representing the matching funds provided in accordance with the requirements of Federal Student Loan Programs.

Plant funds are established for acquisition of long-lived assets, repairs and replacement and approved capital projects.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on an average cost basis.

Investments

Investments are made in accordance with policies of the Board of Trustees of the Medical College of Ohio. The types of investments that may be purchased by the institution include United States treasury obligations, certificates of deposit, bankers acceptances, corporate notes and bonds, money market funds, government agency securities and commercial paper. Investments qualifying as "derivatives" may not be purchased.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, if acquired by donation, at appraised values. In accordance with generally accepted government accounting principles for colleges and universities, depreciation is not provided.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

When a capital asset within the plant fund is sold or otherwise disposed of, any proceeds are credited to the unexpended plant fund. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as nonmandatory transfers from the current funds to the plant funds.

Grants and Contracts

MCO receives grants and contracts from federal, state and private agencies to fund research and other activities. Grants and contracts generally provide for the recovery of direct and indirect costs. MCO recognizes revenues associated with grants and contracts as the related costs are incurred. Indirect cost recovery is recorded as a percentage of direct costs at negotiated fixed rates. Revenues received under grants and contracts are subject to the examination and retroactive adjustments by the awarding agency.

Income Taxes

MCO is exempt from income taxes under Section 115 of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

NOTE 2 - STATE SUPPORT

MCO is a state-supported institution of higher education which receives a student-based subsidy and other subsidies from the State of Ohio (the State). These subsidies are determined biennially and released annually based upon allocations devised by the Ohio General Assembly and the Ohio Board of Regents.

In addition to subsidies, the State provides capital appropriations for construction of major plant facilities on the campus. The financing of construction is obtained by the State through issuance of State revenue bonds. State funds are pledged for repayment of the revenue bonds. In the event these funds are insufficient to retire the revenue bonds, a pledge exists to assess a special student fee to students of state assisted institutions of higher education. As a result of this financing arrangement, the outstanding debt relating to the revenue bonds is not included in MCO's balance sheets.

State capital appropriations are not reflected on MCO's financial statements until expended by the State. When expended, capital appropriations are recognized as additions in the unexpended plant fund and as expenditures for capital additions.

NOTE 3 - RELATED ORGANIZATIONS

The Medical College of Ohio at Toledo Foundation (Foundation) is an Ohio not-for-profit corporation deemed to be exempt from income taxes under Section 501(C)(3) of the Internal Revenue Code. The Foundation is organized primarily for the purpose of supporting the activities of MCO and is directed by a separate Board of Trustees, unrelated to the MCO Board of Trustees. The assets of the Foundation were generated from gifts and grants made directly to the Foundation and not from any public funds of

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

MCO; accordingly, the accounts of the Foundation are not included in the financial statements of MCO. For the years ended 2001 and 2000, respectively, the Foundation paid approximately \$385,000 and \$398,000 to MCO as reimbursement for personnel and payroll related costs, rent for use of MCO facilities, and other administrative costs.

Associated Physicians of the Medical College of Ohio (APMCO) is a for profit entity, operating under a separate Board, organized to provide physician services at the Medical College Hospitals. Amounts received from APMCO for the use of hospital facilities and support services are included in Other Hospital Revenues. MCO does not hold any ownership in APMCO and, therefore, the assets and liabilities of APMCO are not recorded in the accompanying financial statements.

NOTE 4 - POOLED CASH AND INVESTMENTS

Cash and investments are accounted for on a pooled basis. Amounts reported on the balance sheets represent each fund's share of pooled cash and investments. MCO employs the shared method of accounting for pooled cash and investments and for proportionate distribution of income to each fund with equity in the pool.

The bank balance of cash deposits was \$1,889,958 at June 30, 2001. Of the balance, up to \$100,000 is insured by federal depository insurance and the remainder is uninsured but collateralized by pools of securities pledged by depository banks and held in the name of the respective banks. Differences between bank balances and carrying values of cash result from checks issued but not presented to the bank for payment.

Investments are stated at market value at June 30, 2001 and 2000. Investments are not insured or registered in MCO's name but are held in safekeeping by MCO's custodial bank's trust department whose records identify MCO's ownership. Pooled cash and investments with a maturity of three months or less are considered to be cash equivalents.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

	<u>June 30, 2001</u> Market and Carrying Value	<u>June 30, 2000</u> Market and Carrying Value
Cash:		
Cash Deposits	\$ 1,649,890	\$ 40,273
Bank Overdrafts	(1,707,156)	(1,718,700)
Cash Equivalents:		
Money Market Funds	4,317,545	3,936,699
Investments:		
U.S. Government Obligations	5,789,430	8,879,221
Corporate Notes	23,504,277	21,411,388
Bond	-	1,000,140
Accrued Interest Receivable	<u>550,370</u>	<u>480,270</u>
Total Pooled Cash and Investments	<u>\$34,104,356</u>	<u>\$34,029,291</u>

Gross unrealized gains and losses on U.S. government obligations, corporate notes and bonds were \$609,027 and \$163,020, respectively, at June 30, 2001.

A summary of cash balances by fund is as follows:

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>
Educational and General	\$14,379,454	\$ 6,270,441
Designated - Educational and General	8,398,660	6,997,436
Enterprise Operations	501,600	653,334
Subsidized Programs	12,668	343,410
Restricted	1,692,782	2,472,757
Hospital	1,738,890	10,294,275
Designated - Hospital	82,478	50,783
Plant	6,401,262	6,268,200
Loan	<u>895,562</u>	<u>678,655</u>
Total Pooled Cash and Investments	<u>\$34,104,356</u>	<u>\$34,029,291</u>

NOTE 5 - RETIREMENT PLANS

MCO participates in the State Teachers Retirement System of Ohio (STRS) and the Public Employees Retirement System of Ohio (PERS) and alternative retirement plans (ARP) as defined by Ohio Revised Code, Section 3305 and Am. Sub. House Bill 586. These plans are statewide cost-sharing, multiple-employer public retirement systems administered and controlled by the State of Ohio. The State of Ohio issues annual plan financial reports which can be obtained by contacting the appropriate state office.

