

MEDICAL COLLEGE OF OHIO

LUCAS COUNTY

JULY 1, 2003 TO JUNE 30, 2004

PREPARED BY: ERNST & YOUNG



**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, 2003 through June 30, 2004. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 20, 2005

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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 (the College), a component unit of the State of Ohio, as of June 30, 2004 and 2003, 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 the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Medical College of Ohio at Toledo Foundation, a discretely presented component unit of the College. Those financial statements were audited by other auditors whose report was furnished to us, and in our opinion, insofar as it relates to the amounts included for the College, is based solely on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical College of Ohio and its discretely presented component unit as of June 30, 2004 and 2003, and the 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.

As discussed in Note 1 to the financial statements, in fiscal 2004 the College adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which required the discrete presentation of Medical College of Ohio at Toledo Foundation financial statements as a component unit of the College.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2004, 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, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted 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, 2004, 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 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 30, 2004

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 years ended June 30, 2004, 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 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, 2004 as compared to the previous year as evidenced by the following:

- The College's total assets increased over the prior year by \$6.3 million. Current assets increased by \$8.4 million, of which \$5.6 million is from accounts receivable collection. Cash and investments included in total assets increased by \$7.0 million.
- Total liabilities increased by \$1.5 million. Current liabilities increased by \$1.0 million. Noncurrent liabilities increased by \$0.5 million.
- The College's net assets are \$218.8 million, of which \$164.1 is either invested in capital assets or restricted. Of the remaining \$54.7 million in unrestricted assets, all but \$7.4 million is designated for specific purposes.

- Operating revenues increased by \$15.8 million compared to the prior year, primarily due to an increase in patient services.
- The College's operating expenses increased by \$14.4 million. The majority of which is related to a \$4.0 million increase in the provision for doubtful accounts, and a \$7.7 million increase in salaries and benefits.
- Nonoperating revenue decreased by \$3.2 million, the majority of which is related to a \$3.7 million decrease in investment income.

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, 2004, 2003 and 2002 (in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS			
Current assets	\$ 61,051	\$ 52,647	\$ 67,436
Capital assets	150,651	157,059	153,569
Other noncurrent assets	56,749	52,423	28,543
Total assets	268,451	262,129	249,548
LIABILITIES			
Current liabilities	39,855	38,736	35,661
Noncurrent liabilities	9,826	9,468	12,743
Total liabilities	49,681	48,204	48,404
NET ASSETS			
Invested in capital assets, net of related debt	150,542	148,222	147,178
Restricted, expendable	10,567	10,292	10,312
Restricted, nonexpendable	2,957	4,916	3,392
Unrestricted	54,705	50,494	40,262
Total net assets	<u>\$ 218,770</u>	<u>\$ 213,924</u>	<u>\$ 201,144</u>

Fiscal Year 2004 Compared to 2003

At June 30, 2004, total College assets were \$268.5 million, compared to \$262.1 million at June 30, 2003. The College's largest asset is its investments in physical plant of \$151.0 million at June 30, 2004 and \$157.0 million at June 30, 2003.

In fiscal 2004, the College's current assets of \$61.0 million covered current liabilities of \$39.9 million (current ratio of 1.53:1). In fiscal 2003, current assets of \$52.6 million covered current liabilities of \$38.7 million (current ratio of 1.36:1). Cash, cash equivalents and investments included in current assets increased \$2.7 million while amounts included in noncurrent assets increased \$34.3 million.

College liabilities total \$49.7 million at June 30, 2004, compared to \$48.2 million at June 30, 2003. Long-term debt, including current portion, was \$8.6 million at June 30, 2004, compared to \$8.8 million at June 30, 2003, and consists of master lease and other capital leases payable.

Total net assets are \$218.8 million at June 30, 2004 compared to \$213.9 million at June 30, 2003. Unrestricted net assets total \$54.7 million and \$50.5 million at June 30, 2004 and 2003.

Fiscal Year 2003 Compared to 2002

At June 30, 2003, total College assets were \$262.1 million, compared to \$249.5 million at June 30, 2002. The College's largest asset was its investments in physical plant of \$148.2 million at June 30, 2003.

In fiscal 2003, current assets of \$52.6 million covered current liabilities of \$38.7 million (current ratio of 1.36:1). In fiscal 2002, current assets of \$67.4 million covered current liabilities of \$48.4 million (current ratio of 1.39:1). Cash, cash equivalents and investments included in current assets increased by \$2.7 million while amounts included in noncurrent assets increased \$34.3 million.

College liabilities total \$48.2 million at June 30, 2003 and \$48.4 million at June 30, 2002. Long-term debt, including current portion, was \$8.8 million at June 30, 2003 and \$6.4 million at June 30, 2002, and consists of master lease and other capital leases payable.

Total net assets were \$213.9 million and \$201.1 million at June 30, 2003 and 2002 respectively. Unrestricted net assets totaled \$50.5 million and \$40.3 million at June 30, 2003 and 2002, respectively.

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 Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>Amount</u>	<u>Percentage</u>	<u>2002</u>	<u>Amount</u>	<u>Percentage</u>
Operating Revenues							
Student Tuition and fees (net of student aid)	\$ 17,624	\$ 15,519	\$ 2,10	13.60%	\$ 13,690	\$ 1,829	13.40%
Grants and Contracts	27,839	27,027	812	3.00%	23,332	3,695	15.80%
Hospital	180,089	167,314	12,775	7.60%	155,870	11,444	7.30%
Other Operating Revenue	20,187	20,073	114	0.60%	1,656	(1,583)	-7.30%
Total Operating Revenues	245,741	229,933	15,806	24.80%	214,548	15,385	29.20%
Operating Expenses							
Salaries and Benefits	171,204	163,480	7,724	4.70%	160,486	2,994	1.90%
Supplies	41,823	42,680	(857)	-2%	42,764	(84)	-0.20%
Outside Purchased Services	29,408	29,679	(271)	-0.90%	27,598	2,081	7.50%
Other Expenses	20,542	13,318	7,224	54.20%	14,047	(729)	-5.20%
Depreciation	19,045	18,466	579	3.10%	17,341	1,125	6.50%
Total Operating Expenses	282,022	267,623	14,399	-3.70%	262,236	5,387	-21%
Nonoperating Revenues (Expenses) and Other Changes							
State Appropriations	33,568	34,414	(846)	-2.50%	35,581	(1,167)	-3.30%
Other Nonoperating Revenues	4,775	7,160	2,385	-33.30%	6,450	710	11%
Other Changes	2,785	8,897	(6,112)	-68.70%	5,191	3,706	71.40%
Total Nonoperating Revenues	41,128	50,471	(4,573)	-18.50%	47,222	3,249	6.90%
Increase in Net Assets	4,846	12,781	(7,935)	-62.10%	(466)	13,246	-2842.70%
Net Assets at Beginning of Year	213,924	201,143	12,781	6.40%	201,610	(466)	-0.20%
Net Assets at End of Year	218,770	213,924	4,843	2.30%	201,144	12,780	6.40%

Fiscal Year 2004 Compared to 2003

The most significant sources of operating revenues for the College are patient care services, tuition and fee, grants and contract, of which the most significant increase was \$12.8 million in patient care.

For the year ended June 30, 2004, operating expenditures, including depreciation of \$19 million, totaled \$282.0 million. 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 the increases in patient service revenue.

