

MEDICAL COLLEGE OF OHIO

LUCAS COUNTY

JULY 1, 2002 TO JUNE 30, 2003

PREPARED BY: ERNEST & YOUNG LLP



**Auditor of State
Betty Montgomery**

Board of Trustees
Medical College of Ohio

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, 2002 through June 30, 2003. 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.

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

BETTY MONTGOMERY
Auditor of State

January 6, 2004

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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 statements of net assets of the Medical College of Ohio, a component unit of the State of Ohio, as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, 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 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, 2003 and 2002, and the results of its operations, changes in net assets and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued reports dated September 26, 2003, 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, 2003, 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 26, 2003

MEDICAL COLLEGE OF OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis on the annual financial statements of The Medical College of Ohio ("College") provides an overview of the College's financial activity during the year ended June 30, 2003 and 2002. This discussion should be read in conjunction with the accompanying financial statements and footnotes. Management has prepared the financial statements, related note disclosures, and this discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

Using the Annual Financial Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments, as amended by GASB Statement No. 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities. These financial statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. The College restated its financial statements for the year ended June 30, 2001 to conform to GASB Statement No. 35 format.

The financial statements prescribed by GASB Statement No. 35 (the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows) present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public College's dependency on State support could result in operating deficits because State appropriations are required by GASB to be classified as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities, and helps measure the College's ability to meet financial obligations as they mature.

Noteworthy Financial Activity

The College's financial position, as a whole, changed during the year ended June 30, 2003 as compared to the previous year as evidenced by the following:

- The College's total assets increased over the prior year by \$12.6 million. Current assets decreased by \$14.8 million, of which \$3.2 million is from accounts receivable collection. Although cash and investments included in current assets decreased \$13.2 million, the amounts included in noncurrent assets increased \$22.9 million.
- Total liabilities increased by \$4.7 million. Current liabilities increased by \$3.0 million, which is primarily due to an increase in accrued liabilities of \$3.6 million. Noncurrent liabilities increased by \$1.6 million.

- The College's net assets are \$213.9 million, of which \$163.4 is either invested in capital assets or restricted. Of the remaining \$50.5 million in unrestricted assets, all but \$7.4 million is designated for specific purposes.
- Operating revenues increased by \$15.4 million compared to the prior year, primarily due to an increase in patient services.
- The College's operating expenses increased by \$5.4 million, with expected increases in all functional and natural expense categories.
- Nonoperating revenue decreased by \$.4 million, the majority of which is related to \$1.2 million decrease in State Appropriations.

In 2002, the State of Ohio required the College to include an allocation of State unfunded Workers' Compensation liability, and the College restated its prior year net assets for this estimated liability as part of adopting GASB Statements No. 34 and 35. In 2003, the State reversed its decision to have colleges and universities share in a portion of the State's Workers' Compensation liability, and the June 30, 2002 liability of \$4,880 was eliminated in 2003 through other changes in the statement of revenues, expenses, and changes in net assets.

Both the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information on the College as a whole. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating. Many other nonfinancial factors must also be considered in assessing the overall health of the College, such as quality of student applicants, student retention, strength of faculty, condition of buildings and regulatory changes in healthcare.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. The purpose of the Statement of Net Assets is to present the readers of the financial statements with a financial picture of the College as a whole.

Net assets are divided into three major categories. The first category, investment in capital assets, net of debt, provides the College's equity in property, plant and equipment. The next category is restricted assets, which is divided into nonexpendable and expendable. The corpus of the nonexpendable restricted assets is only available for investment purposes. Expendable restricted net assets are available for expenditure by the College but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The last category is unrestricted assets, which are available to the College for any lawful purpose of the institution.

From the data presented in the Statement of Net Assets, the readers are able to determine the assets available for continued operations. They are also able to determine how much the institution owes vendors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the College.

Medical College of Ohio
Condensed Statements of Net Assets
As of June 30, 2003 and 2002 (in thousands)

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets	\$ 52,646	\$ 67,436
Capital assets	157,059	153,569
Other noncurrent assets	<u>52,423</u>	<u>28,543</u>
Total assets	262,128	249,548
LIABILITIES		
Current liabilities	38,736	35,661
Noncurrent liabilities	<u>9,468</u>	<u>12,743</u>
Total liabilities	<u>48,204</u>	<u>48,404</u>
NET ASSETS		
Invested in capital assets, net of related debt	148,222	147,178
Restricted, expendable	10,292	10,312
Restricted, nonexpendable	4,916	3,392
Unrestricted	<u>50,494</u>	<u>40,262</u>
Total net assets	<u>\$213,924</u>	<u>\$201,144</u>

At June 30, 2003, total College assets were \$262.1 million, compared to \$249.6 million at June 30, 2002. The College's largest asset is its investments in physical plant of \$157.0 million at June 30, 2003.

In year 2003, the College's current assets of \$52.6 million were sufficient to cover current liabilities of \$38.7 million (current ratio of 1.36:1). In fiscal 2002, current assets of \$67.4 million were sufficient to cover current liabilities of \$35.7 million (current ratio of 1.89:1). Cash, cash equivalents and investments included in current assets decreased \$13.2 million while amounts included in noncurrent assets increased \$22.9 million.

College liabilities total \$48.2 million at June 30, 2003 compared to \$48.4 million at June 30, 2002. Long-term debt, including current portion, was \$8.8 million at June 30, 2003 and consists of master lease and other capital leases payable.

Total net assets are \$213.9 million. Unrestricted net assets total \$50.5 million, of which \$7.4 million is designated for ongoing academic and research programs, capital projects and other initiatives.

Statement of Revenue, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to present operating and nonoperating revenues and expenses recognized or incurred by the College.

In general, operating revenues and expenses result from providing goods and services to the various customers of the College in order to carry out the College's mission. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations or subsidy is considered nonoperating because these dollars are provided by the Legislature to the College without the Legislature directly receiving commensurate goods and services for those revenues.

Medical College of Ohio
Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2003 and 2002 (in thousands)

	<u>2003</u>	<u>2002</u>
Operating revenues	\$229,933	\$214,548
Operating expenses	<u>267,623</u>	<u>262,236</u>
Operating loss	(37,690)	(47,688)
Nonoperating revenues, net	<u>41,574</u>	<u>42,031</u>
Gain (loss) before other changes	3,884	(5,657)
Other changes	<u>8,896</u>	<u>5,191</u>
Increase (decrease) in net assets	12,780	(466)
Net assets, beginning of year	<u>201,144</u>	<u>201,610</u>
Net assets, end of the year	<u>\$213,924</u>	<u>\$201,144</u>

The most significant sources of operating revenues for the College are patient care services, tuition and fees, and grants and contracts, of which the most significant increase was \$11.4 million in patient care services.

For the year ended June 30, 2003, operating expenditures, including depreciation of \$18.5 million, totaled \$267.6 million. Research and instruction functional categories have increased proportionally to the additional revenue from grants and contracts. Expenses for patient services grew proportionally with increases in patient service revenue.

State appropriations were the most significant nonoperating revenue, totaling, \$34.4 million in 2003 versus \$35.6 million in 2002.

Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide relevant information about the cash receipts and cash payments during this period of time. The Statement of Cash Flows also helps users assess the College's ability to generate future net cash flows, meet its obligations as they come due, and needs for external financing.

The Statement of Cash Flows has five parts. The first part is operating cash flows, which presents the net cash used in operating activities. The second section reflects cash flows from noncapital financing activities. This section reflects cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities including cash used for capital acquisition and construction. The fourth section reflects the cash flows from investing and shows the purchases, proceeds, and interest received from investing activities. The last section reconciles the net cash to operating income or loss reflected in the Statement of Revenues, Expenses, and Changes in Net Assets.