Participating employees are entitled to retirement benefits payable for life, equal to 2.1% per year of credited service times the final average salary (the average of the three highest years of earnings) up to 30 years. The 31st year of earned service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year over 31 years. Participating employees may retire at

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

age 60 with at least five years of credited service, at age 55 with at least 25 years of credited service or at any age with at least 30 years of credited service. Participating employees retiring with less than 30 years of service or at less than age 65 receive reduced benefits. STRS limits the maximum annual benefit to the greater of 100% of the participant's final average salary or the participant's lifetime contribution plus interest at specified rates matched by an equal amount of employer contributed funds divided by an actuarially determined annuity factor. Retirement benefits vest with five years of credited service. STRS and PERS also provide health care, survivor and disability benefits.

State law provides for employer and employee contributions to STRS and PERS based on actuarially determined rates. The Ohio Retirement Study Council determines the ARP rates and the Ohio Department of Insurance approves ARP carriers. Senate Bill 346 established a revised PERS disability program. PERS members were given the opportunity to elect coverage under the original or revised disability program. Anyone hired after July 29, 1992, is automatically covered under the revised disability program. The revised program was designed to be cost neutral, therefore, does not affect PERS funding. There were no material changes in actuarial assumptions, benefit provisions, actuarial funding methods or other significant factors in fiscal years 2001, 2000, and 1999. The contribution rates for fiscal years 2001, 2000, and 1999, were as follows:

	Fiscal 2001/2000/1999 <u>STRS</u>	Fiscal 2001 <u>PERS</u>	Fiscal 2000/1999 <u>PERS</u>	Fiscal 2001/2000 <u>ARP-STRS</u>	Fiscal 2001/2000 <u>ARP-PERS</u>
Employer:	14.00%	10.84%	13.31%	8%	7.31%
Employee:	9.30%	4.30%	8.50%	9.3%	8.5%

Contributions made by employees are as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
STRS	\$2,497,180	\$2,412,315	\$2,270,409
ARP-STRS		\$ 373,260	\$ 534,599
PERS	\$7,319,539	\$7,098,071	\$7,152,911
ARP-PERS		\$ 652,048	\$ 713,404

MCO Retirement costs funded as accrued are as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
STRS	\$ 3,762,494	\$ 3,573,130	\$ 3,417,385
ARP-STRS		\$ 321,084	\$ 459,870
PERS	\$11,475,028	\$ 11,028,303	\$ 8,844,524
ARP-PERS		\$ 560,778	\$ 613,536

PERS enacted a temporary employer rate rollback for calendar year 2000. The decision to roll back rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceed actuarial liabilities. The temporary rate rollback was 20%.

During fiscal year 1993 and fiscal year 1996, MCO's Board of Trustees approved the adoption of the STRS Early Retirement Incentive Plan. The plan allows faculty members who meet certain eligibility requirements to elect early retirement and the College to purchase up to five years of service credit in the plan for the retiring employee.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

Accrued liabilities include \$536,124 and \$1,343,394 at June 30, 2001 and 2000, respectively, related to early retirement incentives. The liability will be paid in annual installments, with interest, through 2001. Educational and general fund balance was allocated for early retirement incentives which will be transferred to unreserved fund balance as early retirement incentives are incurred. The change in allocated fund balance for fiscal 2001 and 2000, was as follows:

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Balance at beginning of year	\$(1,343,394)	\$(2,407,852)
Principal payments made for Early Retirement Incentives	<u>807,270</u>	<u>1,064,458</u>
Balance at end of year	<u>\$(536,124)</u>	<u>\$(1,343,394)</u>

NOTE 6 - LEASES AND CAPITAL COMMITMENTS

MCO leases certain facilities and data processing, patient care and other equipment under various noncancelable operating lease agreements. Total operating lease expense was \$699,000 in 2001 and \$872,000 in 2000. At June 30, 2001, MCO was committed to future minimum operating lease payments of \$509,000 in 2002, \$302,000 in 2003, \$119,000 in 2004, \$20,000 in 2005, and \$1,000 in 2006.

At the expiration of various patient care equipment leases, MCO has the option to make a termination payment, purchase the equipment at fair market value or extend the lease term. Future minimum operating lease payments include \$117,000 in termination payments related to these lease agreements.

MCO has capital lease obligations of \$1,229,464 and \$2,184,779 at June 30, 2001 and 2000, respectively. The cost of the assets recorded under capital leases as of June 30, 2001, is \$5,507,037.

Minimum lease payments at June 30, 2001, by year and in the aggregate, under capital leases are as follows:

2002	\$ 692,432
2003	414,559
2004	168,703
2005	41,049
2006	<u>10,262</u>
Net minimum lease payments	\$ 1,327,005
Less amounts representing interest	<u>(97,541)</u>
Present value of lease payments	<u>\$ 1,229,464</u>

Contracts have been entered into for capital construction projects in an amount approximating \$12,922,000. The estimated cost to complete construction in progress at June 30, 2001, is \$1,768,000, the majority of which will be funded by capital appropriations from the State of Ohio.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

NOTE 7 - HOSPITAL FUNDS

A reconciliation of the fund balances reported in separately issued financial statements of the Medical College Hospitals to hospital fund balances included in the accompanying financial statements is as follows:

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Fund balances reported in the separately issued financial statements of the Medical College Hospitals	\$105,934,430	\$108,822,777
Add accumulated depreciation	<u>97,088,649</u>	<u>88,102,605</u>
Total hospital fund balances included in the accompanying financial statements	<u>\$203,023,079</u>	<u>\$196,925,382</u>
Hospital fund balances included in:		
Current unrestricted funds	\$ 23,530,697	\$ 26,067,965
Unexpended plant fund	7,697,425	5,036,000
Investment in plant	<u>171,794,957</u>	<u>165,821,417</u>
Total hospital fund balances included in the accompanying financial statements	<u>\$203,023,079</u>	<u>\$196,925,382</u>

NOTE 8 - MALPRACTICE MATTERS

MCO is self-insured for the first \$1,000,000 of loss per occurrence with an annual aggregate limit of \$3,000,000 for malpractice and general liability, and maintains umbrella insurance coverage that covers any excess liability on a claims made basis. Settlement amounts have not exceeded insurance coverage for each of the past three fiscal years.