State appropriations were the most significant nonoperating revenue, totally \$33.6 million and \$34.4 million at June 30, 2004 and 2003, respectively.

Fiscal Year 2003 Compared to 2002

The most significant sources of operating revenues for the College were patient care services, tuition and fees, 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. For the year ended June 30, 2002, operating expenditures, including depreciation of \$17 million, totaled \$262.2 million. Research and instruction functional categories have increased proportionally to the additional revenue from grants and contracts. Expenses for patient services grew proportionally with the increase in patient service revenue.

State appropriations were the most significant nonoperating revenue, totaling \$34.4 million and \$35.6 million at June 30, 2003 and 2002, respectively.

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, 2004, 2003 and 2002
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash provided by (used in):			
Operating activities	\$(13,686)	\$(17,443)	\$ (27,011)
Noncapital financing activities	38,972	38,484	39,529
Capital financing activities	(18,139)	(13,878)	(7,117)
Investing activities	(4,581)	(17,920)	3,121
Net (decrease) increase in cash	2,566	(10,757)	8,522
Cash and cash equivalents, beginning of year	1,932	12,689	4,167
Cash and cash equivalents, end of year	<u>\$ 4,498</u>	<u>\$ 1,932</u>	<u>\$ 12,689</u>

Fiscal Year 2004 Compared to 2003

In 2004 major sources of cash included student tuition and fees (\$17.9 million), state appropriations (\$33.6 million), patient care services (\$174.5 million), and grants and contracts (\$27.9 million). The largest payments in 2004 were for suppliers (\$41.7 million) and employees (\$171.6 million).

In 2003 major sources of cash included student tuition and fees (\$16.3 million), state appropriations (\$34.4 million), patient care services (\$170.5 million), and grants and contracts (\$27 million). The largest payments in 2003 were for suppliers (\$44.3 million) and employees (\$162.2 million).

Fiscal Year 2003 Compared to 2002

In 2003 major sources of cash included student tuition and fees (\$16.3 million), state appropriations (\$34.4 million), patient care services (\$170.5 million), and grants and contracts (\$27 million). The largest payments in 2003 were for suppliers (\$44.3 million) and employees (\$162.2 million).

In 2002 major sources of cash included student tuition and fees (\$15.2 million), state appropriations (\$35.6 million), patient care services (\$156.5 million), and grants and contracts (\$23.3 million). The largest payments in 2002 were for suppliers (\$38.9 million) and employees (\$162.6 million).

Capital Assets

The College has \$150.5 million invested in capital assets, net of accumulated depreciation of \$216.8 million. Depreciation charges for the current year are \$19.0 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 Donna Zuk, Acting 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)

	Medical College of Ohio		Medical College of Ohio	
	Year Ended June 30,		At Toledo Foundation	
	2004	2003	Year Ended June 30,	2004
2003	2004	2003	2003	
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 4,404	\$ 1,723	\$ 1,209	\$ 925
Investments	-	-	25,535	23,268
Accounts Receivable, Net	45,053	39,431	529	435
Loans Receivable, Net	5,066	5,209	1,461	-
Inventories	6,004	5,524	-	-
Other Assets	524	759	59	-
Total Current Assets	61,051	52,646	28,793	24,628
Noncurrent Assets				
Restricted Cash and Cash Equivalents	194	209	-	-
Other Long-Term Investments	54,310	50,038	-	-
Restricted Investments	2,245	2,176	-	-
Charitable Remainder Trusts and Annuity Contracts	-	-	255	265
Cash Surrender Value of Life Insurance Policies	-	-	137	125
Capital Assets, Net	150,651	157,059	571	652
Total Noncurrent Assets	207,400	209,482	963	1,042
Total Assets	268,451	262,128	29,756	25,670
Liabilities				
Current Liabilities				
Accounts Payable	12,178	12,075	1,914	236
Contribution Payable	-	-	2,250	-
Accrued Liabilities	22,811	22,399	82	80
Long-Term Debt - Current Portion	2,604	2,169	-	-
Deferred Revenue	2,062	1,893	-	-
Malpractice - Current Portion	200	200	-	-
Total Current Liabilities	39,855	38,736	4,246	316
Noncurrent Liabilities				
Long-Term Debt	6,126	6,668	-	-
Malpractice - Long Term Portion	3,700	2,800	-	-
Total Noncurrent Liabilities	9,826	9,468	-	-
Total Liabilities	49,681	48,204	4,246	316
Net Assets				
Invested in Capital Assets, Net of Related Debt	150,542	148,222	-	-
Restricted				
Expendable	10,567	10,292	10,922	10,816
Nonexpendable	2,957	4,916	12,360	14,482
Unrestricted	54,705	50,494	2,228	56
Total Net Assets	\$ 218,770	\$ 213,924	\$ 25,510	\$ 25,354

See accompanying notes to financial statements

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

	MEDICAL COLLEGE OF OHIO		MEDICAL COLLEGE OF OHIO AT TOLEDO FOUNDATION	
	June 30,		June 30,	
	2004	2003	2004	2003
Revenues				
Operating Revenues				
Student Tuition and Fees, net of student aid of \$2,061 and \$1,386, respectively	\$ 17,624	\$ 15,519	\$ -	\$ -
Federal Grants and Contracts	17,531	16,837	-	-
State Grants and Contracts	1,363	1,874	-	-
Private Grants and Contracts	8,945	8,316	-	-
Hospital	180,089	167,314	-	-
Sales and Services	4,584	4,278	-	-
Contributions and Support	-	-	1,444	1,670
Administrative Fees	-	-	396	498
Auxiliary Enterprises	3,040	3,167	-	-
Residency Reimbursement	3,458	3,445	-	-
Interest on Student Loans	89	96	-	-
Other Sources	9,017	9,087	428	421
Total Operating Revenues	<u>245,740</u>	<u>229,933</u>	<u>2,268</u>	<u>2,589</u>
Expenses				
Operating Expenses				
Salaries	137,738	132,677	-	-
Benefits	33,466	30,803	-	-
Supplies	41,823	42,680	-	-
Travel	1,788	1,499	-	-
Support of College	-	-	5,253	3,733
Fund Raising	-	-	161	197
Management	-	-	990	900
Information and Communication	2,859	2,995	-	-
Outside Purchased Services	29,408	29,679	-	-
Provision for Doubtful Accounts	6,897	2,886	-	-
Other	8,998	5,938	-	-
Depreciation	19,045	18,466	-	-
Total Operating Expenses	<u>282,022</u>	<u>267,623</u>	<u>6,404</u>	<u>4,830</u>
Operating Loss	(36,283)	(37,690)	(4,136)	(2,241)
Nonoperating Revenues (Expenses)				
State Appropriations	33,568	34,414	-	-
Federal Grants and Contracts	4,599	4,131	-	-
Excess (Deficiency) of Restricted Receipts	805	(61)	-	-
Investment (Loss) Income	(240)	3,467	4,253	(696)
Interest on Debt	(389)	(377)	-	-
Total Nonoperating Revenues	<u>38,343</u>	<u>41,574</u>	<u>4,253</u>	<u>(696)</u>
Net Gain (Loss) Before Other Changes	2,060	3,884	117	(2,937)
Other Changes				
Capital Appropriations	2,425	4,557	-	-
Additional Funding for Plant Facilities (Capital Grants & Gifts)	3,129	1,421	-	-
Addition to Permanent Endowment	-	-	39	78
Net Disposal and Write off of Plant Facilities	(2,769)	(1,961)	-	-
Elimination of Unfunded Workers' Compensation Liability (Note 7)	-	4,880	-	-
Total Other Changes	<u>2,785</u>	<u>8,897</u>	<u>39</u>	<u>78</u>
Increase (decrease) in Net Assets	<u>4,845</u>	<u>12,781</u>	<u>156</u>	<u>(2,859)</u>
Net Assets				
Net Assets at Beginning of Year	<u>213,924</u>	<u>201,143</u>	<u>25,354</u>	<u>28,213</u>
Net Assets at End of Year	<u>\$ 218,769</u>	<u>\$ 213,924</u>	<u>\$ 25,510</u>	<u>\$ 25,354</u>

