

MEDICAL UNIVERSITY OF OHIO

LUCAS COUNTY

PREPARED BY: ERNST & YOUNG LLP

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

Board of Trustees
Medical University of Ohio
3355 Glendale Ave.
Toledo, OH 43614

We have reviewed the *Independent Auditor's Report* of the Medical University of Ohio, Lucas County, prepared by Ernst & Young LLP, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Medical University 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

November 17, 2005

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Report of Independent Auditors
On Basic Financial Statements and
Schedule of Expenditures of Federal Awards

The Board of Trustees
Medical University of Ohio

We have audited the accompanying statements of net assets of the Medical University of Ohio (MUO) (formerly known as Medical College of Ohio), a component unit of the State of Ohio, as of June 30, 2005 and 2004, 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 MUO'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 discretely presented component units. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for MUO for the discretely presented component units, are based solely on the reports 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 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. We were not engaged to perform an audit of MUO's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MUO's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical University of Ohio and its discretely presented component units as of June 30, 2005 and 2004, and the changes in its net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the financial statements, in fiscal 2005, MUO adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which required additional disclosures relating to risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. In 2005, the Medical College of Ohio Clinical Faculty, Inc. became a discretely presented component unit of MUO, which is discussed in Note 1 to the financial statements.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2005 on our consideration of MUO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Management's discussion and analysis on pages 3 through 9 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Medical University of Ohio taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2005, is presented for the purpose of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



October 7, 2005

MEDICAL UNIVERSITY OF OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis on the annual financial statements of The Medical University of Ohio (MUO) (formerly known as Medical College of Ohio) provides an overview of MUO's financial activity during the years ended June 30, 2005, 2004 and 2003. 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 MUO'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 MUO, the results of operations, and cash flows of MUO 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 MUO'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 university'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 MUO's ability to meet financial obligations as they mature.

Noteworthy Financial Activity

MUO's financial position, as a whole, changed during the year ended June 30, 2005 as compared to the previous year as evidenced by the following:

- MUO's total assets increased over the prior year by \$54.7 million. Current assets increased by \$0.8 million. Cash and investments included in total assets increased by \$57.5 million, of which \$43.6 million is investment held in trust from the sale of bonds.
- Total liabilities increased by \$48.3 million. Current liabilities increased by \$0.5 million. Noncurrent liabilities increased by \$47.8 million, primarily as a result of the issuance of \$50 million of Series 2005 General Receipt Bonds.
- MUO's net assets are \$225.2 million, of which \$151.0 is either invested in capital assets or restricted.
- Operating revenues increased by \$11.6 million compared to the prior year, primarily due to an increase in patient services.
- MUO's operating expenses increased by \$11.9 million. The majority of which is related to a \$4.9 million increase in salaries and benefits, and a \$4.3 million increase in outside purchased services.
- Nonoperating revenue increased by \$2.8 million, the majority of which is related to a \$3.8 million increase in investment income.

Both the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information on MUO as a whole. Over time, increases or decreases in MUO'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 MUO, 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 MUO 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 MUO as a whole.

Net assets are divided into three major categories. The first category, investment in capital assets, net of debt, provides MUO'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 MUO 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 MUO 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 MUO.

Medical University of Ohio
Condensed Statements of Net Assets
As of June 30, 2005, 2004 and 2003
(in Thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS			
Current assets	\$ 61,839	\$ 61,051	\$ 52,647
Capital assets	145,681	150,651	157,059
Other noncurrent assets	<u>115,643</u>	<u>56,749</u>	<u>52,423</u>
Total assets	<u>323,163</u>	<u>268,451</u>	<u>262,129</u>
LIABILITIES			
Current liabilities	40,400	39,855	38,736
Noncurrent liabilities	<u>57,605</u>	<u>9,826</u>	<u>9,468</u>
Total liabilities	<u>98,005</u>	<u>49,681</u>	<u>48,204</u>
NET ASSETS			
Invested in capital assets, net of related debt	139,382	150,541	148,222
Restricted, expendable	10,737	10,567	10,292
Restricted, nonexpendable	909	2,957	4,916
Unrestricted	<u>74,130</u>	<u>54,705</u>	<u>50,494</u>
Total net assets	<u><u>\$ 225,158</u></u>	<u><u>\$218,770</u></u>	<u><u>\$213,924</u></u>

Fiscal Year 2005 Compared to 2004

At June 30, 2005, total MUO assets were \$323.2 million, compared to \$268.5 million at June 30, 2004. MUO's largest asset is its investments in physical plant of \$145.7 million at June 30, 2005 and \$150.7 million at June 30, 2004.