In accordance with the terms of the insurance policy, MCO maintains a self-insurance trust. Investments held in trust are comprised of U.S. government securities and corporate bonds with a market value which approximates cost at June 30, 2001. These investments are held in safekeeping by MCO's custodial bank's trust department. These securities are registered in the bank's name with internal bank records identifying MCO's ownership.

At June 30, 2001 and 2000, MCO has accrued \$3,000,00 discounted at 6% and \$3,003,207 discounted at 6%, respectively, for asserted and unasserted claims, based on MCO's experience and studies performed by a consulting actuary. With respect to pending malpractice claims and legal action where MCO is a defendant, it is the opinion of management that any potential liability in such actions will not materially affect the financial position of MCO.

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Malpractice Liability at Beginning of Year:	\$3,003,207	\$2,844,707
Provision for Incurred Claims	235,265	790,000
Payments for Claims	<u>(238,472)</u>	<u>(631,500)</u>
Malpractice Liability at End of Year	<u>\$3,000,000</u>	<u>\$3,003,207</u>

Medical College of Ohio
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2001

	AGENCY N	CFDA #	FY 2001
STUDENT FINANCIAL AID			
Scholarships Disadvantaged Students	DHHS	93.925	\$21,131.00
Federal Work Study	UDE	84.033	165,339.10
Federal Perkins Loan Program	UDE	84.038	98,855.00
Total Student Financial Aid			\$285,325.10
RESEARCH & DEVELOPMENT			
Bureau of Land Management	DOI	15.221	214,152.25
Environmental Protection Agency	EPA	66.506	(989.78)
	EPA	66.500	18,398.03
	EPA	66.500	236,538.01
National Cancer Institute	DHHS	93.CN85147	48,128.31
	DHHS	93.CN85146	(38,414.53)
	DHHS	93.CN85166	248,557.55
	DHHS	93.CN95118	119,706.69
	DHHS	93.CN05121	170,694.53
	DHHS	93.CN05123	32,669.55
	DHHS	93.CN75102	472.52
	DHHS	93.CN75108	(21,208.27)
National Institutes of Health	DHHS	93.855	113,156.16
	DHHS	93.398	142,341.88
	DHHS	93.854	161,098.77
	DHHS	93.394	5,121.59
	DHHS	93.867	17,756.55
	DHHS	93.864	323,910.24
	DHHS	93.838	30,649.23
	DHHS	93.821	24,625.03
	DHHS	93.361	291,393.17
	DHHS	93.361	84,735.64
	DHHS	93.862	187,417.38
	DHHS	93.859	261,135.95
	DHHS	93.856	258,244.24
	DHHS	93.859	(2,954.79)
	DHHS	93.113	(6,669.76)
	DHHS	93.393	(17,213.28)
	DHHS	93.396	218,907.04
	DHHS	93.396	105,545.91
	DHHS	93.396	245,506.65
	DHHS	93.866	162,722.42
	DHHS	93.837	239,052.00
	DHHS	93.847	119,197.03
	DHHS	93.394	170,408.10
DHHS	93.847	115,974.63	
DHHS	93.847	143,534.51	
DHHS	93.113	78,061.51	
DHHS	93.848	146,559.18	
DHHS	93.394	130,146.92	

Medical College of Ohio
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2001

	AGENCY N	CFDA #	FY 2001
	DHHS	93.866	249,196.03
	DHHS	93.837	150,918.86
	DHHS	93.837	190,850.71
	DHHS	93.361	105,026.76
	DHHS	93.854	205,720.67
	DHHS	93.121	113,417.61
	DHHS	93.837	182,380.40
	DHHS	93.398	73,837.40
	DHHS	93.866	28,510.04
	DHHS	93.837	514,504.31
	DHHS	93.837	62,338.41
	DHHS	93.395	1,280.16
	DHHS	93.856	237,841.38
	DHHS	93.279	165,550.05
	DHHS	93.393	85,743.54
	DHHS	93.173	202,564.66
	DHHS	93.113	(567.73)
	DHHS	93.856	351,374.71
	DHHS	93.279	153,130.72
	DHHS	93.837	905,199.76
	DHHS	93.279	216,837.67
	DHHS	93.173	(86,270.91)
	DHHS	93.854	77,236.24
	DHHS	93.856	69,544.67
	DHHS	93.847	176,482.84
	DHHS	93.855	(40.05)
	DHHS	93.2630005	11,165.02
	DHHS	93.2630002	761.80
	DHHS	93.27398C	(1,103.91)
	DHHS	93.DK02400	984,969.54
National Science Foundation	NSF	47.074	149,389.91
	NSF	47.074	5,092.90
	NSF	47.074	10,395.79
	NSF	47.074	58,357.60
Pass thru:			
Biocheck Labs	DHHS	93.855	24,694.83
Boston University Medical Center	DHHS	93.866	1,103.22
Brigham & Women's Hospital	DHHS	93.837	199.04
Case Western University	DHHS	93.HC95181	45,535.84
Eastern Cooperative Oncology Group	DHHS	93.395	180.12
Emory University	DHHS	93.283	320.00
Emory University	DHHS	93.854	143.58
Massachusetts Institute of Technology	DHHS	93.113	90,678.14
National Children's Cancer Institute	DHHS	93.395	11,743.46
National Children's Cancer Institute	DHHS	93.395	(2,726.24)
Science Application International Corp	DHHS	93.CY80443A	642.09
Southern Oncology Group	DHHS	93.399	324.10
Statistics & Epidemiology	DHHS	93.HC55139	5,475.80
University of Cincinnati	DHHS	93.393	65,472.25
University of Iowa	DHHS	93.837	122,161.46
University of Michigan	NSF	47.074	56,273.94
University of Rochester	DHHS	93.853	1,594.59
University of Toledo	DHHS	93.837	6,135.00
University of Texas Health Science Cntr	DHHS	93.395	46,220.58
Veterans Medical Research Foundation	DHHS	93.856	199,157.69