See accompanying notes to financial statements

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

	Year ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Tuition and fees	\$ 17,940	\$ 16,313
Grants and contracts	27,839	27,028
Hospital Revenues	174,467	170,518
Miscellaneous income	4,105	2,424
Auxillary Enterprises	6,498	6,613
Payments to employees	(171,616)	(162,215)
Payments for supplies	(41,721)	(44,368)
Payments for outside purchased services	(29,408)	(29,680)
Other receipts (payments)	(9,481)	(4,076)
Net cash used in operating activities	(21,377)	(17,443)
Cash Flows from Noncapital Financing Activities		
State appropriations	33,568	34,414
Grants and contracts for other than capital purposes	4,599	4,131
Excess (Deficit) of restricted receipts	805	(61)
Financial aid loan receipts	20,530	19,877
Financial aid loan disbursements	(20,530)	(19,877)
Net cash provided by noncapital financing activities	38,972	38,484
Cash Flows from Capital Financing Activities		
Proceeds from Line of Credit	873	3,289
Capital appropriations	2,425	4,557
Capital grants and gifts received	3,129	1,421
Net disposal and write off of plant facilities	(2,789)	(1,492)
Purchases of capital assets	(10,866)	(19,314)
Principal paid on long-term debt	(2,731)	(1,962)
Interest paid on long-term debt	(389)	(377)
Net cash used in capital financing activities	(10,348)	(13,878)
Cash Flows from Investing Activities		
Net change in investments	(4,341)	(21,387)
Interest on investments	(240)	3,467
Net cash used in investing activities	(4,581)	(17,920)
Net Increase (Decrease) in Cash		
Cash and cash equivalents beginning of the year	2,666	(10,757)
Cash and cash equivalents end of year	1,932	12,689
	\$ 4,598	\$ 1,932
Reconciliation of Net Operating Revenues (Expenses) To Net Cash Provided by (used in) Operating Activities		
Operating loss	\$ (36,282)	\$ (37,690)
Adjustments to reconcile operating loss to net cash		
by operating activities:		
Depreciation expense	19,045	18,466
Provision for bad debts	6,897	2,886
Changes in assets and liabilities:		
Receivables, net	(12,376)	3,590
Inventories	(480)	(1,853)
Other assets	235	(197)
Malpractice accrual	900	(100)
Accounts payable	103	(1,688)
Accrued liabilities	412	(1,265)
Deferred revenue	169	408
Net cash used in operating activities	\$ (21,377)	\$ (17,443)

Supplemental disclosure of cash flow information:

During fiscal 2004 and 2003, MCO entered into capital lease obligations of \$1,751 and \$1,165, respectively, for certain hospital equipment, which is also excluded from the statement of cash flows.

See accompanying notes to financial statements

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004**

(Dollars in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting and Reporting Principles

The accompanying financial statements consist of the Medical College of Ohio (MCO) and Medical College of Ohio at Toledo Foundation (the Foundation). 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.

In 2004, MCO retroactively implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which requires MCO to reflect the Foundation as a discretely presented component unit in its financial statements based on the significance of its relationship with MCO. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in MCO's financial reporting entity for these differences.

The Foundation is a legally separate, tax-exempt component unit of MCO. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to MCO in support of its programs. The thirty-one member board of the Foundation is self-perpetuating and consists of graduates and friends of MCO. Although MCO does not control the timing and amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of MCO by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, MCO, the Foundation is considered a component unit MCO and is discretely presented in MCO's financial statements.

During the years ended June 30, 2004 and 2003, the Foundation distributed \$2,396 and \$3,432, respectively, to MCO for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Sabrina Taylor, Administrative Director, at 1111 Research Drive; Toledo, Ohio 43614.

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.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004**

(Dollars in Thousands)

- 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. There is at least a reasonable possibility that recorded estimates will change in the near-term. 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. Because the hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

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 STAR Ohio, 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.

MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

(Dollars in Thousands)

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 the current fiscal year are recognized as tuition revenue. The portion of sessions falling into the subsequent fiscal 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 affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STATE SUPPORT

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

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004**

(Dollars in Thousands)

NOTE 3 - RELATED ORGANIZATIONS

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 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.

Effective July 1, 2004, APMCO began operating as a nonprofit, tax-exempt affiliate of MCO. Under the requirements of GASB Statement No. 39, APMCO will be presented as a discretely presented component unit on MCO's 2005 financial statements based on the significance of its relationship with MCO.

NOTE 4 - 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 Institution Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires cash and cash equivalents and investments held by MCO 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 \$2,662 and \$2,663 at June 30, 2004 and June 30, 2003, 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, 2004 and 2003. 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, 2004**

(Dollars in Thousands)

	<u>June 30, 2004</u> Market and Carrying Value	<u>June 30, 2003</u> Market and Carrying Value
Cash:		
Cash Deposits	\$ 1,887	\$ 1,380
Bank Overdrafts	(4,504)	(2,200)
Cash in Escrow		
Linear Accelerator and Chiller purchase	194	209
Cash Equivalents:		
Money Market Funds	4,404	1,723
Investments:		
U.S. Government Obligations	13,157	17,490
Corporate Notes	<u>41,153</u>	<u>32,548</u>
Total Pooled Cash and Investments	\$ <u>56,291</u>	\$ <u>51,150</u>

Net unrealized (losses) gains on U.S. government obligations and corporate notes were \$(2,544) and \$938, respectively, at June 30, 2004 and June 30, 2003, and is included in investment income.

NOTE 5 – 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 \$300 and \$1,031 at June 30, 2004 and 2003, respectively.