In fiscal 2005, MUO's current assets of \$61.8 million exceeded current liabilities of \$40.4 million (current ratio of 1.53:1). In fiscal 2004, current assets of \$61.1 million exceeded current liabilities of \$39.9 million (current ratio of 1.53:1). Cash, cash equivalents and investments included in current assets decreased \$1.4 million while amounts included in noncurrent assets increased \$58.9 million.

MUO liabilities total \$98.0 million at June 30, 2005, compared to \$49.7 million at June 30, 2004. Long-term debt, including current portion, was \$56.3 million at June 30, 2005, compared to \$8.7 million at June 30, 2004, and consists of bonds, master lease, and other capital leases payable.

Total net assets are \$225.2 million at June 30, 2005 compared to \$218.8 million at June 30, 2004. Unrestricted net assets total \$74.1 million and \$54.7 million at June 30, 2005 and 2004, respectively.

Fiscal Year 2004 Compared to 2003

At June 30, 2004, total MUO assets were \$268.5 million, compared to \$262.1 million at June 30, 2003. MUO's largest asset is its investments in physical plant of \$150.7 million at June 30, 2004 and \$157.1 million at June 30, 2003.

In fiscal 2004, MUO's current assets of \$61.1 million exceeded current liabilities of \$39.9 million (current ratio of 1.53:1). In fiscal 2003, current assets of \$52.6 million exceeded 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 \$4.3 million.

MUO 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 \$8.7 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.

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 MUO.

In general, operating revenues and expenses result from providing goods and services to the various customers of MUO in order to carry out MUO'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 MUO without the Legislature directly receiving commensurate goods and services for those revenues.

Medical University of Ohio
Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30
(in Thousands)

	<u>2005</u>	<u>2004</u>	<u>Amount</u>	<u>Percentage</u>	<u>2003</u>	<u>Amount</u>	<u>Percentage</u>
OPERATING REVENUES							
Student Tuition and Fees (net of student aid)	\$ 21,070	\$ 17,624	\$ 3,446	19.6%	\$ 15,519	\$ 2,105	13.6%
Grants and Contracts	27,931	27,839	92	0.3%	27,027	812	3.0%
Hospital	187,812	180,089	7,723	4.3%	167,314	12,775	7.6%
Other Operating Revenue	20,552	20,188	364	1.8%	20,073	115	0.6%
Total Operating Revenues	<u>257,365</u>	<u>245,740</u>	<u>11,625</u>	4.7%	<u>229,933</u>	<u>15,807</u>	6.9%
OPERATING EXPENSES							
Salaries and Benefits	176,151	171,204	4,947	2.9%	163,480	7,724	4.7%
Supplies	45,193	41,823	3,370	8.1%	42,680	(857)	-2.0%
Outside Purchased Services	33,753	29,408	4,345	14.8%	29,679	(271)	-0.9%
Other Expenses	20,358	20,542	(184)	-0.9%	13,318	7,224	54.2%
Depreciation	18,470	19,045	(575)	-3.0%	18,466	579	3.1%
Total Operating Expenses	<u>293,925</u>	<u>282,022</u>	<u>11,903</u>	4.2%	<u>267,623</u>	<u>14,399</u>	5.4%
NONOPERATING REVENUES AND OTHER CHANGES							
State Appropriations	33,894	33,568	326	1.0%	34,414	(846)	-2.5%
Other Nonoperating Revenues	7,241	4,775	2,466	51.6%	7,160	(2,385)	-33.3%
Other Changes	1,813	2,785	(972)	-34.9%	8,897	(6,112)	-68.7%
Net Nonoperating Revenues and Other Changes	<u>42,948</u>	<u>41,128</u>	<u>1,820</u>	4.4%	<u>50,471</u>	<u>(9,343)</u>	-18.5%
Increase in Net Assets	6,388	4,846	1,542	31.8%	12,781	(7,935)	-62.1%
Net Assets at Beginning of Year	<u>218,770</u>	<u>213,924</u>	<u>4,846</u>	2.3%	<u>201,143</u>	<u>12,781</u>	6.4%
Net Assets at End of Year	<u>\$ 225,158</u>	<u>\$ 218,770</u>	<u>\$ 6,388</u>	2.9%	<u>\$ 213,924</u>	<u>\$ 4,846</u>	2.3%