Medical College of Ohio
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2001

	AGENCY N CFDA #		FY 2001	
Washington University	DHHS	93.121	316,982.81	
Wayne State University	DHHS	93.173	86,966.88	
Total Research & Development			\$11,509,985.50	
OTHER:				
Health Resources and Service Administration	DHHS	93.358	(0.10)	
	DHHS	93.896	74,011.54	
	DHHS	93.984	161,801.20	
	DHHS	93.191	30,020.12	
	DHHS	93.107	533,777.30	
	DHHS	93.379	102,637.28	
	DHHS	93.886	111,988.96	
	DHHS	93.298	332,170.72	
	DHHS	93.896	57,905.34	
	DHHS	93.358	28,447.00	
	DHHS	93.153	171,318.24	
National Institutes of Health	DHHS	93.393	14,680.07	
	DHHS	93.393	8,593.74	
	DHHS	93.879	29,976.19	
	DHHS	93.278	25,516.44	
	DHHS	93.278	9,871.37	
National Science Foundation	NSF	47.074	4,863.90	
Pass thru:				
Bowling Green State University	DHHS	93.969	542.74	
University of Illinois	DHHS	93.879	1,175.44	
Ohio Department of Health	UDE	84.181	61,557.53	
	DHHS	93.994	11,665.11	
	DHHS	93.919	80,873.01	
	DHHS	93.917	8,018.14	
	DHHS	93.994	165,182.45	
Total Other			\$2,026,593.73	
Community Mental Health Services	DHHS	93.958	506,028.07	506,028.07
Total Expenditures of Federal Awards			\$14,327,932.40	

Agency Key:

DHHS	Department of Health & Human Services
DOI	Department of Interior
EPA	Environmental Protection Agency
NSF	National Science Foundation
UDE	Department of Education

MEDICAL COLLEGE OF OHIO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2001

1. **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Medical College of Ohio and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. **Family Education Loan Program**

Medical College of Ohio acts as the intermediary for students obtaining Family Education loans from lending institutions. The lending institution is responsible for billings and collections of the loans. The Medical College of Ohio assists the lending institutions by processing the applications and forwarding checks from the lending institutions to the students. Loans advanced to students during the fiscal year ended June 30, 2001, totalled \$14,082,155.

3. **Health Professions Student Loan Program**

Revolving loan funds are established to maintain Health Professions Student loans. Repayment of principal and interest are deposited back into the program for new loans. The Medical College of Ohio is responsible for administering the program, including the approving, disbursing, and collecting of the loans. Since July 1, 1993, Health Professions Student Loan funds have been awarded in the form of Primary Care Loans and Loans for Disadvantaged Students. As of June 30, 2001, outstanding loans under both programs totalled \$1,341,668.

4. **Federal Perkins Loan Program**

Revolving loan funds are also established to maintain Perkins loans. Repayments of principal and interest are deposited back into the program for new loans. The Medical College of Ohio is responsible for administering the program, including the approving, disbursing, and collecting of the loans. As of June 30, 2001, outstanding Perkins loans totalled \$3,701,528.

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

Board of Trustees
Medical College of Ohio

We have audited the financial statements of the Medical College of Ohio as of and for the year ended June 30, 2001, and have issued our report thereon dated September 28, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

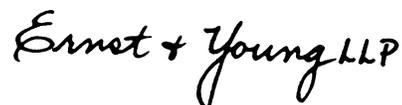
Compliance

As part of obtaining reasonable assurance about whether the Medical College of Ohio'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 disclosed under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical College of Ohio'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 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.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, state agency, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



September 28, 2001

REPORT OF INDEPENDENT AUDITORS ON
COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Medical College of Ohio

Compliance

We have audited the compliance of the Medical College of Ohio with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. The Medical College of Ohio's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Medical College of Ohio's management. Our responsibility is to express an opinion on the Medical College of Ohio's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical College of Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Medical College of Ohio's compliance with those requirements.

In our opinion, the Medical College of Ohio complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the Medical College of Ohio is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Medical College of Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 28, 2001

Ernst & Young LLP

MEDICAL COLLEGE OF OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2001

Part I - Summary of Auditor's Results

Financial Statement Section

- (i) Type of auditor's report issued: unqualified
- (ii) Internal control over financial reporting:
- Material weakness(es) identified? yes X no
- Reportable condition(s) identified not considered
to be material weakness(es)? yes X none
reported
- (iii) Noncompliance material to financial statements noted? yes X no

Federal and State Awards Section

- (viii) Dollar threshold used to determine Type A programs: \$429,838
- (ix) Auditee qualified as low-risk auditee? X yes no
- (v) Type of auditor's report on compliance for major programs: unqualified
- (iv) Internal control over compliance:
- Material weakness(es) identified? yes X no
- Were reportable condition(s) identified not considered
to be material weakness(es)? yes X none
reported
- (vi) Any audit findings disclosed that are required to be reported
in accordance with Circular A-133 (Section .510(a))? yes X no
- (vii) Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Various	Research and Development Cluster
93.958	Community Mental Health Services
93.153	Ryan White Title IV Program
93.107	Model Area Health Education Centers