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

	<u>2004</u>	<u>2003</u>
Patient	\$ 37,984	\$ 32,680
Tuition, Fees and Student Loans	5,066	5,209
Auxiliary Services	57	58
Grants and Contracts	2,603	2,558
Capital	73	105
Accrued Interest	686	548
Miscellaneous College	2,492	2,581
Miscellaneous Hospital	<u>1,158</u>	<u>901</u>
	<u>\$50,119</u>	<u>\$ 44,640</u>

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004**

(Dollars in Thousands)

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

	July 1, 2003				June 30, 2004
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reallocations</u>	<u>Balance</u>
Capital assets, not being depreciated:					
Land	\$ 2,653	\$ -	\$ -	\$ -	\$ 2,653
Construction in Progress	<u>6,098</u>	<u>8,060</u>	<u>-</u>	<u>(10,867)</u>	<u>3,291</u>
Total capital assets not being depreciated	8,751	8,060	-	(10,867)	5,944
Capital assets being depreciated:					
Land improvements	4,714	2	-	53	4,769
Infrastructure	32,239	130	-	640	33,009
Building & Improvements	199,902	283	-	5,680	205,865
Equipment	<u>114,153</u>	<u>4,585</u>	<u>(5,403)</u>	<u>4,494</u>	<u>117,829</u>
Total capital assets being depreciated	351,008	5,000	(5,403)	10,867	361,472
Less: accumulated depreciation	<u>202,700</u>	<u>19,045</u>	<u>(4,980)</u>	<u>-</u>	<u>216,765</u>
Total capital assets being depreciated, net	<u>148,308</u>	<u>(14,045)</u>	<u>(423)</u>	<u>10,867</u>	<u>144,707</u>
Total capital assets, Net	<u>\$ 157,059</u>	<u>\$ (5,985)</u>	<u>\$ (423)</u>	<u>\$ -</u>	<u>\$150,651</u>

Depreciation and amortization 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 7 – 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 recorded 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, 2004

(Dollars in Thousands)

NOTE 8 - 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 PERS disability program. PERS members were given the opportunity to elect coverage under the original or revised disability program. Anyone hired after July 29, 1992, is automatically covered under the revised disability program. The revised program was designed to be cost neutral, therefore, does not affect PERS funding. There were no material changes in actuarial assumptions, benefit provisions, actuarial funding methods or other significant factors in fiscal years 2004, 2003 and 2002. The contribution rates for fiscal years 2004, 2003, and 2002, were as follows:

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004**

(Dollars in Thousands)

	Fiscal 2004/2003/2002 <u>STRS</u>	Fiscal 2004/2003/2002 <u>PERS</u>	Fiscal 2004/2003/2002 <u>ARP-STRS</u>	Fiscal 2004/2003/2002 <u>ARP-PERS</u>
Employer:	14.00%	13.31%	8.0%	7.31%
Employee:	10.0%/9.3%/9.3%	8.50%	10.0%/9.3%/9.3%	8.5%

Contributions made by employees are as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
STRS	\$2,319	\$2,369	\$2,606
ARP-STRS	574	561	576
PERS	7,585	7,675	8,060
ARP-PERS	669	701	660

Contributions made by MCO are as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
STRS	\$ 3,491	\$ 3,565	\$ 3,663
ARP-STRS	494	482	462
PERS	11,867	12,039	12,625
ARP-PERS	575	603	568

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 9 – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in note 8, the Ohio Revised Code provides the statutory authority requiring MCO 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 estimated net assets available for future OPEB payments were \$10 billion. The number of active contributing participants for PERS was 402.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004**

(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 81% 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 \$2,000,000 at June 30, 2003. 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 \$352,301. There were 108 eligible benefit recipients.

NOTE 10 - LONG TERM DEBT

Capital lease activity for the year ended June 30, 2004 was as follows:

	Balance July 1, <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2004</u>	Current <u>Portion</u>
Master Lease Purchase Obligations	\$8,116	\$2,624	\$ (2,118)	\$8,622	\$2,522
Other Lease Obligations	<u>721</u>	-	(613)	<u>108</u>	<u>82</u>
Total Long-Term Debt	<u>\$8,837</u>	<u>\$2,624</u>	<u>\$ (2,731)</u>	<u>\$8,730</u>	<u>\$2,604</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, 2004, approximately \$3.4 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, 2004, approximately \$855 is included in capital assets, and \$165 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. In 2004 MCO entered into additional capital lease agreement for \$344 and \$529. At June 30, 2004, \$4.3 million 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, 2004, approximately \$1.3 million is included in capital assets.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004**

(Dollars in Thousands)

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. In 2004, MCO entered into two other agreements with monthly payments of \$15 and \$42 beginning July 2003 through 2005. The annual interest rates are 2.69%, 3.69% and 3.60%. At June 30, 2004, approximately \$752 is included in capital assets.

In 2004, MCO entered into a master equipment lease purchase agreement with a financial institution to finance an imaging center with monthly payments of \$47 beginning in January 2004 at 3.09% annual interest rate through 2006. At June 30, 2004, approximately \$1.4 million is included in capital assets.

MCO has other capital lease obligations of \$108 and \$721 at June 30, 2004 and 2003, respectively. The cost of the assets recorded under capital leases as of June 30, 2004, is \$1,427.

Minimum lease payments at June 30, 2004, by year and in the aggregate, under capital leases are as follows:

	<u>Other Lease Obligations</u>	<u>Master Lease Purchase Obligations</u>
2005	\$ 86	\$2,841
2006	16	2,650
2007	8	1,966
2008	4	1,171
2009	<u>-</u>	<u>723</u>
Net minimum lease payments	114	\$9,351
Less amounts representing interest	<u>(6)</u>	<u>(729)</u>
Present value of lease payments	<u>\$ 108</u>	<u>\$ 8,622</u>

Contracts have been entered into for capital construction projects in an amount approximating \$15,115. The estimated cost to complete construction in progress at June 30, 2004 is \$1,001, 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 non-cancelable operating lease agreements. Total operating lease expense was \$579 in 2004 and \$919 in 2003. At June 30, 2004, MCO was committed to future minimum operating lease payments of \$383 in 2005, \$62 in years 2005 through 2008 and \$26 in 2009.

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 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 with a market value, which approximates cost at June 30, 2004. 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.

**MEDICAL COLLEGE OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004**

(Dollars in Thousands)

At June 30, 2004 and 2003, MCO has accrued \$3,900 discounted at 6% and \$3,000 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.

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Malpractice Liability at Beginning of Year	\$3,000	\$3,100
Provision for Incurred Claims	922	106
Payments for Claims	<u>(22)</u>	<u>(206)</u>
Malpractice Liability at End of Year	<u>\$ 3,900</u>	<u>\$ 3,000</u>

NOTE 12 – OPERATING EXPENSES

Operating expenses by functional category for the years ended June 30, 2004, and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Instruction	\$ 45,442	\$ 45,915
Research	18,611	17,237
Public Service	1,200	1,115
Academic Support	3,067	2,868
Student Services	2,066	1,379
Institutional Support	11,775	8,142
Operation and Maintenance of Plant	9,270	8,998
Auxillary Enterprises	2,986	3,008
Patient Services	160,439	156,555
Scholarships and Fellowships	1,224	1,054
Provision for Doubtful Accounts	6,897	2,886
Depreciation	<u>19,045</u>	<u>18,466</u>
Total Operating Expenses	<u>\$282,022</u>	<u>\$267,623</u>