Medical College of Ohio
Condensed Statements of Cash Flows
For the years ended June 30, 2003 and 2002 (in thousands)

	<u>2003</u>	<u>2002</u>
Cash provided by (used in):		
Operating activities	\$(17,443)	\$ (27,011)
Noncapital financing activities	38,484	39,529
Capital and related financing activities	(13,878)	(7,117)
Investing activities	<u>(17,920)</u>	<u>3,121</u>
Net (decrease) increase in cash	(10,757)	8,522
Cash and cash equivalents, beginning of year	<u>12,689</u>	<u>4,167</u>
Cash and cash equivalents, end of year	<u>\$ 1,932</u>	<u>\$ 12,689</u>

Major sources of cash included student tuition and fee (\$16.3 million), state appropriations (\$34.4 million), patient care services (\$170.5 million), and grants and contracts (\$27 million). The largest payments were for suppliers (\$31.3 million) and employees (\$167.1 million).

Capital Assets

The College has \$157.0 million invested in capital assets, net of accumulated depreciation of \$202.7 million. Depreciation charges for the current year are \$18.5 million. Detailed information about the College's capital assets is presented in the notes to the financial statements.

Economic Factors That Will Affect the Future

The ability of the College to fulfill its mission and execute its strategic plan is directly influenced by enrollment, State support, and the cost of health care, utilities, employee compensation and unfunded State and Federal mandates.

Additional challenges include major capital needs, development of the Northwest Ohio Technology Park, and the continued investment in facility renewal and information system technology.

The economic position of the College is closely tied to the economic condition of the State, as all state universities in Ohio receive State financial assistance for both operations and designated capital improvements through appropriations by the Legislature. These appropriations contribute substantially to the successful maintenance and operation of the College.

Requests for Information

This financial report is designed to provide a general overview of the Medical College of Ohio finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Russell E. Armistead, Interim Treasurer, Medical College of Ohio, 3065 Arlington Avenue, Office 1600 Dowling Hall, Toledo, Ohio 43614.

MEDICAL COLLEGE OF OHIO
Statements of Net Assets
(Dollars in Thousands)

	June 30	
	2003	2002
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 1,723	\$ 10,850
Investments	-	4,123
Accounts Receivable, Net	39,431	42,635
Loans Receivable, Net	5,209	5,595
Inventories	5,524	3,671
Other Assets	759	562
Total Current Assets	52,646	67,436
Noncurrent Assets		
Restricted Cash and Cash Equivalents	209	1,839
Other Long-Term Investments	50,038	24,652
Restricted Investments	2,176	2,052
Capital Assets, Net	157,059	153,569
Total Noncurrent Assets	209,482	182,112
Total Assets	262,128	249,548
Liabilities		
Current Liabilities		
Accounts Payable	12,075	13,763
Accrued Liabilities	22,399	18,784
Deferred Revenue	1,893	1,485
Long-Term Debt - Current Portion	2,169	1,529
Malpractice - Current Portion	200	100
Total Current Liabilities	38,736	35,661
Noncurrent Liabilities		
Long-Term Debt	6,668	4,863
Allocation of State Unfunded Workers' Compensation	-	4,880
Malpractice	2,800	3,000
Total Noncurrent Liabilities	9,468	12,743
Total Liabilities	48,204	48,404
Net Assets		
Invested in Capital Assets, Net of Related Debt	148,222	147,178
Restricted		
Expendable	10,292	10,312
Nonexpendable	4,916	3,392
Unrestricted	50,494	40,262
Total Net Assets	\$ 213,924	\$ 201,144

See accompanying notes to financial statements

MEDICAL COLLEGE OF OHIO
Statements of Revenues, Expenses, and Changes in Net Assets
(Dollars in Thousands)

	Year Ended June 30	
	2003	2002
Revenues		
Operating Revenues		
Student Tuition and Fees, net of student aid of \$1,336 and \$1,550, respectively	\$ 15,519	\$ 13,690
Federal Grants and Contracts	16,837	14,385
State Grants and Contracts	1,874	1,199
Private Grants and Contracts	8,316	7,748
Net Patient Services	167,314	155,870
Sales and Services	4,278	4,991
Auxillary Enterprises	3,167	3,324
Residency Reimbursement	3,445	3,448
Interest on Student Loans	96	135
Other Sources	9,087	9,758
Total Operating Revenues	229,933	214,548
Expenses		
Operating Expenses		
Salaries	132,677	130,972
Benefits	30,803	29,514
Supplies	42,680	42,764
Travel	1,499	1,568
Information and Communication	2,995	3,288
Outside Purchased Services	29,679	27,598
Provision for Doubtful Accounts	2,886	3,250
Miscellaneous	5,938	4,633
State Unfunded Workers' Compensation	-	1,308
Depreciation	18,466	17,341
Total Operating Expenses	267,623	262,236
Operating Loss	(37,690)	(47,688)
Nonoperating Revenues (Expenses)		
State Appropriations	34,414	35,581
Federal Grants and Contracts	4,131	3,452
Excess of Restricted Receipts	(61)	1,032
Early Retirement	-	(536)
Investment Income	3,467	2,738
Interest on Debt	(377)	(236)
Total Nonoperating Revenues	41,574	42,031
Net Gain (Loss) Before Other Changes	3,884	(5,657)
Other Changes		
Capital Appropriations	4,557	6,043
Capital Grants and Gifts	1,420	1,817
Net Disposal and Write off of Plant Facilities	(1,961)	(2,669)
Elimination of Unfunded Workers' Compensation Liability (Note 8)	4,880	-
Total Other Changes	8,896	5,191
Increase (decrease) in Net Assets	12,780	(466)
Net Assets		
Net Assets at Beginning of Year	201,144	201,610
Net Assets at End of Year	\$ 213,924	\$ 201,144

MEDICAL COLLEGE OF OHIO
Statement of Cash Flows
(Dollars in Thousands)

	Year ended June 30	
	2003	2002
Cash flows from Operating Activities		
Tuition and fees	\$ 16,313	\$ 15,259
Grants and contracts	27,028	23,332
Hospital Revenues	170,518	156,479
Miscellaneous income	2,424	4,911
Auxiliary Enterprises	6,613	6,771
Payments to employees	(162,215)	(162,563)
Payments for supplies	(44,368)	(38,935)
Payments for outside purchased services	(29,680)	(27,597)
Other receipts (payments)	(4,076)	(4,668)
Net cash used in operating activities	<u>(17,443)</u>	<u>(27,011)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	34,414	35,581
Grants and contracts for other than capital purposes	4,131	3,452
Excess of restricted receipts	(61)	1,032
Early Retirement	-	(536)
Financial aid loan receipts	19,877	18,166
Financial aid loan disbursements	(19,877)	(18,166)
Net cash provided by noncapital financing activities	<u>38,484</u>	<u>39,529</u>
Cash flows from Capital Financing Activities		
Proceeds from Capital Debt	4,454	4,977
Capital appropriations	4,557	6,043
Capital grants and gifts received	1,421	1,817
Net disposal and write off of plant facilities	(1,492)	(931)
Purchases of capital assets	(20,479)	(18,056)
Principal paid on capital debt and leases	(1,962)	(954)
Interest paid on capital debt and leases	(377)	(13)
Net cash used in capital financing activities	<u>(13,878)</u>	<u>(7,117)</u>
Cash Flows from Investing Activities		
Net change in investments	(21,387)	383
Interest on investments	3,467	2,738
Net cash provided by investing activities	<u>(17,920)</u>	<u>3,121</u>
Net (Decrease) Increase in Cash		
Cash and cash equivalents beginning of the year	(10,757)	8,522
Cash and cash equivalents end of year	<u>12,689</u>	<u>4,167</u>
	<u>\$ 1,932</u>	<u>\$ 12,689</u>
Reconciliation of Net Operating Revenues (Expenses) To Net Cash Provided (Used) by Operating Activities:		
Operating loss	\$ (37,690)	\$ (47,688)
Adjustments to reconcile operating loss to net cash by operating activities:		
Depreciation expense	18,466	17,341
Provision for bad debts	2,886	3,250
Changes in assets and liabilities:		
Receivables, net	3,590	(2,985)
Inventories	(1,853)	(230)
Other assets	(197)	(95)
Malpractice accrual	(100)	100
Accounts payable	(1,688)	3,828
Accrued liabilities	(1,265)	(770)
Deferred revenue	408	238
Net cash used in operating activities	<u>\$ (17,443)</u>	<u>\$ (27,011)</u>

Supplemental disclosure of cash flow information:

During fiscal 2003 and 2002, MCO entered into capital lease obligations of \$10 and \$1,140, respectively, for certain hospital equipment, which is also excluded from the statement of cash flows.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

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 (the State), is a nonprofit, state-supported medical school operating in Toledo, Ohio. Its financial statements have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States as presented by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared to incorporate all fund groups internally utilized by MCO.