Part II - Schedule of Financial Statement Findings

None

Part III - Schedule of Federal Award Findings and Questioned Costs

None

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REPORT OF INDEPENDENT AUDITORS

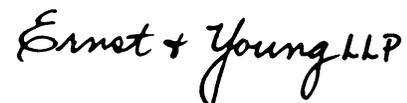
Board of Trustees
Medical College of Ohio

We have audited the accompanying balance sheets of the Medical College Hospitals (Hospital Funds of the Medical College of Ohio, a component unit of the State of Ohio, - see Note 1) as of June 30, 2001 and 2000, and the related statements of revenue and expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of 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. 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.

As discussed in Note 1, the financial statements present only the Hospital funds and are not intended to present fairly the financial position of the Medical College of Ohio, and the results of its operations in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical College Hospitals as of June 30, 2001 and 2000, 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.



September 28, 2001

MEDICAL COLLEGE HOSPITALS

BALANCE SHEETS

Assets

	June 30,	
	<u>2001</u>	<u>2000</u>
Current Assets		
Cash and Cash Equivalents	\$ 1,385,917	\$ 2,272,057
Investments	256,409	8,764,514
Accounts Receivable, Net	35,186,889	29,138,262
Estimated Receivables Under Third Party		
Reimbursement Programs	1,846,576	0
Accrued Interest Receivable	179,042	277,187
Inventories	2,984,730	3,180,866
Prepaid Expense	329,095	245,838
	<hr/>	<hr/>
Total Current Assets	42,168,658	43,878,724
 Property, Plant and Equipment		
Property, Plant and Equipment at Cost	171,794,957	165,821,417
Less Accumulated Depreciation	(97,088,649)	(88,102,605)
	<hr/>	<hr/>
Net Property, Plant and Equipment	74,706,308	77,718,812
 Other Assets		
Self-Insurance Trust Investments	1,914,918	1,748,583
Investments Held For Capital Expansion	9,273,168	9,294,866
	<hr/>	<hr/>
Total Other Assets	11,188,086	11,043,449
	<hr/>	<hr/>
Total Assets	<u>\$ 128,063,052</u>	<u>\$ 132,640,985</u>

Liabilities and Fund Balance

Current Liabilities		
Accounts Payable	\$ 8,392,515	\$ 9,356,634
Estimated Payables Under Third Party		
Reimbursement Programs		1,664,458
Accrued Liabilities	10,308,643	8,409,130
	<hr/>	<hr/>
Total Current Liabilities	18,701,158	19,430,222
 Noncurrent Liabilities		
Capital Lease Obligations	1,229,464	2,184,779
Accrued Liabilities	2,200,000	2,203,207
	<hr/>	<hr/>
Total Noncurrent Liabilities	3,429,464	4,387,986
	<hr/>	<hr/>
Total Liabilities	22,130,622	23,818,208
 Fund Balance	<hr/>	<hr/>
	105,932,430	108,822,777
	<hr/>	<hr/>
Total Liabilities and Fund Balance	<u>\$ 128,063,052</u>	<u>\$ 132,640,985</u>

MEDICAL COLLEGE HOSPITALS
STATEMENTS OF REVENUE AND EXPENSES AND
CHANGES IN FUND BALANCE

	June 30,	
	2001	2000
Revenue		
Net Patient Service Revenue	\$ 149,740,075	\$ 139,967,123
Other Revenue	8,287,069	6,100,745
Investment Income	1,289,272	1,441,843
	Total Revenue	147,509,711
	159,316,416	147,509,711
 Expenses		
Salaries and Benefits	77,317,944	74,909,287
Supplies	35,313,856	29,987,048
Allocated College Expenses	11,518,543	11,019,034
Outside Purchased Services	16,832,235	11,300,057
Depreciation and Amortization	9,764,552	9,155,517
Provision for Uncollectible Accounts	6,668,262	7,614,068
Information/Communication	1,316,486	1,631,673
Travel	377,118	306,817
Other Expenses	1,179,151	1,849,428
	Total Expenses	147,772,929
	160,288,147	147,772,929
	Expenses In Excess of Revenues	(263,218)
	(971,731)	(263,218)
Fund Balance at Beginning of Year	108,822,777	113,054,712
Transfers:		
Transfer to Subsidized Programs	33,874	(4,632,490)
Transfer of Plant Assets Between College and Hospital	(4,132,048)	733,002
State Capital Appropriations	1,650,000	350,000
Net Realized and Unrealized Gain (Loss) on Investments	529,558	(419,229)
	Fund Balance at End of Year	\$ 108,822,777
	\$ 105,932,430	\$ 108,822,777