**Medical College of Ohio
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004**

	Pass-Through Entity	Identifying Number	CFDA #	FY2004
STUDENT FINANCIAL AID				
Federal Work Study	(1)	84.033	\$	(23,524)
Federal Work Study	(1)	84.033		145,838
Federal Perkins Loan Program (Federal contribution)	(1)	84.038		93,701
TOTAL STUDENT FINANCIAL AID				216,015
RESEARCH & DEVELOPMENT				
Department of Interior				
Bureau of Land Management	(1)	15.222		97,505
Department of Defense				
Military Medical Research and Development	(1)	12.420		(13,126)
Military Medical Research and Development	(1)	12.420		50,011
Military Medical Research and Development	(1)	12.420		108,562
Military Medical Research and Development	(1)	12.420		75,705
Military Medical Research and Development	(1)	12.000		16,302
Military Medical Research and Development	(1)	12.000		11,342
				248,796
Environmental Protection Agency				
Environmental Protection Consolidated Research	(1)	66.500		2,224
Department of Health and Human Services:				
National Cancer Institute	(1)	93.000		(644)
National Cancer Institute	(1)	93.000		(9,891)
National Cancer Institute	(1)	93.000		3,609
National Cancer Institute	(1)	93.000		8
National Cancer Institute	(1)	93.000		(9,416)
National Cancer Institute	(1)	93.000		77,755
National Cancer Institute	(1)	93.000		131,680
National Cancer Institute	(1)	93.000		49,432
National Cancer Institute	(1)	93.000		40,000
National Cancer Institute	(1)	93.000		22,323
National Cancer Institute	(1)	93.000		22,667
National Cancer Institute	(1)	93.000		150,404
National Cancer Institute	(1)	93.000		65,309
National Cancer Institute	(1)	93.000		8
National Cancer Institute	(1)	93.000		161
National Institutes of Health				
National Institutes of Health	(1)	93.000		38,407
National Institutes of Health	(1)	93.000		2,279
National Institutes of Health	(1)	93.000		189,923
Research Related to Deafness and Communication Disorders	(1)	93.173		(4,999)
Research Related to Deafness and Communication Disorders	(1)	93.173		258,593

Research Related to Deafness and Communication Disorders	(1)	93.173	31,706
Research Related to Deafness and Communication Disorders	(1)	93.173	(608)
Occupational Safety and Health Training Grants	(1)	93.262	10,320
Occupational Safety and Health Training Grants	(1)	93.263005	(244)
Occupational Safety and Health Training Grants	(1)	93.263005	6,781
Drug Abuse Research Programs	(1)	93.277	73,471
Drug Abuse Research Programs	(1)	93.279	22
Drug Abuse Research Programs	(1)	93.279	237,909
Drug Abuse Research Programs	(1)	93.279	84,661
Drug Abuse Research Programs	(1)	93.279	1,134
Drug Abuse Research Programs	(1)	93.279	11
Drug Abuse Research Programs	(1)	93.279	161,438
Drug Abuse Research Programs	(1)	93.279	42,792
Comparative Medicine	(1)	93.306	321,514
Comparative Medicine	(1)	93.306	149,245
Nursing Research	(1)	93.361	208
Nursing Research	(1)	93.361	(24,484)
Nursing Research	(1)	93.361	183,394
Nursing Research	(1)	93.361	89,857
Research Infrastructure	(1)	93.389	(246)
Research Infrastructure	(1)	93.389	265,094
Cancer Cause and Prevention Research	(1)	93.393	(29,403)
Cancer Cause and Prevention Research	(1)	93.393	205,016
Cancer Cause and Prevention Research	(1)	93.393	44,198
Cancer Cause and Prevention Research	(1)	93.393	127,664
Cancer Cause and Prevention Research	(1)	93.393	13,936
Cancer Detection and Diagnosis Research	(1)	93.394	(17,934)
Cancer Detection and Diagnosis Research	(1)	93.394	176,507
Cancer Detection and Diagnosis Research	(1)	93.394	(37,170)
Cancer Detection and Diagnosis Research	(1)	93.394	185,871
Cancer Detection and Diagnosis Research	(1)	93.394	40,448
Cancer Detection and Diagnosis Research	(1)	93.394	33,710
Cancer Treatment Research	(1)	93.395	(3,808)
Cancer Treatment Research	(1)	93.395	206,696
Cancer Treatment Research	(1)	93.395	75,371
Cancer Treatment Research	(1)	93.395	1,401
Cancer Treatment Research	(1)	93.395	291,901
Cancer Biology Research	(1)	93.396	42,439
Cancer Biology Research	(1)	93.396	54,407
Cancer Biology Research	(1)	93.396	(13)
Cancer Biology Research	(1)	93.396	231,073
Cancer Biology Research	(1)	93.396	99,042
Cancer Biology Research	(1)	93.396	250,544
Cancer Research Manpower	(1)	93.398	(14,571)
Cancer Research Manpower	(1)	93.398	(13,824)
Cancer Research Manpower	(1)	93.398	137,078
Cancer Research Manpower	(1)	93.398	9,906
Cancer Research Manpower	(1)	93.398	109,439
Cancer Control	(1)	93.399	13,006
Cancer Control	(1)	93.399	65,773
Heart and Vascular Disease Research	(1)	93.837	(765)
Heart and Vascular Disease Research	(1)	93.837	(22,297)
Heart and Vascular Disease Research	(1)	93.837	192,883
Heart and Vascular Disease Research	(1)	93.837	20

Heart and Vascular Disease Research	(1)	93.837	136,702
Heart and Vascular Disease Research	(1)	93.837	102,541
Heart and Vascular Disease Research	(1)	93.837	385,328
Heart and Vascular Disease Research	(1)	93.837	62,197
Heart and Vascular Disease Research	(1)	93.837	218,329
Heart and Vascular Disease Research	(1)	93.837	12
Heart and Vascular Disease Research	(1)	93.837	148,767
Heart and Vascular Disease Research	(1)	93.837	149,898
Heart and Vascular Disease Research	(1)	93.837	165,539
Heart and Vascular Disease Research	(1)	93.837	812
Heart and Vascular Disease Research	(1)	93.837	175,850
Heart and Vascular Disease Research	(1)	93.837	139,562
Heart and Vascular Disease Research	(1)	93.837	178,426
Heart and Vascular Disease Research	(1)	93.837	38,593
Heart and Vascular Disease Research	(1)	93.837	(14,486)
Heart and Vascular Disease Research	(1)	93.837	778,297
Heart and Vascular Disease Research	(1)	93.837	533,912
Lung Disease Research	(1)	93.838	210,842
Arthritis, Musculoskeletal and Skin Disease Research	(1)	93.846	(12,769)
Arthritis, Musculoskeletal and Skin Disease Research	(1)	93.846	167,090
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	98,165
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	83,719
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	143,590
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	(30,520)
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	187,726
Diabetes, Endocrinology and Metabolism Research	(1)	93.847	208,926
Digestive Diseases and Nutrition Research	(1)	93.848	21,831
Biological Basis Research in the Neurosciences	(1)	93.853	34,906
Biological Basis Research in the Neurosciences	(1)	93.854	(2,283)
Biological Basis Research in the Neurosciences	(1)	93.854	311,221
Allergy, Immunology and Transplantation Research	(1)	93.855	184,788
Allergy, Immunology and Transplantation Research	(1)	93.855	118
Microbiology and Infectious Disease Research	(1)	93.856	8,836
Microbiology and Infectious Disease Research	(1)	93.856	290,273
Microbiology and Infectious Disease Research	(1)	93.856	(7)
Microbiology and Infectious Disease Research	(1)	93.856	222,508
Microbiology and Infectious Disease Research	(1)	93.856	69,234
Microbiology and Infectious Disease Research	(1)	93.856	68,348
Microbiology and Infectious Disease Research	(1)	93.856	108,246
Microbiology and Infectious Disease Research	(1)	93.856	10,556
Microbiology and Infectious Disease Research	(1)	93.856	2,103
Microbiology and Infectious Disease Research	(1)	93.856	416,627
Microbiology and Infectious Disease Research	(1)	93.856	151,135
Pharmacology, Physiology and Biological Chemistry Research	(1)	93.859	(53,820)
Pharmacology, Physiology and Biological Chemistry Research	(1)	93.859	248,127
Pharmacology, Physiology and Biological Chemistry Research	(1)	93.859	148,452
Pharmacology, Physiology and Biological Chemistry Research	(1)	93.859	(3,488)
Pharmacology, Physiology and Biological Chemistry Research	(1)	93.859	196,099
Pharmacology, Physiology and Biological Chemistry Research	(1)	93.859	62,688
Genetics and Developmental Biology Research	(1)	93.862	84,105
Genetics and Developmental Biology Research	(1)	93.862	(142)
Genetics and Developmental Biology Research	(1)	93.862	281,306
Population Research	(1)	93.864	174,565
Population Research	(1)	93.864	25,702