Pursuant to 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 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. When both restricted and unrestricted resources are available for use, it is MCO's policy to use restricted resources first, then unrestricted resources as needed.

The Medical College Hospitals (the Hospital) is operated as part of MCO as a nonprofit teaching hospital.

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.

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.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

Measurement Focus

Operating revenues and expenses generally result from providing service and producing and delivering goods in connection with MCO's principal ongoing operations. The principal operating revenues include hospital services and student tuition. MCO also recognizes as operating revenue grants classified as exchange transactions and auxiliary activities. Operating expenses include the hospital costs, educational costs, administrative expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 MCO. 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. Investments are carried at market value. Investment income includes realized and unrealized gains and losses on investments, interest income, and dividends.

Capital Assets

Capital assets are recorded at historical cost or, if acquired by donation, at appraised values. When capital assets are sold or otherwise disposed of the carrying value of such assets are removed from asset accounts, the investment in capital assets along with the necessary adjustments to accumulated depreciation. MCO capitalizes assets greater than \$1,000.

Deferred Revenue

Summer tuition and fees, and corresponding expenses relating to various sessions falling in this fiscal year are recognized as tuition revenue. The portion of sessions falling into the next year are recorded as deferred revenue and prepaid expenses in the Statement of Net Assets and will be recognized in the following year.

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.

Cash Equivalents

Cash equivalents include investments with original maturities of three months or less at the time they are purchased.

Compensated Absences

Unused sick time may accumulate until retirement. Employees with a minimum of ten years of services are paid twenty-five percent accumulated sick time upon retirement with a maximum of 240 hours. A liability for these amounts is included in accrued liabilities in the Statement of Net Assets.

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

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – GASB STATEMENTS NO. 34 and 35

In fiscal 2002, MCO adopted GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* effective July 1, 2000. MCO now follows the "business-type" activities which provides for the following components of MCO's financial reporting:

- Managements' Discussion and Analysis,
- Basic financial statements including a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows for MCO as a whole, and
- Notes to the financial statements

GASB Statements No. 34 and 35 also require such items as reporting revenues net of discounts and allowances, deferral of certain summer tuition and depreciation of capital assets.

NOTE 3 - STATE SUPPORT

MCO is a state-supported institution of higher education which receives a student-based subsidy and other subsidies from 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 Statement of Net Assets.

State appropriations are recognized when received. Restricted appropriations are recognized as revenue only to the extent expended.

NOTE 4 - 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 MCO; accordingly, the accounts of the Foundation are not included in the financial statements of MCO. For the years ended June 30, 2003 and 2002, respectively, the Foundation paid approximately \$1,348 and \$1,551 to MCO as reimbursement for personnel and payroll related costs, rent for use of MCO facilities, and other administrative costs.

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* has been issued and is effective for periods beginning after June 15, 2003. This statement may require MCO to reflect the Foundation as a discretely presented component unit in the financial statements based on the significance of its relationship with MCO.

Associated Physicians of the Medical College of Ohio (APMCO) is a for profit entity, operating under a separate Board of Trustees, organized to provide physician services at the Hospitals. Amounts received from APMCO for

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

the use of hospital facilities and support services are included in Other Hospital Revenues. MCO does not hold any ownership in APMCO; therefore, the assets and liabilities of APMCO are not recorded in the accompanying financial statements.

NOTE 5 - CASH AND INVESTMENTS

Cash and investments are accounted for on a pooled basis for making daily cash and investment transactions. Pooled cash and investments with maturity of three months or less are considered to be cash equivalents. GASB Statement No. 3, *Deposits with Financial Institutions Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires cash and cash equivalents and investments held by the College to be categorized into the following risk categories:

- (1) Cash and Cash Equivalents
 - a. Insured or collateralized with securities held by MCO, or by its agent in MCO's name.
 - b. Collateralized with securities held by the pledging financial institution's trust department or agent in MCO's name.
 - c. Uncollateralized

- (2) Investments
 - a. Insured or registered, or securities held by MCO, or by its agent in MCO's name.
 - b. Uninsured and unregistered, with securities held by the counter party's trust department or agent in MCO's name.
 - c. Uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in MCO's name.

The bank balance of cash deposits was \$2,663 and \$1,804 at June 30, 2003 and June 30, 2002, respectively. Of the balance, up to \$100 is insured by federal depository insurance (Category 1) and the remainder is uninsured but collateralized by pools of securities pledged by depository banks and held in the name of the respective banks (Category 2). 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, 2003 and 2002. 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 (Category 2).

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
	<u>Market and Carrying Value</u>	<u>Market and Carrying Value</u>
Cash:		
Cash Deposits	\$1,380	\$ 2,389
Bank Overdrafts	(2,200)	(5,398)
Cash in Escrow		
Linear Accelerator and Chiller purchase	209	1,839
Cash Equivalents:		
Money Market Funds	1,723	10,850
Investments:		
U.S. Government Obligations	17,490	8,918
Corporate Notes	<u>32,548</u>	<u>19,857</u>
Total Pooled Cash and Investments	<u>\$51,150</u>	<u>\$38,456</u>

Net unrealized gains on U.S. government obligations and corporate notes were \$938 and \$1,048, respectively, at June 30, 2003 and June 30, 2002, and is included in investment income.

NOTE 6 – ACCOUNTS RECEIVABLE AND LOANS

Accounts receivable relate to several transactions including tuition and fees, patient services, auxiliary enterprise sales, grants and contracts, and miscellaneous sales and services.

Accounts receivable are recorded net of allowance for uncollectable accounts of \$1,016 and \$2,614 respectively for 2003 and 2002, respectively.

The accounts and loans receivable are shown net of allowances for uncollectable accounts, as of June 30, as follows:

	<u>2003</u>	<u>2002</u>
Patient	\$32,680	\$35,158
Tuition, Fees and Student Loans	5,209	5,595
Auxiliary Services	58	55
Grants and Contracts	2,558	3,039
Capital	105	534
Accrued Interest	548	348
Miscellaneous College	2,581	1,489
Miscellaneous Hospital	<u>901</u>	<u>2,012</u>
	<u>\$44,640</u>	<u>\$48,230</u>

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

NOTE 7 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003 was as follows:

	July 1, 2002 <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reallocations</u>	June 30, 2003 <u>Balance</u>
Capital assets, not being depreciated:					
Land	\$ 2,818	\$ -	\$(165)	\$ -	\$ 2,653
Construction in Progress	<u>12,160</u>	<u>16,480</u>	<u>-</u>	<u>(22,542)</u>	<u>6,098</u>
Total capital assets not being depreciated	14,978	16,480	(165)	(22,542)	8,751
Capital assets being depreciated:					
Land improvements	4,664	16	-	34	4,714
Infrastructure	31,436	19	-	784	32,239
Building & Improvements	186,285	463	-	13,154	199,902
Equipment	<u>104,462</u>	<u>3,536</u>	<u>(4,323)</u>	<u>10,478</u>	<u>114,153</u>
Total capital assets being depreciated	326,847	4,034	(4,323)	24,450	351,008
Less: accumulated depreciation	<u>188,256</u>	<u>18,466</u>	<u>(4,022)</u>	<u>-</u>	<u>202,700</u>
Total capital assets being depreciated, net	<u>138,591</u>	<u>(14,432)</u>	<u>(301)</u>	<u>24,450</u>	<u>148,308</u>
Total capital assets, Net	<u>\$153,569</u>	<u>\$2,048</u>	<u>\$(466)</u>	<u>\$1,908</u>	<u>\$157,059</u>

Depreciation is recognized on a straight-line basis over the estimated useful life of the assets, as follows:

<u>Classification</u>	<u>Life Varies</u>
Infrastructure	2 – 40 years
Buildings	5 – 40 years
Equipment	3 – 20 years

NOTE 8 – WORKERS' COMPENSATION

The College participates in the State's self-insured workers' compensation plan (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating State agencies and colleges in the Plan are accrued by the Ohio Bureau of Workers' Compensation (the Bureau) based on estimates that incorporate the past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the State's Plan annually fund the workers' compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the workers' compensation claims of participating State agencies and colleges. In 2002, the Bureau actuarially calculated estimated amounts for the State, and determined the College's pro-rata share of the estimated liability on the basis of the College's share of actual cash payments (premiums and administrative costs) to the Bureau in the preceding fiscal year divided by such payments made by all participating entities.