MEDICAL COLLEGE HOSPITALS

STATEMENTS OF CASH FLOWS

	June 30,	
	2001	2000
	<hr/>	<hr/>
Cash Flows from Operating Activities		
Revenue in Excess of (less than) Expenses	\$ (971,731)	\$ (263,218)
Adjustments to Reconcile Revenue in Excess of (less than) Expenses to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	9,764,552	9,155,517
Provision for Uncollectible Accounts	6,668,262	7,614,068
Changes in Assets and Liabilities Affecting Operating Activities:		
Receivables	(14,465,320)	(7,074,772)
Inventories	196,136	(801,546)
Prepaid Expense	(83,257)	307,680
Accounts Payable	(964,119)	(4,453,705)
Accrued Liabilities	231,848	(3,491,778)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	376,371	992,246
Cash Flows from Noncapital Financing Activities		
Subsidized Program Transfer	33,874	(4,632,490)
	<hr/>	<hr/>
Net Cash Used in (provided by) Noncapital Financing Activities	33,874	(4,632,490)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Property, Plant, and Equipment	(9,234,096)	(7,075,739)
Capital Expansion Funds	21,698	687,656
Capital Lease Obligations	(955,315)	(655,755)
	<hr/>	<hr/>
Net Cash Used in Capital and Related Financing Activities	(10,167,713)	(7,043,838)
Cash Flows from Investing Activities		
Net Sales of Investments	9,037,663	12,252,235
Purchases of Self-Insurance Trust Investments	(166,335)	(71,398)
	<hr/>	<hr/>
Net Cash Provided by Investing Activities	8,871,328	12,180,837
(Decrease) Increase in Cash and Cash Equivalents	(886,140)	2,152,510
Cash and Cash Equivalents at Beginning of Year	2,272,057	119,547
	<hr/>	<hr/>
Cash and Cash Equivalents at End of Year	\$ 1,385,917	\$ 2,272,057
	<hr/>	<hr/>

Supplemental disclosure of cash flow information:

MCO received state appropriations of \$1,650,000 in fiscal year 2001 and \$350,000 in fiscal year 2000. These amounts represent a noncash capital and related financing activity and are not included in the Acquisition of Property, Plant and Equipment above. During fiscal 2001, MCO entered into capital lease obligations of \$427,000 for certain hospital equipment.

**MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Medical College Hospitals (the Hospital) is a nonprofit teaching hospital located in Toledo, Ohio. The Hospital is licensed to operate a 258-bed acute and ambulatory care facility, a 25-bed child and adolescent psychiatric facility and a 36-bed rehabilitation facility.

The Hospital is operated as part of the Medical College of Ohio (MCO), a nonprofit, state-supported medical school, which is a component unit of the State of Ohio.

Accounting and reporting principles

The accounting and reporting principles followed by the Hospital include those established by the American Institute of Certified Public Accountants (AICPA). The financial statements have been prepared based on the provisions of the AICPA Audit and Accounting Guide entitled "Health Care Organizations."

Patient accounts receivable and revenue

Patient accounts receivable and revenue are recorded at net realizable value when patient services are performed. MCO has agreements with third-party payors that provide for payments to MCO at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

- **Medicare and Medicaid**

MCO is a provider of services under the Medicare and Medicaid programs. MCO is paid a prospectively determined fixed price for each Medicare and Medicaid inpatient. The price varies depending on the type of illness or the patient's diagnostic related group classification. Capital costs, certain Medicare outpatient services, and Medicaid outpatient services are also reimbursed on a prospectively determined fixed price. Graduate medical education is reimbursed on a per resident basis under the Medicare program. MCO receives payment for other Medicare outpatient services and certain inpatient costs on a reasonable cost basis.

- **Other Payors**

MCO has also entered into payment agreements with certain commercial carriers to provide health care services. The basis for payment to MCO under these agreements is based on prospectively determined fixed prices, fee screens, or on a percentage of billed charges.

Provision is made in the financial statements for the differences between MCO's standard rates charged for services rendered and third-party reimbursements and for estimated settlements based on third-party reimbursement contracts. Retroactive settlements resulting from third-party audits of filed cost reports are reflected in the financial statements in the year of settlement. These provisions and settlements are included in deductions from patient service revenue. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. These amounts qualify as charity care and are not reported as revenue.

Inventories

Inventories include pharmaceuticals and medical and surgical supplies. Inventories are stated at the lower of cost or market. Cost is determined on the average cost basis.

Investments

Investments are made in accordance with policies of the Board of Trustees of the Medical College of Ohio. The types of investments that may be purchased by the institution include United States treasury obligations, certificates of deposit, bankers acceptances, corporate notes and bonds, money market funds, government agency securities and commercial paper. Investments qualifying as "derivatives" may not be purchased. As MCO does not present a classified balance sheet, the investments held in the pooled investment fund are classified as current assets on the Hospital balance sheet.

Certain cash and investments are board designated for self-insurance and capital expansion. These assets are presented in the noncurrent section of the Hospital's balance sheets.

State capital appropriations

The State of Ohio provides funding for construction of major plant facilities. State capital appropriations are not reflected on MCO's financial statements until expended by the State. When expended, state appropriations are recognized as additions to property, plant, and equipment and fund balance.

Property, plant and equipment

Property, plant and equipment are recorded at cost or, if acquired by donation, at appraised values. Depreciation and amortization of assets acquired under capital leases is computed using the straight-line method over the assets' estimated useful lives or terms of the leases. Amortization of assets under capital leases is included with depreciation expense.

Income taxes

MCO is exempt from income taxes under Section 115 of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

NOTE 2 - NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Net patient service revenue is comprised of the following:

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

	<u>Year Ended June 30, 2001</u>	<u>Year Ended June 30, 2000</u>
Gross patient charges	\$262,373,079	\$228,428,891
Less provision for third-party contractual allowances and adjustments:		
Medicare	(42,322,208)	(30,382,455)
Medicaid	(8,141,749)	(6,406,100)
Other	(54,428,406)	(43,377,163)
Less charity care services provided:		
Traditional charity care	<u>(7,740,641)</u>	<u>(8,296,050)</u>
Net Patient Service Revenue	<u>\$149,740,075</u>	<u>\$139,967,123</u>

Approximately 49% of the Hospital's revenue is derived under prospectively determined rate provisions of third-party programs (primarily Medicare and Medicaid). Revenue received under these third-party agreements (primarily the Medicare and Medicaid programs) are subject to examination and retroactive adjustments. Prior year settlements recognized in 2001 and 2000 increased net patient service revenue by approximately \$200,000 and \$3,500,000, respectively. Net patient service revenue for 2001 and 2000 includes \$4,689,000 and \$3,637,000, respectively, from the Ohio Hospital Care Assurance Program. It is the opinion of management that it is at least reasonably possible that the estimated settlements recorded will change by material amounts in the near term.