Child Health and Human Development Extramural Research	(1)	93.865	15,136
Child Health and Human Development Extramural Research	(1)	93.865	25,311
Aging Research	(1)	93.866	(299)
Aging Research	(1)	93.866	126,470
Aging Research	(1)	93.866	67,123
Center for Medical Rehabilitation Research	(1)	93.929	(1,804)
Center for Medical Rehabilitation Research	(1)	93.929	199,563
Center for Medical Rehabilitation Research	(1)	93.929	(461)
Center for Medical Rehabilitation Research	(1)	93.929	46,130
			12,926,378
National Science Foundation			
Biological Sciences		47.074	28
			28
Pass through:			
<i>Department of Health and Human Services</i>			
<i>Case Western University</i>			
Lung Diseases Research	(1)	93.838	(614)
Lung Diseases Research	(1)	93.838	142,160
Lung Diseases Research		93.838	206,544
<i>Duke University</i>			
Heart and Vascular Disease Research		93.837	31,154
<i>Mary M. Gooley Hemophilia</i>			
National Institutes of Health	(1)	93.XXX	9,765
<i>Institute of Genomic Research</i>			
Microbiology and Infectious Disease Research	(1)	93.856	102,437
<i>The Ohio State University</i>			
Cancer Treatment Research		93.395	42,792
<i>National Children's Cancer Institute</i>			
Cancer Treatment Research	(1)	93.395	89
Cancer Treatment Research	(1)	93.395	(2,331)
Cancer Treatment Research		93.395	9,456
Cancer Treatment Research		93.395	26,784
Cancer Treatment Research		93.395	2,667
<i>Rhode Island Hospital</i>			
Extramural Research Programs in the Neurosciences & Neurological Disorders		93.853	100
<i>Rush Presbyterian Hospital</i>			
Extramural Research Programs in the Neurosciences & Neurological Disorders		93.853	858
<i>RXKinetix, Inc.</i>			
Microbiology and Infectious Disease Research	(1)	93.856	34,520
Microbiology and Infectious Disease Research		93.856	41,853
<i>National Medical Technology Testbed Inc</i>			
Cancer Cause and Prevention Research	(1)	93.393	(6,165)
Cancer Cause and Prevention Research	(1)	93.393	99,636
<i>Statistics & Epidemiology</i>			
National Institute of Health	(1)	93.000	8
Cancer Control	(1)	93.399	476
<i>University of Rochester</i>			
Neurosciences and Neurological Disorders	(1)	93.853	3,845
Oral Diseases and Disorders Research	(1)	93.121	(6,900)
Oral Diseases and Disorders Research		93.121	66,862
Oral Diseases and Disorders Research		93.121	1,730
<i>University of Michigan</i>			

Cancer Treatment Research	(1)	93.395	(128)
Cancer Treatment Research		93.395	43,844
University of Toledo			
Heart and Vascular Disease Research	(1)	93.837	2,281
University of Virginia			
Extramural Research Programs in the Neurosciences & Neurological Disorders		93.853	5,944
Veterans Medical Research Fdn			
Microbiology and Infectious Disease Research	(1)	93.856	(4,832)
Microbiology and Infectious Disease Research		93.856	96,210
Washington University			
Oral Diseases and Disorders Research	(1)	93.121	20
Oral Diseases and Disorders Research	(1)	93.121	79,413
Oral Diseases and Disorders Research		93.121	33,619
Oral Diseases and Disorders Research	(1)	93.121	(53)
Oral Diseases and Disorders Research	(1)	93.121	64,850
Oral Diseases and Disorders Research		93.121	25,758
Oral Diseases and Disorders Research	(1)	93.121	(473)
Oral Diseases and Disorders Research	(1)	93.121	58,298
Oral Diseases and Disorders Research		93.121	19,956
Wayne State University			
Research Related to Deafness and Communication Disorders	(1)	93.173	(1,477)
Research Related to Deafness and Communication Disorders	(1)	93.173	100,288
			<u>1,331,244</u>
<i>Department of Defense</i>			
National Medical Technology Testbed Inc			
Military Medical Research and Development	(1)	12.420	(6,995)
<i>National Science Foundation</i>			
Statistics & Epidemiology			
Polar Programs	(1)	47.078	<u>(6,050)</u>
TOTAL RESEARCH AND DEVELOPMENT			14,593,130
OTHER:			
<i>Department of Health and Human Services</i>			
Health Resources and Service Administration			
Model State Supported Area Health Education Centers	(1)	93.107	651,853
Model State Supported Area Health Education Centers		93.107	330,538
Cancer Research Manpower	(1)	93.398	(8)
Predoctoral Training in Primary Care	(1)	93.896	(9,123)
Predoctoral Training in Primary Care		93.884	90,801
Advanced Education Nursing Traineeships	(1)	93.358	(4,058)
Advanced Education Nursing Traineeships		93.358	25,321
Occupational Safety and Health Training Grants	(1)	93.263	108
Occupational Safety and Health Training Grants		93.263	59,488
Academic Administrative Units in Primary Care	(1)	93.984	77,338
Academic Administrative Units in Primary Care		93.984	249,261
Allied Health Special Projects	(1)	93.191	(3,638)
Allied Health Special Projects		93.191	158,627
Centers for Disease Control and Prevention	(1)	93.283	4,929
Department of Health, Human Services		93.XX	51,690
Coordinated Services and Access To For Women, Children	(1)	93.153	96,409
Coordinated Services and Access To For Women, Children		93.153	398,781