In 2003, the State reversed its decision to have colleges and universities share in a portion of the State Workers' Compensation liability. The College reflects the change in workers' compensation liability of \$4,880 as other change in net assets in the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2003.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

NOTE 9 - RETIREMENT PLANS

MCO participates in the State Teachers Retirement System of Ohio (STRS), 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 defined benefit plans administered and controlled by the State. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code (ORC). The State issues annual plan financial reports, which can be obtained by contacting the appropriate state office. STRS offers three plans to employees. In addition to the Defined Benefit Plan (DB), effective July 1, 2001, employees can participate in a Defined Contribution Plan (DC), and a Combined Plan.

Under the DB plan, 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 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.

The DC Plan allows employees to invest all of their employee contributions and employer contributions equal to 10.5% of earned compensation. The employee determines how to allocate their contributions among nine investment choices. An employee is eligible to receive a retirement benefit at age 50 and termination of employment. The employee may elect to receive a lifetime monthly annuity or lump-sum withdrawal. Employer contributions into employees' accounts are vested after the first anniversary of the first day of paid service. Employees in the DC Plan who become disabled are entitled only to their account balance. If an employee dies before retirement benefits begin, the employee's designated beneficiary is entitled to receive the employee's account balance.

With the Combined Plan, employee contributions are invested by the employee, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. An employee's defined benefit is determined by multiplying 1% of the employee's final average salary by the employee's year of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Contributions into the DC Plan and the Combined Plan are credited to employee accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan employees will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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 PER's disability program. PER's 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 2003, 2002 and 2001. The contribution rates for fiscal years 2003, 2002, and 2001, were as follows:

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

	Fiscal 2003/2002/2001 <u>STRS</u>	Fiscal 2003/2002/2001 <u>PERS</u>	Fiscal 2003/2002/2001 <u>ARP-STRS</u>	Fiscal 2003/2002/2001 <u>ARP-PERS</u>
Employer:	14.00%	13.31%	8.0%	7.31%
Employee:	9.30%	8.50%	9.3%	8.5%

Contributions made by employees are as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
STRS	\$2,270	\$2,319	\$2,369
ARP-STRS	535	574	561
PERS	7,153	7,585	7,675
ARP-PERS	713	669	701

Contributions made by MCO are as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
STRS	\$ 3,417	\$ 3,491	\$ 3,565
ARP-STRS	460	494	482
PERS	8,844	11,867	12,039
ARP-PERS	614	575	603

PERS enacted a temporary employer rate rollback for calendar year 2000. For a period of six months, PERS reduced the contribution rate for employers to 10.84% and employees to 4.3%. 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%.

NOTE 10 – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in note 9, the Ohio Revised Code provides the statutory authority requiring the College to fund postretirement health care through employer contributions to PERS and STRS.

PERS provides postretirement health care coverage to age-and-service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB), as described in GASB Statements No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 employer contribution rate for state employers was 13.31% of covered payroll; 5% was the portion that was used to fund health care for the calendar year. The law enforcement employer rate for 2002 was 16.70% and 5% was used to fund health care.

OPEB's are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB's during 2002 were \$776,007. As of December 31, 2002, the audited estimated net assets available for future OPEB payments were \$8.886 million. The number of active contributing participants for PERS was 402.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the ORC, STRS has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By the Ohio law, the cost of the coverage paid from STRS funds shall be included in the employers contribution rate, currently 14% of covered payroll.

The STRS board currently allocated employer contributions equal to 8% of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. The balance in the Health Care Reserve Fund was \$3,010,000 at June 30, 2002. The Health Care Reserve Fund allocation for the year ended June 30, 2003 will be 1% of covered payroll.

For the year ended June 30, 2002, the net health care costs paid by STRS were \$35,697. There were 105 eligible benefit recipients.

NOTE 11 - LONG TERM DEBT AND LEASE COMMITMENTS

Capital lease activity for the year ended June 30, 2003 was as follows:

	Balance July 1, <u>2002</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2003</u>	Current <u>Portion</u>
Master Lease Purchase Obligations	\$4,926	\$4,454	\$(1,265)	8,116	\$1,587
Other Lease Obligations	<u>1,466</u>	<u>36</u>	<u>(780)</u>	<u>721</u>	<u>582</u>
Total Long-Term Debt	<u>\$6,392</u>	<u>\$4,490</u>	<u>(2,045)</u>	<u>\$8,837</u>	<u>\$2,169</u>

In 2002, MCO entered into a master equipment lease purchase agreement with a financial institution to finance a linear accelerator with monthly payments of \$48 beginning in July 2002 at 4.95% annual interest rate through 2009. At June 30, 2003, approximately \$3.9 million is included in capital assets; the remaining \$28 is in an escrow account, which is included in restricted cash and cash equivalents.

In 2002, MCO entered into a master equipment lease purchase agreement with a financial institution to finance a water chiller unit with monthly payments of \$16 beginning in February 2002 at 3.79% annual interest rate through 2007. At June 30, 2003, approximately \$827 is included in capital assets, and \$181 of the remaining funds is in an escrow account, which is included in restricted cash and cash equivalents.

In 2002, MCO entered into a master equipment lease purchase agreement with a financial institution, which extends a \$3 million line of credit until June, 2007. In 2002, MCO utilized the line of credit by entering into three capital lease agreements for \$560, \$77 and \$48. In 2003, MCO entered into five additional capital lease agreements for \$842, \$360, \$229, \$354 and \$943. At June 30, 2003, \$3,413 is included in capital assets pertaining to these capital leases, related to equipment with monthly payments of \$63 at 4.8% interest rate through 2007.

In 2003, MCO entered into an agreement with a financial institution to finance physiological monitoring upgrades with monthly payments of \$24 beginning August 2003, at 4.15% annual interest through 2007. At June 30, 2003, approximately \$1.3 million is included in capital assets.

In 2003, MCO entered into two other agreements with a financial institution for financing information systems upgrades with monthly payments of \$27 and \$47 beginning January, 2003 and April, 2003 respectively, through

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

2005. The annual interest rate is 2.69% and 3.69%. At June 30, 2003, approximately \$420 is included in capital assets.

MCO has other capital lease obligations of \$721 and \$1,466 at June 30, 2003 and 2002, respectively. The cost of the assets recorded under capital leases as of June 30, 2003, is \$3,435.

Minimum lease payments at June 30, 2003, by year and in the aggregate, under capital leases are as follows:

	Other Lease Obligations	Master Lease Purchase Obligations
2004	\$ 602	\$1,888
2005	116	1,956
2006	16	1,879
2007	8	1,719
2008	4	978
2009-2012	—	<u>580</u>
Net minimum lease payments	\$746	\$9,000
Less amounts representing interest	<u>(25)</u>	<u>(884)</u>
Present value of lease payments	<u>\$ 721</u>	<u>\$8,116</u>

Contracts have been entered into for capital construction projects in an amount approximating \$13,934. The estimated cost to complete construction in progress at June 30, 2003 is \$1,859, the majority of which will be funded by capital appropriations from the State of Ohio.

MCO leases certain facilities and data processing, patient care and other equipment under various noncancelable operating lease agreements. Total operating lease expense was \$919 in 2003 and \$1,032 in 2002. At June 30, 2003, MCO was committed to future minimum operating lease payments of \$352 in 2004 and \$79 in 2005.

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 \$41 in termination payments related to these lease agreements.