Fiscal Year 2005 Compared to 2004

The most significant sources of operating revenues for MUO are patient care services, tuition and fees, and grants and contracts, of which the most significant increase was \$7.7 million in patient care.

For the year ended June 30, 2005, operating expenditures, including depreciation of \$18.5 million, totaled \$293.9 million. For the year ended June 30, 2004, operating expenditures, including depreciation of \$19.0 million, totaled \$282.0 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, totaling \$33.9 million and \$33.6 million at June 30, 2005 and 2004, respectively.

Fiscal Year 2004 compared to 2003

The most significant sources of operating revenues for MUO are patient care services, tuition and fees, and grants and contracts, 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 \$19.0 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, totaling \$33.6 million and \$34.4 million at June 30, 2004 and 2003, 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 MUO'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 income 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 University of Ohio
Condensed Statements of Cash Flows
For the years ended June 30,
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided by (used in):			
Operating activities	\$ (19,495)	\$ (21,377)	\$ (17,443)
Noncapital financing activities	38,269	38,972	38,484
Capital financing activities	35,157	(10,348)	(13,878)
Investing activities	<u>(55,303)</u>	<u>(4,581)</u>	<u>(17,920)</u>
Net (decrease) increase in cash	(1,372)	2,666	(10,757)
Cash and cash equivalents, beginning of year	<u>4,598</u>	<u>1,932</u>	<u>12,689</u>
Cash and cash equivalents, end of year	<u>\$ 3,226</u>	<u>\$ 4,598</u>	<u>\$ 1,932</u>

Fiscal Year 2005 Compared to 2004

In 2005 major sources of cash included student tuition and fees (\$21.7 million), state appropriations (\$33.9 million), patient care services (\$187.3 million), and grants and contracts (\$27.9 million). The largest payments in 2005 were for supplies (\$45.0 million) and employees (\$176.1 million).

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 (\$27.8 million). The largest payments in 2004 were for supplies (\$41.7 million) and employees (\$171.6 million).

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 (\$27.8 million). The largest payments in 2004 were for supplies (\$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 (\$27.0 million). The largest payments in 2003 were for supplies (\$44.3 million) and employees (\$162.2 million).

Capital Assets

MUO has \$145.7 million invested in capital assets, net of accumulated depreciation of \$230.6 million. Depreciation charges for the current year are \$18.5 million. Detailed information about MUO's capital assets is presented in the notes to the financial statements.

Economic Factors That Will Affect the Future

The ability of MUO 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 MUO 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 MUO.

Requests for Information

This financial report is designed to provide a general overview of the Medical University 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 University of Ohio, 3065 Arlington Avenue, Toledo, Ohio 43614.