Outpatient Early Intervention Services with Respect to HIV	(1)	93.918	140
Outpatient Early Intervention Services with Respect to HIV	(1)	93.918	372,963
Outpatient Early Intervention Services with Respect to HIV		93.918	123,678
<i>National Institutes of Health</i>			
Drug Abuse National Research Service Awards		93.283	2,942
Drug Abuse National Research Service Awards	(1)	93.278	(798)
Drug Abuse National Research Service Awards	(1)	93.278	26,984
Drug Abuse National Research Service Awards	(1)	93.278	(297)
Drug Abuse National Research Service Awards	(1)	93.278	26,192
Drug Abuse National Research Service Awards		93.278	8,321
Pass through:			
Bowling Green State University			
Biological Response to Environmental Hazards	(1)	93.113	1,059
Biological Response to Environmental Hazards		93.113	12,585
City of Toledo			
HIV Prevention Activities	(1)	93.940	4,948
HIV Prevention Activities	(1)	93.940	28,072
HIV Prevention Activities		93.940	106
Ohio Department of Health			
Maternal and Child Health Services Block Grant	(1)	93.994	24,589
Maternal and Child Health Services Block Grant		93.944	8
Maternal and Child Health Services Block Grant	(1)	93.994	439
Maternal and Child Health Services Block Grant	(1)	93.994	143,326
Ohio Department of Mental Health			
Community Mental Health Services	(1)	93.958	13,046
Community Mental Health Services		93.958	230,696
University of Illinois			
Medical Library Assistance	(1)	93.879	(226)
			<u>3,197,090</u>
<i>Department of Education</i>			
Ohio Department of Health			
Grants for Infants and Families with Disabilities	(1)	84.181	(2,144)
Grants for Infants and Families with Disabilities		84.181	12,489
Grants for Infants and Families with Disabilities	(1)	84.181	52,327
			<u>62,672</u>
Community Mental Health Services	(1)	93.958	679,760
TOTAL OTHER			<u>3,939,522</u>
Total Expenditures of Federal Awards			<u><u>\$ 18,748,667</u></u>

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

See notes to the Schedule of Expenditures of Federal Awards.

MEDICAL COLLEGE OF OHIO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2004

1. **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Medical College of Ohio, EIN #34-0967014, 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, 2004, totalled \$16,890,543.

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. Loan expenditures for the year ended June 30, 2004 totalled \$93,701. As of June 30, 2004, outstanding loans under both programs totalled \$1,057,172.

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. Loan expenditures for the year ended June 30, 2004 totalled \$625,500. As of June 30, 2004, outstanding Perkins loans totalled \$3,639,950.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS 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, 2004, and have issued our report thereon dated September 30, 2004. 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.

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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated September 30, 2004.

Compliance and Other Matters

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 grant agreements, 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*.

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 30, 2004

REPORT OF COMPLIANCE
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, 2004. 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, 2004.

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 caused by error or fraud 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.

Ernst + Young LLP

September 30, 2004

MEDICAL COLLEGE OF OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2004

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: \$562,460
- (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 93.107	Research and Development Cluster Community Mental Health Services Model State Supported AHEC

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, 2004 and 2003, 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, 2004 and 2003, 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 30, 2004

MEDICAL COLLEGE HOSPITALS

BALANCE SHEETS (Dollars in Thousands)

	Year Ended June 30,	
	2004	2003
<u>ASSETS</u>		
Current Assets		
Cash and Cash Equivalents	\$ 292	\$ 388
Investments	7,862	3,953
Accounts Receivable, Net	37,016	33,685
Estimated Receivables Under Third Party Reimbursement Programs	3,450	2,470
Accrued Interest Receivable	314	237
Inventories	5,335	5,013
Prepaid Expense	376	515
Total Current Assets	54,645	46,261
Property, Plant and Equipment		
Property, Plant and Equipment, at Cost	189,368	187,130
Less Accumulated Depreciation	(121,045)	(112,621)
Net Property, Plant and Equipment	68,323	74,509
Other Assets		
Self-Insurance Trust Investments	2,245	2,176
Investments Held For Capital Expansion	16,994	17,570
Total Other Assets	19,239	19,746
Total Assets	\$ 142,207	\$ 140,516
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	\$ 7,571	\$ 9,545
Accrued Liabilities	10,959	12,596
Malpractice - Current Portion	200	200
Long-Term Debt - Current Portion	2,600	2,165
Total Current Liabilities	21,330	24,506
Noncurrent Liabilities		
Malpractice	3,700	2,800
Long-Term Debt	6,111	6,648
Total Noncurrent Liabilities	9,811	9,448
Total Liabilities	31,141	33,954
Unrestricted Net Assets	111,066	106,562
Total Liabilities and Net Assets	\$ 142,207	\$ 140,516

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)**

	<u>Year Ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Revenue		
Net Patient Service Revenue	\$ 180,089	\$ 167,314
Other Revenue	8,333	8,365
Investment Income	952	1,253
	<hr/>	<hr/>
Total Revenue	189,374	176,932
Expenses		
Salaries and Benefits	91,998	86,928
Supplies	35,452	36,353
Allocated College Expenses	9,711	10,411
Outside Purchased Services	18,756	19,729
Depreciation and Amortization	11,422	10,984
Provision for Uncollectible Accounts	6,897	2,886
Information and Communication	1,319	1,228
Travel	438	234
Interest on Debt	375	386
Other Expenses	6,156	2,706
	<hr/>	<hr/>
Total Expenses	182,524	171,845
Excess of Revenue over Expenses	6,850	5,087
Transfers:		
Transfer of Plant Assets Between College and Hospital	(1,247)	(136)
Elimination of State Unfunded Workers' Compensation	-	4,234
Net Realized and Unrealized (Loss) Gain on Investments	(1,099)	447
	<hr/>	<hr/>
Change in Net Assets	4,504	9,632
Net Assets at Beginning of Year	106,562	96,930
	<hr/>	<hr/>
Net Assets at End of Year	<u>\$ 111,066</u>	<u>\$ 106,562</u>

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	
	2004	2003
Operating Activities		
Change in Net Assets	\$ 4,504	\$ 9,632
Adjustments to Reconcile Revenues over (under) Expenses to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	11,422	10,983
Provision for Uncollectible Accounts	6,897	2,885
Net Realized and Unrealized Losses (Gains) on Investments	1,099	(447)
Elimination of State Unfunded Workers' Compensation	-	(4,234)
Transfer to College	1,247	136
Changes in Assets and Liabilities Affecting Operating Activities:		
Receivables	(11,285)	5,048
Inventories	(322)	(1,842)
Prepaid Expense	139	(101)
Accounts Payable	(1,975)	(2,726)
Accrued Liabilities	(737)	(3,060)
Net Cash Provided by Operating Activities	10,989	16,274
Related Financing Activities		
Acquisition of Property, Plant, and Equipment	(4,731)	(10,704)
Capital Expansion Funds	576	(2,809)
Capital Lease Obligations	-	(768)
Proceeds from Line of Credit	873	3,289
Debt Principal Payments	(2,726)	(1,264)
Net Cash Used in Financing Activities	(6,008)	(12,256)
Investing Activities		
Net Sales of Investments	(5,008)	(3,506)
Purchases of Self-Insurance Trust Investments	(69)	(124)
Net Cash Provided by Investing Activities	(5,077)	(3,630)
Decrease in Cash and Cash Equivalents	(96)	388
Cash and Cash Equivalents at Beginning of Year	388	0
Cash and Cash Equivalents at End of Year	\$ 292	\$ 388

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

Supplemental disclosure of cash flow information:

During fiscal 2004 and 2003, MCO entered into capital lease obligations of \$1,751 and \$1,165 respectively, for certain hospital equipment, which is also excluded from the statement of cash flows.