NOTE 12 - MALPRACTICE MATTERS

MCO is self-insured for the first \$2,000 of loss per occurrence with an annual aggregate limit of \$4,000 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, 2003. 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, 2003 and 2002, MCO has accrued \$3,000 discounted at 6% and \$3,100 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. Settlements have not exceeded insurance coverage in each of the past three years.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003**

(Dollars in Thousands)

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Malpractice Liability at Beginning of Year	\$3,100	\$3,000
Provision for Incurred Claims	106	108
Payments for Claims	<u>(206)</u>	<u>(8)</u>
Malpractice Liability at End of Year	<u>\$3,000</u>	<u>\$3,100</u>

NOTE 13 – OPERATING EXPENSES

Operating expenses by functional category for the years ended June 30, 2003, and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Instruction	\$ 45,915	\$ 45,380
Research	17,237	15,207
Public Service	1,115	786
Academic Support	2,868	3,998
Student Services	1,379	1,628
Institutional Support	8,142	2,654
Operation and Maintenance of Plant	8,998	7,653
Auxillary Enterprises	3,008	1,094
Patient Services	156,555	158,973
Scholarships and Fellowships	1,054	2,964
Provision for Doubtful Accounts	2,886	3,250
State Unfunded Workers' Compensation	-	1,308
Depreciation	<u>18,466</u>	<u>17,341</u>
Total Operating Expenses	<u>\$267,623</u>	<u>\$262,236</u>

Medical College of Ohio
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2003

	Pass-Through Entity Identifying Number	CFDA #	FY2003
STUDENT FINANCIAL AID			
Federal Work Study	(1)	84.033	\$135,782
Federal Perkins Loan Program (Federal contribution)	(1)	84.038	93,701
TOTAL STUDENT FINANCIAL AID			<u>229,483</u>
RESEARCH & DEVELOPMENT			
Department of Interior			
Bureau of Land Management	(1)	15.222	55,487
Department of Defense			
Military Medical Research and Development	(1)	12.420	7,784
Military Medical Research and Development	(1)	12.420	27,936
Military Medical Research and Development	(1)	12.420	102,286
			<u>138,005</u>
Environmental Protection Agency			
Environmental Protection Consolidated Research	(1)	66.500	98,298
Department of Health and Human Services:			
National Cancer Institute	(1)	93.CN85147	55,068
National Cancer Institute	(1)	93.CN85166	272,273
National Cancer Institute	(1)	93.CN95118	565
National Cancer Institute	(1)	93.CN05109	27,011
National Cancer Institute	(1)	93.CN05121	69,156
National Cancer Institute	(1)	93.CN05123	208,264
National Cancer Institute	(1)	93.CN15125	102,991
National Cancer Institute	(1)	93.CN15121	43,944
National Cancer Institute	(1)	93.CN15111	107,997
National Cancer Institute	(1)	93.CN25103	71,703
National Cancer Institute	(1)	93.CN25106	10,958
National Cancer Institute	(1)	93.CN25117	17,814
National Cancer Institute	(1)	93.CN25126	83,925
Allergy, Immunology and Transplantation Research	(1)	93.855	45,793
National Institutes of Health			
Research Related to Deafness and Communication Disorders	(1)	93.173	128,957
Research Related to Deafness and Communication Disorders	(1)	93.173	84,985
Research Related to Deafness and Communication Disorders	(1)	93.173	(576)
Biological Basis Research in the Neurosciences	(1)	93.854	(1,676)
Biological Basis Research in the Neurosciences	(1)	93.854	(187)
Biological Basis Research in the Neurosciences	(1)	93.854	233,618
Drug Abuse Research Programs	(1)	93.279	194,062
Drug Abuse Research Programs	(1)	93.279	70,985
Drug Abuse Research Programs	(1)	93.279	(84)
Drug Abuse Research Programs	(1)	93.279	103,717
Drug Abuse Research Programs	(1)	93.279	3,171
Drug Abuse Research Programs	(1)	93.279	202,261
Drug Abuse Research Programs	(1)	93.279	78,293
Population Research	(1)	93.864	29,636
Population Research	(1)	93.864	5,378
Population Research	(1)	93.864	6,998
Nursing Research	(1)	93.361	(165)
Nursing Research	(1)	93.361	473
Nursing Research	(1)	93.361	(839)

**Medical College of Ohio
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

	Pass-Through Entity Identifying Number	CFDA #	FY2003
Nursing Research	(1)	93.361	181,443
Nursing Research	(1)	93.361	67,083
Genetics and Developmental Biology Research	(1)	93.862	153
Genetics and Developmental Biology Research	(1)	93.862	51,930
Genetics and Developmental Biology Research	(1)	93.862	175,369
Pharmacology, Physiology and Biological Chemistry Research	(1)	93.859	228,626
Pharmacology, Physiology and Biological Chemistry Research	(1)	93.859	109,187
Pharmacology, Physiology and Biological Chemistry Research	(1)	93.859	159,399
Pharmacology, Physiology and Biological Chemistry Research	(1)	93.859	47,419
Microbiology and Infectious Disease Research	(1)	93.856	4,601
Microbiology and Infectious Disease Research	(1)	93.856	31,410
Microbiology and Infectious Disease Research	(1)	93.856	197,817
Microbiology and Infectious Disease Research	(1)	93.856	209,948
Microbiology and Infectious Disease Research	(1)	93.856	71,454
Microbiology and Infectious Disease Research	(1)	93.856	105,430
Microbiology and Infectious Disease Research	(1)	93.856	69,789
Microbiology and Infectious Disease Research	(1)	93.856	37,938
Microbiology and Infectious Disease Research	(1)	93.856	399,316
Cancer Biology Research	(1)	93.396	96,879
Cancer Biology Research	(1)	93.396	51,150
Cancer Biology Research	(1)	93.396	58,345
Cancer Biology Research	(1)	93.396	302,636
Cancer Biology Research	(1)	93.396	131,463
Heart and Vascular Disease Research	(1)	93.837	58,443
Heart and Vascular Disease Research	(1)	93.837	865
Heart and Vascular Disease Research	(1)	93.837	262,215
Heart and Vascular Disease Research	(1)	93.837	184,785
Heart and Vascular Disease Research	(1)	93.837	29,294
Heart and Vascular Disease Research	(1)	93.837	31,186
Heart and Vascular Disease Research	(1)	93.837	282,353
Heart and Vascular Disease Research	(1)	93.837	(2,290)
Heart and Vascular Disease Research	(1)	93.837	482,259
Heart and Vascular Disease Research	(1)	93.837	(81)
Heart and Vascular Disease Research	(1)	93.837	156,364
Heart and Vascular Disease Research	(1)	93.837	64,121
Heart and Vascular Disease Research	(1)	93.837	137,559
Heart and Vascular Disease Research	(1)	93.837	155,482
Heart and Vascular Disease Research	(1)	93.837	204,495
Heart and Vascular Disease Research	(1)	93.837	74,942
Heart and Vascular Disease Research	(1)	93.837	50
Heart and Vascular Disease Research	(1)	93.837	524,297
Heart and Vascular Disease Research	(1)	93.837	275,435
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	1,957
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	159,522
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	183,309
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	15,208
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	84,742
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	276,418
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	64,261
Cancer Detection and Diagnosis Research	(1)	93.394	(384)
Cancer Detection and Diagnosis Research	(1)	93.394	(3,312)
Cancer Detection and Diagnosis Research	(1)	93.394	170,922
Cancer Detection and Diagnosis Research	(1)	93.394	25,943
Cancer Detection and Diagnosis Research	(1)	93.394	121,745
Cancer Detection and Diagnosis Research	(1)	93.394	33,584
Biological Response to Environmental Hazards	(1)	93.113	(4,920)