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

	<u>Medical University of Ohio</u>		<u>Medical University of Ohio</u>		<u>Medical College of Ohio</u>
	<u>June 30,</u>		<u>Foundation</u>		<u>Clinical Faculty, Inc.</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>June 30,</u>
					<u>2005</u>
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 3,032	\$ 4,404	\$ 1,185	\$ 1,209	\$ 544
Investments	-	-	26,522	25,535	3,712
Accounts Receivable, Net	45,591	45,053	385	529	9,935
Loans Receivable, Net	4,900	5,066	3,477	1,461	-
Inventories	7,727	6,004	-	-	-
Other Assets	589	524	94	59	963
Total Current Assets	<u>61,839</u>	<u>61,051</u>	<u>31,663</u>	<u>28,793</u>	<u>15,154</u>
Noncurrent Assets					
Restricted Cash and Cash Equivalents	194	194	-	-	-
Other Long-Term Investments	69,570	54,310	-	-	275
Restricted Investments	45,879	2,245	-	-	-
Charitable Remainder Trusts and Annuity Contracts	-	-	86	255	-
Cash Surrender Value of Life Insurance Policies	-	-	151	137	-
Capital Assets, Net	<u>145,681</u>	<u>150,651</u>	<u>535</u>	<u>571</u>	<u>144</u>
Total Noncurrent Assets	<u>261,324</u>	<u>207,400</u>	<u>772</u>	<u>963</u>	<u>419</u>
Total Assets	323,163	268,451	32,435	29,756	15,573
Liabilities					
Current Liabilities					
Accounts Payable	12,372	12,178	3,699	1,914	4,770
Contribution Payable	-	-	1,125	2,250	-
Accrued Liabilities	22,834	22,811	85	82	6,717
Long-Term Debt - Current Portion	2,494	2,604	-	-	-
Deferred Revenue	2,500	2,062	-	-	-
Medical Professional Liability - Current Portion	<u>200</u>	<u>200</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>40,400</u>	<u>39,855</u>	<u>4,909</u>	<u>4,246</u>	<u>11,487</u>
Noncurrent Liabilities					
Long-Term Debt	53,805	6,126	-	-	-
Medical Professional Liability - Long-Term Portion	<u>3,800</u>	<u>3,700</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Noncurrent Liabilities	<u>57,605</u>	<u>9,826</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>98,005</u>	<u>49,681</u>	<u>4,909</u>	<u>4,246</u>	<u>11,487</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	139,382	150,541	-	-	-
Restricted					-
Expendable	10,737	10,567	13,781	11,336	-
Nonexpendable	909	2,957	12,538	12,360	-
Unrestricted	<u>74,130</u>	<u>54,705</u>	<u>1,207</u>	<u>1,814</u>	<u>4,086</u>
Total Net Assets	<u>\$ 225,158</u>	<u>\$ 218,770</u>	<u>\$ 27,526</u>	<u>\$ 25,510</u>	<u>\$ 4,086</u>