NOTE 3 - CHARITY AND UNCOMPENSATED CARE

Charity care includes services provided to persons who cannot afford healthcare because of inadequate resources or who are uninsured or underinsured. In addition to charity care, services are provided under Medicaid and other Welfare programs. Certain payments received under these programs are less than the cost of providing the service.

A summary of charity and uncompensated care, at cost, is as follows:

	<u>Year Ended June 30, 2001</u>	<u>Year Ended June 30, 2000</u>
Traditional charity care	\$4,777,000	\$5,243,000
Unpaid costs of traditional Medicaid programs	1,569,000	1,185,000
Unpaid costs of Other Welfare programs	<u>2,967,000</u>	<u>2,671,000</u>
Total Charity and Uncompensated Care	<u>\$9,313,000</u>	<u>\$9,099,000</u>

Charity and uncompensated care approximated 5.81% of total Hospital expenses for the year ended June 30, 2001 and 6% for the year ended June 30, 2000, and do not include provision for uncollectible accounts.

NOTE 4 - CASH AND INVESTMENTS

In 1998, MCO adopted Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value. Fair value is determined based on quoted market prices.

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

MCO's cash and investments are accounted for on a pooled basis. MCO employs the shared method of accounting for pooled cash and investments and for proportionate distribution of income to each fund with equity in the pool. The Hospital's portion of the bank balance of cash deposits at June 30, 2001, was \$614,825. Of the bank balance, up to \$100,000 is insured by federal depository insurance and the remainder is uninsured but collateralized by pools of securities pledged by the depository bank and held in the name of the bank.

Investments are stated at market value at June 30, 2001 and 2000. Investments are held in safekeeping by MCO's custodial bank's trust department, whose records identify MCO's ownership. For purposes of the statement of cash flows, the Hospital considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

	<u>June 30, 2001</u> Market and Carrying Value	<u>June 30, 2000</u> Market and Carrying Value
Cash Equivalents:		
Money Market Funds	\$ <u>1,385,917</u>	\$ <u>2,272,057</u>
Total Cash and Cash Equivalents	\$ <u>1,385,917</u>	\$ <u>2,272,057</u>
Investments:		
U.S. Government Obligations	\$ -	\$ 5,124,623
Corporate Notes	1,883,367	12,357,528
Bonds	<u>7,646,210</u>	<u>577,229</u>
Total Investments	\$ <u>9,529,577</u>	\$ <u>18,059,380</u>
Investments included in Current Assets	\$ 256,409	\$ 8,764,514
Investments included in Capital		
Expansion Funds	<u>9,273,168</u>	<u>9,294,866</u>
Total Investments	\$ <u>9,529,577</u>	\$ <u>18,059,380</u>

**MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

NOTE 5 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is as follows:

	June 30,	
	<u>2001</u>	<u>2000</u>
Patient accounts:		
Inpatient	\$30,548,593	\$31,476,131
Outpatient	12,082,603	10,452,256
Other	<u>10,506,270</u>	<u>6,110,438</u>
	59,137,466	48,038,824
Less:		
Allowance for uncollectible accounts	(5,278,173)	(4,165,163)
Contractual and other adjustments	<u>(18,672,404)</u>	<u>(14,735,400)</u>
Net Accounts Receivable	<u>\$35,186,889</u>	<u>\$29,138,262</u>

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors for 2001 and 2000 was as follows:

	<u>2001</u>	<u>2000</u>
Medicare	39%	31%
Commercial	22	23
Traditional Medicaid	11	11
Medical Mutual of Ohio	7	8
Blue Cross	4	7
Other Third-Party Payors	15	16
Patients	<u>2</u>	<u>4</u>
	<u>100%</u>	<u>100%</u>

NOTE 6 - SETTLEMENTS UNDER THIRD-PARTY REIMBURSEMENT CONTRACTS

The reimbursement for Medicare and Medicaid patients is subject to final determination by the respective agencies. Final determinations have been made through 1998 for Medicare and 1996 for Medicaid. Tentative settlements have been made through 2000 for both Medicare and Medicaid.

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment is as follows:

	June 30,	
	<u>2001</u>	<u>2000</u>
Land and Improvements	\$ 564,590	\$ 564,790
Building and fixtures	97,300,226	96,286,706
Equipment	58,504,897	58,210,262
Construction in progress (estimated cost to complete \$23,884,251)	<u>15,425,244</u>	<u>10,759,659</u>
	171,794,957	165,821,417
Less: Accumulated depreciation	<u>(97,088,649)</u>	<u>(88,102,605)</u>
Net Property, Plant and Equipment	<u>\$ 74,706,308</u>	<u>\$ 77,718,812</u>

**MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

NOTE 8 - LEASE COMMITMENTS

The Hospital leases certain patient care equipment under various noncancelable operating lease agreements. Total operating lease expense was \$647,000 in 2001 and \$872,000 in 2000. At June 30, 2001, the Hospital was committed to future minimum operating lease payments of \$509,000 in 2002, \$302,000 in 2003, \$119,000 in 2004, and \$7,000 in 2005.

At the expiration of various leases, the Hospital has the option to make a termination payment, purchase the equipment at fair market value or extend the lease term. Future minimum operating lease payments include \$117,000 in termination payments related to these lease agreements.