**Medical College of Ohio
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

	Pass-Through Entity Identifying Number	CFDA #	FY2003
Digestive Diseases and Nutrition Research	(1)	93.848	19,497
Aging Research	(1)	93.866	(3,754)
Aging Research	(1)	93.866	131,211
Aging Research	(1)	93.866	38,560
Aging Research	(1)	93.866	(18)
Cancer Research Manpower	(1)	93.398	222
Cancer Research Manpower	(1)	93.398	21,580
Cancer Research Manpower	(1)	93.398	174,520
Cancer Treatment Research	(1)	93.395	(1,793)
Cancer Treatment Research	(1)	93.395	217,143
Cancer Treatment Research	(1)	93.395	86,285
Cancer Treatment Research	(1)	93.395	(4,192)
Cancer Treatment Research	(1)	93.395	350,829
Cancer Cause and Prevention Research	(1)	93.393	6,253
Cancer Cause and Prevention Research	(1)	93.393	122,535
Cancer Cause and Prevention Research	(1)	93.393	14,103
Center for Medical Rehabilitation Research	(1)	93.929	725
Center for Medical Rehabilitation Research	(1)	93.929	226,840
Center for Medical Rehabilitation Research	(1)	93.929	31,193
Center for Medical Rehabilitation Research	(1)	93.929	27,135
Arthritis, Musculoskeletal and Skin Disease Research	(1)	93.846	(1,170)
Arthritis, Musculoskeletal and Skin Disease Research	(1)	93.846	109,864
Cancer Control	(1)	93.399	312,777
Cancer Control	(1)	93.399	50,155
Comparative Medicine	(1)	93.306	111,597
Research Infrastructure	(1)	93.389	275,250
Occupational Safety and Health Training Grants	(1)	93.263	(693)
Occupational Safety and Health Training Grants	(1)	93.263	11,202
National Institutes of Health	(1)	93.XXX	830
National Institutes of Health	(1)	93.XXX	922,107
			<u>12,346,817</u>
National Science Foundation			
Biological Sciences	(1)	47.074	1,127
Biological Sciences	(1)	47.074	1,252
Biological Sciences	(1)	47.074	2,731
			<u>5,109</u>
Pass through:			
<i>Department of Health and Human Services</i>			
Biocheck Labs			
Allergy, Immunology and Transplantation Research	(1)	93.855	26,228
Case Western University			
Lung Diseases Research	(1)	93.838	37,165
Lung Diseases Research	(1)	93.838	113,008
Mary M. Gooley Hemophilia			
National Institutes of Health	(1)	93.XXX	2,195
Massachusetts Institute of Technology			
Biological Response to Environmental Hazards	(1)	93.113	(2,067)
Institute of Genomic Research			
Microbiology and Infectious Disease Research	(1)	93.856	30,997
Microbiology and Infectious Disease Research	(1)	93.856	78,006
National Children's Cancer Institute			
Cancer Treatment Research	(1)	93.395	25,703
Cancer Treatment Research	(1)	93.395	2,331
RXKinetix, Inc.			
Microbiology and Infectious Disease Research	(1)	93.856	75,595
National Medical Technology Testbed Inc			

**Medical College of Ohio
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

	Pass-Through Entity Identifying Number	CFDA #	FY2003
Cancer Cause and Prevention Research	(1)	93.393	66,736
Cancer Cause and Prevention Research	(1)	93.393	25,402
Statistics & Epidemiology			
National Institute of Health	(1)	93.HC55139	501
Cancer Control	(1)	93.399	2,043
University of Rochester			
Neurosciences and Neurological Disorders	(1)	93.853	2,585
Oral Diseases and Disorders Research	(1)	93.121	56,198
University of Iowa			
Heart and Vascular Disease Research	(1)	93.837	11,743
University of Michigan			
Cancer Treatment Research	(1)	93.395	4,664
Cancer Treatment Research	(1)	93.395	49,777
University of Toledo			
Heart and Vascular Disease Research	(1)	93.837	4,228
Veterans Medical Research Fdn			
Microbiology and Infectious Disease Research	(1)	93.856	35,633
Microbiology and Infectious Disease Research	(1)	93.856	184,713
Washington University			
Oral Diseases and Disorders Research	(1)	93.121	80,744
Oral Diseases and Disorders Research	(1)	93.121	31,245
Oral Diseases and Disorders Research	(1)	93.121	83,233
Oral Diseases and Disorders Research	(1)	93.121	38,418
Oral Diseases and Disorders Research	(1)	93.121	107,489
Oral Diseases and Disorders Research	(1)	93.121	36,607
Wayne State University			
Research Related to Deafness and Communication Disorders	(1)	93.173	(564)
Research Related to Deafness and Communication Disorders	(1)	93.173	(340)
Research Related to Deafness and Communication Disorders	(1)	93.173	97,383
			<u>1,307,599</u>
<i>Department of Defense</i>			
National Medical Technology Testbed Inc			
Military Medical Research and Development	(1)	12.420	93,719
<i>National Science Foundation</i>			
Statistics & Epidemiology			
Polar Programs	(1)	47.078	82,786
University of Michigan			
Biological Sciences		47.074	<u>22,809</u>
			105,594
<i>Department of Commerce</i>			
University of Alaska			
Undersea Research	(1)	11.430	<u>289</u>
TOTAL RESEARCH AND DEVELOPMENT			14,150,918
OTHER:			
<i>Department of Health and Human Services</i>			
Health Resources and Service Administration			
Academic Administrative Units in Primary Care	(1)	93.984	2,262
Model State Supported Area Health Education Centers	(1)	93.107	529,849
Model State Supported Area Health Education Centers	(1)	93.107	323,047
Grants for Graduate Training in Family Medicine	(1)	93.379	(1,899)
Physician Assistant Training in Primary Care	(1)	93.886	781
Cancer Research Manpower	(1)	93.398	75
Cancer Research Manpower	(1)	93.398	138,848

**Medical College of Ohio
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

	Pass-Through Entity Identifying Number	CFDA #	FY2003
Cancer Research Manpower	(1)	93.398	65,839
Predoctoral Training in Primary Care	(1)	93.896	(3,449)
Predoctoral Training in Primary Care	(1)	93.896	121,001
Advanced Education Nursing Traineeships	(1)	93.358	39,758
Occupational Safety and Health Training Grants	(1)	93.263	41
Occupational Safety and Health Training Grants	(1)	93.263	62,553
Academic Administrative Units in Primary Care	(1)	93.984	38,918
Academic Administrative Units in Primary Care	(1)	93.984	230,366
Allied Health Special Projects	(1)	93.191	107,586
Centers for Disease Control and Prevention	(1)	93.283	13,831
Coordinated Services and Access To For Women, Children	(1)	93.153	34,709
Coordinated Services and Access To For Women, Children	(1)	93.153	302,369
Outpatient Early Intervention Services with Respect to HIV	(1)	93.918	394,166
Outpatient Early Intervention Services with Respect to HIV	(1)	93.918	121,141
Drug Abuse National Research Service Awards	(1)	93.278	45
Drug Abuse National Research Service Awards	(1)	93.278	26,459
Drug Abuse National Research Service Awards	(1)	93.278	4,040
Drug Abuse National Research Service Awards	(1)	93.278	(682)
Drug Abuse National Research Service Awards	(1)	93.278	18,511
Drug Abuse National Research Service Awards	(1)	93.278	8,239
Pass through:			
Bowling Green State University			
Biological Response to Environmental Hazards	(1)	93.113	5,522
City of Toledo			
HIV Prevention Activities	(1)	93.940	11,965
HIV Prevention Activities	(1)	93.940	9,252
Ohio Department of Health			
Maternal and Child Health Services Block Grant	(1)	93.994	24,715
Maternal and Child Health Services Block Grant	(1)	93.994	11
Maternal and Child Health Services Block Grant	(1)	93.994	(7,985)
Maternal and Child Health Services Block Grant	(1)	93.994	153,561
Ohio Department of Mental Health			
Community Mental Health Services	(1)	93.958	(3,759)
Community Mental Health Services	(1)	93.958	275,462
University of Illinois			
Medical Library Assistance	(1)	93.879	20
			<u>3,047,164</u>
<i>Department of Education</i>			
Ohio Department of Health			
Grants for Infants and Families with Disabilities	(1)	84.181	15,060
Grants for Infants and Families with Disabilities	(1)	84.181	50,218
			<u>65,278</u>
Community Mental Health Services	(1)	93.958	608,347
TOTAL OTHER			<u><u>3,720,789</u></u>
Total Expenditures of Federal Awards			<u><u>18,101,190</u></u>

(1) No pass-through identifying number is available for this program.