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004
(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. There is at least a reasonable possibility that recorded estimates will change in the near term. 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, 2004
(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. Because the Hospital does not pursue collection of amounts determined to qualify as charity, such amounts 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 STAROhio, 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, 2004
(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, 2004</u>	<u>Year Ended June 30, 2003</u>
Gross patient charges	\$337,570	\$312,182
Less provision for third-party contractual allowances and adjustments:		
Medicare	(55,035)	(55,090)
Medicaid	(20,274)	(12,342)
Other	(73,297)	(66,426)
Less charity care services	<u>(8,875)</u>	<u>(11,010)</u>
Net Patient Service Revenue	<u>\$180,089</u>	<u>\$167,314</u>

Approximately 52% 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 are subject to examination and retroactive adjustments. Prior year settlements recognized in 2004 and 2003 increased net patient service revenue by approximately \$3,700 and \$1,300, respectively. Net patient service revenue for 2004 and 2003 includes \$4,956 and \$4,294, respectively, from the Ohio Hospital Care Assurance Program (HCAP). It is the opinion of management that it is at least reasonably possible that the estimated settlements recorded from HCAP 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, 2004</u>	<u>Year Ended June 30, 2003</u>
Traditional charity care	\$ 4,825	\$ 6,783
Unpaid costs of traditional Medicaid programs	2,394	3,155
Unpaid costs of Other Welfare programs	<u>3,435</u>	<u>1,943</u>
Total Charity and Uncompensated Care	<u>\$ 10,654</u>	<u>\$ 11,881</u>

Charity and uncompensated care approximated 5.84% of total Hospital expenses for the year ended June 30, 2004 and 6.91% for the year ended June 30, 2003, and do not include provision for uncollectible accounts.

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004
(Dollars in Thousands)

NOTE 4 - CASH AND INVESTMENTS

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, 2004 was \$292. 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, 2004 and 2003. 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>2004</u>	<u>June 30</u>	<u>2003</u>
Investments:			
Money Market Funds	\$ 114		\$ 226
Corporate Notes	6,021		7,522
Bonds	<u>20,966</u>		<u>15,951</u>
Total Investments	<u>\$ 27,101</u>		<u>\$ 23,699</u>

NOTE 5 - ACCOUNTS RECEIVABLE

A summary of accounts receivable, net is as follows:

	<u>2004</u>	<u>June 30</u>	<u>2003</u>
Patient accounts:			
Inpatient	\$ 29,131		\$ 21,923
Outpatient	11,344		11,208
Other	<u>8,88</u>		<u>19,379</u>
	49,356		42,510
Less:			
Allowance for uncollectible accounts	(285)		(1,016)
Contractual and other adjustments	<u>(12,054)</u>		<u>(7,809)</u>
Net Accounts Receivable	<u>\$ 37,016</u>		<u>\$ 33,685</u>

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors for 2004 and 2003 was as follows:

	<u>2004</u>	<u>2003</u>
Medicare	23%	32%
Commercial	15	15
Traditional Medicaid	11	11
Medical Mutual of Ohio	6	6
Blue Cross	7	6
Other Third-Party Payors	22	23
Patients	<u>16</u>	<u>7</u>
	<u>100%</u>	<u>100%</u>

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004
(Dollars in Thousands)

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>2004</u>	<u>2003</u>
Land and improvements	\$ 3,225	\$ 3,225
Building and fixtures	118,174	115,085
Equipment	65,584	64,945
Construction in progress (estimated cost to complete \$2,041 at June 30, 2004)	<u>2,385</u>	<u>3,875</u>
	189,368	187,130
Less: Accumulated depreciation	<u>(121,045)</u>	<u>(112,621)</u>
Net Property, Plant and Equipment	<u>\$ 68,323</u>	<u>\$ 74,509</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 reversed its decision to have colleges and universities share in the portion of the State Workers’ Compensation liability. The Hospital recorded the change in workers’ compensation liability of \$4,234 in other changes 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, 2004 was as follows:

	Balance July 1, <u>2003</u>	<u>Additions</u>	<u>Payments</u>	Balance June 30, <u>2004</u>	Current <u>Portion</u>
Master Lease Purchase Obligations	\$8,116	\$ 2,624	\$ (2,118)	\$8,622	\$ 2,523
Other Lease Obligations	<u>697</u>	<u>-</u>	<u>(608)</u>	<u>89</u>	<u>77</u>
Total Long-Term Debt	<u>\$8,813</u>	<u>\$ 2,624</u>	<u>\$ (2,726)</u>	<u>\$8,711</u>	<u>\$ 2,600</u>

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004
(Dollars in Thousands)

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, 2004, approximately \$3.4 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, 2004, approximately \$855 is included in capital assets, and \$165 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. In 2004, MCO entered into two capital lease agreements for \$344 and \$529. In 2004, MCO entered into two additional capital lease agreement for \$344 and \$529. At June 30, 2004 \$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, 2004, approximately \$1.4 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. In 2004, MCO entered into two other agreements with a financial institution for financing information systems upgrades with monthly payments of \$15 and \$42 beginning July 2003 through 2005. The annual interest rates are 2.69%, 3.69% and 3.60%. At June 30, 2004, approximately \$420 is included in capital assets.

In 2004, MCO entered into a master equipment lease purchase agreement with a financial institution to finance an imaging center with monthly payments of \$47 beginning in January 2004 at 3.09% annual interest rate through 2006. At June 30, 2004, approximately \$1.3 million is included in capital assets.

MCO has other capital lease obligations of \$88 and \$696 at June 30, 2004 and 2003, respectively. The cost of the assets recorded under capital leases as of June 30, 2004, is \$1,402.

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004
(Dollars in Thousands)

Minimum lease payments at June 30, 2004, 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>
2005	\$ 80	\$ 2,841
2006	9	2,650
2007	3	1,966
2008	-	1,171
2009	<u>-</u>	<u>723</u>
Net minimum lease payments	92	9,351
Less amounts representing interest	<u>(3)</u>	<u>(729)</u>
Present value of lease payments	<u>\$ 89</u>	<u>\$8,622</u>

The Hospital leases certain patient care equipment under various noncancelable operating lease agreements. Total operating lease expense was \$362 in 2004 and \$707 in 2003. At June 30, 2004, the Hospital was committed to future minimum operating lease payments of \$315 in 2005, \$62 in years 2005 through 2008 and \$26 in 2009, 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 2004, 2003, and 2002. The employee and employer contribution rates for PERS were 8.5% and 13.31%, for fiscal year 2004. The employee and employer contribution rates for ARP were 8.5% and 7.31%, respectively, for fiscal year 2004.

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004
(Dollars in Thousands)

The Hospital paid the required employee retirement plan contribution on behalf of contract personnel in fiscal 2004, 2003 and 2002. 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 \$5,289 in 2004, \$5,041 in 2003 and \$4,842 in 2002. 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 \$8,242 in 2004, \$7,896 in 2003 and \$7,737 in 2002. The Hospital's retirement costs for ARP are funded as accrued and amounted to \$12 for 2004.

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, 2004 and 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, 2004 and 2003, the Hospital has accrued \$3,900 discounted at 6% and \$3,000 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, 2004</u>	<u>June 30, 2003</u>
Malpractice Liability at Beginning of Year	\$3,000	\$3,100
Provision for Incurred Claims	922	106
Payments for Claims	<u>(22)</u>	<u>(206)</u>
Malpractice Liability at End of Year	<u>\$3,900</u>	<u>\$3,000</u>

MEDICAL COLLEGE HOSPITALS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004
(Dollars in Thousands)

NOTE 12 - TRANSACTIONS WITH THE COLLEGE AND RELATED ORGANIZATIONS

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.



**Auditor of State
Betty Montgomery**

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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
FEBRUARY 10, 2005**