The Hospital has capital lease obligations of \$1,229,464 and \$2,184,779 at June 30, 2001 and 2000, respectively. The cost of the assets recorded under capital leases and the related accumulated depreciation as of June 30, 2001, are as follows:

Equipment Cost	\$ 5,507,037
Accumulated Depreciation	<u>(2,740,766)</u>
Net Book Value	<u>\$ 2,766,271</u>

Minimum lease payments at June 30, 2001, by year and in the aggregate, under capital leases are as follows:

2002	\$ 692,432
2003	414,559
2004	168,703
2005	41,049
2006	<u>10,262</u>
Net minimum lease payments	\$1,327,005
Less amounts representing interest	<u>(97,541)</u>
Present value of lease payments	<u>\$1,229,464</u>

NOTE 9 - RETIREMENT PLANS

The Hospital participates in the Public Employees Retirement System of Ohio (PERS) and alternative retirement plans (ARP) as defined by Ohio Revised Code, Section 3305 and Am. Sub. House Bill 586. These plans are statewide cost-sharing multiple-employer public retirement system administered and controlled by the State of Ohio. The State of Ohio issues an annual plan financial report which can be obtained by contacting the appropriate state office.

Participating employees are entitled to retirement benefits payable for life, equal to 2.1% per year of credited service times the final average salary (the average of the three highest years of earnings). Participants are entitled to retirement benefits equal to 2.5% of their final average salary for each year of service over 30 years. Participating employees may retire at age 60 with at least five years of credited service, at age 55 with at least 25 years of credited service or at any age with at least 30 years of credited service. Participating employees retiring with less than 30 years of service or at less

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001

than age 65 receive reduced benefits. Retirement benefits vest with five years of credited service. PERS also provides health care, survivor and disability benefits.

State law provides for employer and employee contributions to PERS based on actuarially determined rates. The Ohio Retirement Study Council determines the ARP rates and the Ohio Department of Insurance approves ARP carriers. Senate Bill 346 established a revised PERS disability program. PERS members were given the opportunity to elect coverage under the original or revised disability program. Anyone hired after July 29, 1992, is automatically covered under the revised disability program. The revised program was designed to be cost neutral, therefore, does not affect PERS funding. There were no material changes in actuarial assumptions, benefit provisions, actuarial funding methods or other significant factors for fiscal years 2001, 2000, and 1999. The employee and employer contribution rates for PERS were 4.3% and 10.84%, respectively, for fiscal year 2001, and 8.5% and 13.13% respectively for fiscal years 2000, and 1999. The employee and employer contribution rates for ARP were 8.5% and 7.31%, respectively, for fiscal year 2001.

The Hospital paid the required employee retirement plan contribution on behalf of contract personnel in fiscal 2001, fiscal 2000 and fiscal 1999. The payment of employee contributions by the Hospital becomes a part of the employees' final average salary calculation for the year. Contributions made by employees or on behalf of employees for PERS amounted to \$4,655,792 in fiscal 2001, \$4,454,603 in fiscal 2000 and \$4,346,629 in fiscal 1999. Contributions made by employees or on behalf of employees for ARP amounted to \$20,405 for fiscal year 2001. The Hospital's retirement costs for PERS are funded as accrued and amounted to \$5,774,641 in fiscal 2001, \$6,914,905 in fiscal 2000 and \$6,804,048 in fiscal 1999. The Hospital's retirement costs for ARP are funded as accrued and amounted to \$17,548 for fiscal 2001

MCO also provides termination benefits upon retirement resulting from unused sick days. During fiscal year 2001 and 2000, MCO calculated its liability in accordance with the provisions of GASB Statement No. 16 "Accounting for Compensated Absences."

NOTE 10 - MALPRACTICE MATTERS

MCO is self-insured for the first \$1,000,000 of loss per occurrence with an annual aggregate limit of \$3,000,000 for malpractice and general liability and maintains umbrella insurance coverage that covers any excess liability on a claims made basis. Settlement amounts have not exceeded insurance coverage for each of the past three fiscal years.

In accordance with the terms of the insurance policy, MCO maintains a self-insurance trust. Investments held in trust are comprised of U.S. government securities and corporate bonds recorded at market value at June 30, 2000. These investments are held in safekeeping by MCO's custodial bank's trust department. These securities are registered in the bank's name with internal bank records identifying MCO's ownership.

At June 30, 2001 and 2000, the Hospital has accrued \$3,000,000 discounted at 6% and \$3,003,207 discounted at 6%, respectively, for asserted and unasserted claims, based on MCO's experience and studies performed by a consulting actuary. With respect to pending malpractice claims and legal action where MCO is a defendant, it is the opinion of management that any potential liability in such actions will not materially affect the financial position of the Hospital.

**MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2001**

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Malpractice Liability at Beginning of Year	\$3,003,207	\$2,844,707
Provision for Incurred Claims	235,265	790,000
Payments for Claims	<u>(238,472)</u>	<u>(631,500)</u>
Malpractice Liability at End of Year	<u>\$3,000,000</u>	<u>\$3,003,207</u>

NOTE 11 - TRANSACTIONS WITH THE COLLEGE AND RELATED ORGANIZATIONS

During fiscal 2001 and 2000, the Hospital made nonmandatory fund balance transfers of \$33 thousand from other funds and \$4.6 million to other funds for coverage of fund balance deficits.

The Medical College of Ohio Foundation (the Foundation) is a nonprofit entity, operating under a separate Board, organized primarily for the purpose of supporting the activities of MCO. The assets of the Foundation are not included in the financial statements of the Hospital. Amounts received from the Foundation are included in private gifts, grants and contracts in the accompanying financial statements.

Associated Physicians of the Medical College of Ohio (APMCO) is a for profit entity, operating under a separate Board, organized to provide physician services at the Medical College Hospitals. Amounts received from APMCO for the use of hospital facilities and support services are included in Other Hospital Revenues. MCO does not hold any ownership in APMCO and, therefore, the assets and liabilities of APMCO are not recorded in the accompanying financial statements.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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MEDICAL COLLEGE OF OHIO

LUCAS 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
JANUARY 3, 2002**