MEDICAL COLLEGE OF OHIO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2003

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 (CFDA No. 84.032)**

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, 2003, totalled \$16,098,301.

3. **Health Professions Student Loan Program (CFDA No. 93.342)**

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, 2003, outstanding loans under both programs totalled \$1,168,138.

4. **Federal Perkins Loan Program (CFDA No. 84.038)**

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, 2003, outstanding Perkins loans totalled \$3,779,245.

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, 2003, and have issued our report thereon dated September 26, 2003. 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 26, 2003

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, 2003. 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, 2003.

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 26, 2003



MEDICAL COLLEGE OF OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2003

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: \$691,457
- (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:

CFDA Number(s)	Name of Federal Program or Cluster
Various 93.958 Various	Research and Development Cluster Community Mental Health Services Student Financial Aid Cluster

Part II - Schedule of Financial Statement Findings

None

Part III - Schedule of Federal Award Findings and Questioned Costs

None

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, 2003 and 2002, and the related statements of revenue and expenses and changes in net assets 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, 2003 and 2002, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.



September 26, 2003

MEDICAL COLLEGE HOSPITALS

BALANCE SHEETS
(Dollars in Thousands)

	Year Ended June 30	
	2003	2002
<u>ASSETS</u>		
Current Assets		
Cash and Cash Equivalents	\$ 388	\$ -
Accounts Receivable, Net	33,685	37,703
Estimated Receivables Under Third Party Reimbursement Programs	2,469	6,517
Accrued Interest Receivable	237	105
Inventories	5,013	3,171
Prepaid Expense	515	414
Total Current Assets	42,307	47,910
Property, Plant and Equipment		
Property, Plant and Equipment at Cost	187,130	177,503
Less Accumulated Depreciation	(112,621)	(103,744)
Net Property, Plant and Equipment	74,509	73,759
Other Assets		
Self-Insurance Trust Investments	2,175	2,053
Investments	3,953	-
Investments Held For Capital Expansion	17,570	14,761
Total Other Assets	23,698	16,814
Total Assets	\$ 140,516	\$ 138,483
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	\$ 9,545	\$ 12,274
Accrued Liabilities	12,596	15,553
Malpractice - Current Portion	200	100
Long-Term Debt - Current Portion	2,164	1,529
Total Current Liabilities	24,505	29,456
Noncurrent Liabilities		
Malpractice	2,800	3,000
Allocation of State Unfunded Worker' Compensation	-	4,234
Long-Term Debt	6,648	4,863
Total Noncurrent Liabilities	9,448	12,097
Total Liabilities	33,954	41,553
NET ASSETS	106,562	96,930
Total Liabilities and Net Assets	\$ 140,516	\$ 138,483

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

MEDICAL COLLEGE HOSPITALS
STATEMENTS OF REVENUE AND EXPENSES AND
CHANGES IN NET ASSETS
(Dollars in Thousands)

	Year Ended June 30	
	2003	2002
Revenue		
Net Patient Service Revenue	\$ 167,314	\$ 155,870
Other Revenue	8,365	9,051
Investment Income	1,253	911
Total Revenue	176,932	165,832
Expenses		
Salaries and Benefits	86,928	85,523
Supplies	36,353	37,089
Allocated College Expenses	10,410	11,119
Outside Purchased Services	19,729	17,811
Depreciation and Amortization	10,984	9,981
Provision for Uncollectible Accounts	2,886	3,250
Information and Communication	1,228	1,285
Travel	234	266
Interest on Debt	386	94
State Unfunded Workers' Compensation	-	1,163
Other Expenses	2,707	2,631
Total Expenses	171,845	170,212
Excess of Revenue over (under) Expenses	5,087	(4,380)
Net Assets at Beginning of Year	96,930	102,861
Transfer of Plant Assets Between College and Hospital	(136)	(1,855)
Elimination of State Unfunded Workers' Compensation (Note 8)	4,234	-
Net Realized and Unrealized Gain on Investments	447	304
Net Assets at End of Year	\$ 106,562	\$ 96,930

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

MEDICAL COLLEGE HOSPITALS

STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended June 30	
	2003	2002
Operating Activities		
Excess of revenues over (under) expenses	\$ 5,087	\$ (4,380)
Adjustments to reconcile excess of revenues over (under) expenses to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	10,984	9,981
Provision for Uncollectible Accounts	2,886	3,250
Changes in Assets and Liabilities Affecting Operating Activities:		
Receivables	5,048	(10,362)
Inventories	(1,842)	(186)
Prepaid Expense	(101)	(85)
Accounts Payable	(2,729)	3,881
Accrued Liabilities	(3,057)	7,307
Net Cash Provided by Operating Activities	16,276	9,406
Financing Activities		
Acquisition of Property, Plant, and Equipment	(11,871)	(10,889)
Capital Expansion Funds	(2,809)	(5,488)
Capital Lease Obligations	(770)	236
Proceeds from Line of Credit	3,289	682
Proceeds from Capital Debt	1,165	4,310
Capital Debt Principle Payments	(1,264)	(66)
Net Cash Used in Financing Activities	(12,260)	(11,215)
Investing Activities		
Net Sales of Investments	(3,506)	560
Purchases of Self-Insurance Trust Investments	(122)	(137)
Net Cash (Used in) Provided by Investing Activities	(3,628)	423
Increase (Decrease) in Cash and Cash Equivalents	388	(1,386)
Cash and Cash Equivalents at Beginning of Year	-	1,386
Cash and Cash Equivalents at End of Year	\$ 388	\$ -

Supplemental disclosure of cash flow information:

During fiscal 2003 and 2002, MCO entered into capital lease obligations of \$10 and \$1,140, respectively, for certain hospital equipment, which is excluded from the statement of cash flows.

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

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Dollars in Thousands)

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," and does not reflect the GASB reporting requirements.

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, 2003
(Dollars in Thousands)

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.

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

State capital appropriations

The State of Ohio (the State) provides funding for construction of major plant facilities. The 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 net assets.

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 lesser of 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.

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Dollars in Thousands)

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:

	<u>Year Ended June 30, 2003</u>	<u>Year Ended June 30, 2002</u>
Gross patient charges	\$312,182	\$272,790
Less provision for third-party contractual allowances and adjustments:		
Medicare	(55,090)	(39,666)
Medicaid	(12,342)	(5,132)
Other	(66,426)	(62,421)
Less charity care services	<u>(11,010)</u>	<u>(9,701)</u>
Net Patient Service Revenue	<u>\$167,314</u>	<u>\$155,870</u>

Approximately 51% 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 2003 and 2002 increased net patient service revenue by approximately \$1,300 for each year. Net patient service revenue for 2003 and 2002 includes \$4,294 and \$5,506, 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 not 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, 2003</u>	<u>Year Ended June 30, 2002</u>
Traditional charity care	\$6,783	\$5,864
Unpaid costs of traditional Medicaid programs	3,155	1,042
Unpaid costs of Other Welfare programs	<u>1,943</u>	<u>3,913</u>
Total Charity and Uncompensated Care	<u>\$11,881</u>	<u>\$10,819</u>

Charity and uncompensated care approximated 6.91% of total Hospital expenses for the year ended June 30, 2003 and 6.42% for the year ended June 30, 2002, and do not include provision for uncollectible accounts.

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003
(Dollars in Thousands)

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.

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, 2003 was \$388. Of the bank balance, up to \$100 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, 2003 and 2002. 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>2003</u>	<u>June 30</u>	<u>2002</u>
Investments:			
Money Market Funds	\$ 226		\$ 133
Corporate Notes	7,522		7,365
Bonds	<u>15,950</u>		<u>9,316</u>
Total Investments	<u>\$23,698</u>		<u>\$16,814</u>

NOTE 5 - ACCOUNTS RECEIVABLE

A summary of accounts receivable, net is as follows:

	<u>2003</u>	<u>June 30</u>	<u>2002</u>
Patient accounts:			
Inpatient	\$21,923		\$29,568
Outpatient	11,208		8,957
Other	<u>9,379</u>		<u>15,812</u>
	42,510		54,337
Less:			
Allowance for uncollectible accounts	(1,016)		(2,598)
Contractual and other adjustments	<u>(7,809)</u>		<u>(14,036)</u>
Net Accounts Receivable	<u>\$33,685</u>		<u>\$37,703</u>

MEDICAL COLLEGE HOSPITALS
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(Dollars in Thousands)

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 2003 and 2002 was as follows:

	<u>2003</u>	<u>2002</u>
Medicare	32%	30%
Commercial	15	24
Traditional Medicaid	11	11
Medical Mutual of Ohio	6	7
Blue Cross	6	8
Other Third-Party Payors	23	19
Patients	<u>7</u>	<u>1</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 2000 for Medicare and 1998 for Medicaid. Tentative settlements have been made through 2002 for Medicare and 2001 for Medicaid.

NOTE 7- PROPERTY, PLANT AND EQUIPMENT

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

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Land and improvements	\$ 3,225	\$ 3,188
Building and fixtures	115,085	111,138
Equipment	64,945	57,098
Construction in progress (estimated cost to complete \$712,452 at June 30, 2003)	<u>3,875</u>	<u>6,079</u>
	187,130	177,503
Less: Accumulated depreciation	<u>(112,621)</u>	<u>(103,744)</u>
Net Property, Plant and Equipment	<u>\$ 74,509</u>	<u>\$ 73,759</u>

NOTE 8 – WORKERS' COMPENSATION

The College participates in the State's self-insured workers' compensation plan (the Plan), which pays workers' compensation benefits to beneficiaries who have been injured on the job. Losses from asserted and unasserted claims for the participating State agencies and colleges in the Plan are accrued by the Ohio Bureau of Workers' Compensation (the Bureau) based on estimates that incorporate the past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Participants in the State's Plan annually fund the workers' compensation liability based on rates set by the Bureau to collect the cash needed in subsequent fiscal years to pay the workers' compensation claims of participating State agencies and colleges. In 2002, the Bureau actuarially calculated estimated amounts for the State, and determined the Hospital's pro-rata share of the estimated liability on the basis of the Hospital's share of actual cash payments (premiums and administrative costs) to the Bureau in the preceding fiscal year divided by such payments made by all participating entities.

In 2003, the State decided not to have colleges and universities share in the portion of the State Workers' Compensation liability. The Hospital reflects the change in workers' compensation liability

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2003
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of \$4,234 as revenue in the statement of revenue and expenses and changes in net assets for the year ended June 30, 2003.

NOTE 9 – LONG TERM DEBT AND LEASE COMMITMENTS

Capital lease activity for the year ended June 30, 2003 was as follows:

	Balance July 1, <u>2002</u>	<u>Additions</u>	<u>Payments</u>	Balance June 30, <u>2003</u>	Current <u>Portion</u>
Master Lease Purchase Obligations	\$4,926	\$4,454	\$(1,264)	\$8,116	\$1,587
Other Lease Obligations	<u>1,466</u>	<u>10</u>	<u>(780)</u>	<u>696</u>	<u>577</u>
Total Long-Term Debt	<u>\$6,392</u>	<u>\$4,464</u>	<u>\$(2,043)</u>	<u>\$8,812</u>	<u>\$2,164</u>

In 2002, MCO entered into a master equipment lease purchase agreement with a financial institution to finance a linear accelerator with monthly payments of \$48 beginning in July 2002 at 4.95% annual interest rate through 2009. At June 30, 2003, approximately \$3.9 million is included in capital assets; the remaining \$29 is in an escrow account, which is included in restricted cash and cash equivalents.

In 2002, MCO entered into a master equipment lease purchase agreement with a financial institution to finance a water chiller unit with monthly payments of \$16 beginning in February 2002 at 3.79% annual interest rate through 2007. At June 30, 2003, approximately \$827 is included in capital assets, and \$164 of the remaining funds is in an escrow account, which is included in restricted cash and cash equivalents.

In 2002, MCO entered into a master equipment lease purchase agreement with a financial institution, which extends a \$3 million line of credit until June, 2007. In 2002, MCO used the line of credit by entering into three capital lease agreements for \$560, \$77 and \$48. In 2003, MCO entered into five additional capital lease agreements for \$842, \$360, \$229, \$354, and \$943. At June 30, 2003, \$3,413 is included in capital assets pertaining to these capital leases, related to equipment with monthly payments of \$63 at 4.8% interest rate through 2007.

In 2003, MCO entered into an agreement with a financial institution to finance physiological monitoring upgrades with monthly payments of \$24 beginning August 2003, at 4.15% annual interest through 2007. At June 30, 2003, approximately \$1.3 million is included in capital assets.

In 2003, MCO entered into two other agreements with a financial institution for financing information systems upgrades with monthly payments of \$27 and \$47 beginning January 2003 and April 2003 respectively, through 2005. The annual interest rate is 2.69% and 3.69%. At June 30, 2003, approximately \$420 is included in capital assets.

MCO has other capital lease obligations of \$697 and \$1,466 at June 30, 2003 and 2002, respectively. The cost of the assets recorded under capital leases as of June 30, 2003, is \$3,410.

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
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Minimum lease payments at June 30, 2003, by fiscal year and in the aggregate, under capital leases are as follows:

	<u>Other Lease</u> <u>Obligations</u>	<u>Master Lease</u> <u>Purchase Obligations</u>
2004	\$ 596	\$1,888
2005	110	1,956
2006	9	1,879
2007	3	1,719
2008	-	978
2009-2012	-	<u>580</u>
Net minimum lease payments	\$ 718	\$8,999
Less amounts representing interest	<u>(22)</u>	<u>(884)</u>
Present value of lease payments	<u>\$ 696</u>	<u>\$8,116</u>

The Hospital leases certain patient care equipment under various noncancelable operating lease agreements. Total operating lease expense was \$707 in 2003 and \$847 in 2002. At June 30, 2003, the Hospital was committed to future minimum operating lease payments of \$152 in 2004, \$12 in 2005, and nothing thereafter.

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 \$41 in termination payments related to these lease agreements.

NOTE 10 - 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. The State 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 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 2003, 2002, and 2001. The employee and employer contribution rates for PERS were 4.3% and 10.84%, respectively, for fiscal year 2001, and

MEDICAL COLLEGE HOSPITALS
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8.5% and 13.31%, respectively, for fiscal years 2003 and 2002. The employee and employer contribution rates for ARP were 8.5% and 7.31%, respectively, for fiscal year 2003.

The Hospital paid the required employee retirement plan contribution on behalf of contract personnel in fiscal 2003, 2002 and 2001. 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 \$5,041 in 2003, \$4,942 in 2002 and \$4,656 in 2001. Contributions made by employees or on behalf of employees for ARP amounted to \$14 for 2003. The Hospital's retirement costs for PERS are funded as accrued and amounted to \$7,896 in 2003, \$7,737 in 2002 and \$5,775 in 2001. The Hospital's retirement costs for ARP are funded as accrued and amounted to \$12 for 2003.

MCO also provides termination benefits upon retirement resulting from unused sick days. During 2003 and 2002, MCO calculated its liability in accordance with the provisions of GASB Statement No. 16 "Accounting for Compensated Absences."

NOTE 11 - MALPRACTICE MATTERS

MCO is self-insured for the first \$2,000 of loss per occurrence with an annual aggregate limit of \$4,000 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, 2003 and 2002. 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, 2003 and 2002, the Hospital has accrued \$3,000 discounted at 6% and \$3,100 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.

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Malpractice Liability at Beginning of Year	\$3,100	\$3,000
Provision for Incurred Claims	106	107
Payments for Claims	<u>(206)</u>	<u> (7)</u>
Malpractice Liability at End of Year	<u>\$3,000</u>	<u>\$3,100</u>

NOTE 12 - TRANSACTIONS WITH THE COLLEGE AND RELATED ORGANIZATIONS

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.

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
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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.

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* has been issued and is effective for periods beginning after June 15, 2003. This statement will require MCO to reflect the Foundation as a discretely presented component unit in the financial statements based on the significance of its relationship with MCO.



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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 22, 2004**