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

	<u>Medical University of Ohio</u>		<u>Medical University of Ohio</u>		<u>Medical College of Ohio</u>
	<u>Years Ended June 30,</u>		<u>Foundation</u>		<u>Clinical Faculty, Inc.</u>
	<u>2005</u>	<u>2004</u>	<u>Years Ended June 30,</u>	<u>2004</u>	<u>Year Ended June 30,</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenues					
Operating Revenues					
Student Tuition and Fees, net of student aid of \$2,480 and \$2,061, respectively	\$ 21,070	\$ 17,624	\$ -	\$ -	\$ -
Federal Grants and Contracts	17,794	17,531	-	-	-
State Grants and Contracts	1,655	1,363	-	-	-
Private Grants and Contracts	8,482	8,945	-	-	-
Hospital	187,812	180,089	-	-	-
Other Patient Service Revenue	-	-	-	-	45,049
Sales and Services	4,941	4,584	-	-	-
Contributions and Support	-	-	3,650	1,444	-
Auxiliary Enterprises	3,089	3,040	-	-	-
Residency Reimbursement	3,582	3,458	-	-	-
Interest on Student Loans	85	89	1,136	-	-
Other Sources	8,855	9,017	423	427	7,329
Total Operating Revenues	<u>257,365</u>	<u>245,740</u>	<u>5,209</u>	<u>1,871</u>	<u>52,378</u>
Expenses					
Operating Expenses					
Salaries	140,612	137,738	-	-	28,459
Benefits	35,539	33,466	-	-	9,851
Supplies	45,193	41,823	-	-	8,349
Travel	1,881	1,788	-	-	369
Support of College	-	-	4,199	5,252	1,245
Fund Raising	-	-	301	161	-
Management	-	-	968	990	6
Information and Communication	3,183	2,859	-	-	77
Outside Purchased Services	33,753	29,408	-	-	1,019
Provision for Doubtful Accounts	8,591	6,897	-	-	-
Other	6,703	8,998	-	-	3,170
Depreciation	18,470	19,045	-	-	99
Total Operating Expenses	<u>293,925</u>	<u>282,022</u>	<u>5,468</u>	<u>6,403</u>	<u>52,644</u>
Operating Loss	(36,560)	(36,282)	(259)	(4,532)	(266)
Nonoperating Revenues (Expenses)					
State Appropriations	33,894	33,568	-	-	-
Federal Grants and Contracts	4,498	4,599	-	-	-
Excess (Deficiency) of Restricted Receipts	(123)	805	-	-	-
Investment Income (Loss)	3,591	(240)	2,171	4,649	412
Interest on Debt	(725)	(389)	-	-	(23)
Total Nonoperating Revenues	<u>41,135</u>	<u>38,343</u>	<u>2,171</u>	<u>4,649</u>	<u>389</u>
Net Gain Before Other Changes	4,575	2,061	1,912	117	123
Other Changes					
Capital Appropriations	771	2,425	-	-	-
Additional Funding for Plant Facilities (Capital Grants & C	2,399	3,129	-	-	-
Addition to Permanent Endowment	-	-	104	39	-
Net Disposal and Write off of Plant Facilities	(1,357)	(2,769)	-	-	-
Total Other Changes	<u>1,813</u>	<u>2,785</u>	<u>104</u>	<u>39</u>	<u>-</u>
Increase in Net Assets	6,388	4,846	2,016	156	123
Net Assets					
Net Assets at Beginning of Year	<u>218,770</u>	<u>213,924</u>	<u>25,510</u>	<u>25,354</u>	<u>3,963</u>
Net Assets at End of Year	<u>\$ 225,158</u>	<u>\$ 218,770</u>	<u>\$ 27,526</u>	<u>\$ 25,510</u>	<u>\$ 4,086</u>

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

	Medical University of Ohio	
	Year Ended June 30	
	2005	2004
Cash Flows from Operating Activities		
Tuition and Fees	\$ 21,674	\$ 17,940
Grants and Contracts	27,931	27,839
Hospital Revenues	187,274	174,467
Miscellaneous Income	3,218	4,105
Auxiliary Enterprises	6,671	6,498
Payments to Employees	(176,127)	(171,616)
Payments for Supplies	(44,999)	(41,721)
Payments for Outside Purchased Services	(33,753)	(29,408)
Other Receipts (Payments)	(11,384)	(9,481)
Net Cash Used in Operating Activities	<u>(19,495)</u>	<u>(21,377)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	33,894	33,568
Grants and Contracts for Other than Capital Purposes	4,498	4,599
Excess (Deficit) of Restricted Receipts	(123)	805
Financial Aid Loan Receipts	23,521	20,530
Financial Aid Loan Disbursements	(23,521)	(20,530)
Net Cash Provided by Noncapital Financing Activities	<u>38,269</u>	<u>38,972</u>
Cash Flows from Capital Financing Activities		
Proceeds from Sale of Bonds	50,000	-
Proceeds from Line of Credit	-	873
Capital Appropriations	771	2,425
Capital Grants and Gifts Received	2,399	3,129
Net Disposal and Write Off of Plant Facilities	(1,357)	(2,789)
Purchases of Capital Assets	(13,028)	(10,866)
Principal Paid on Long-Term Debt	(2,903)	(2,731)
Interest Paid on Long-Term Debt	(725)	(389)
Net Cash Provided by (Used in) Capital Financing Activities	<u>35,157</u>	<u>(10,348)</u>
Cash Flows from Investing Activities		
Net Change in Investments	(58,894)	(4,341)
Income on Investments	3,591	(240)
Net Cash Used in Investing Activities	<u>(55,303)</u>	<u>(4,581)</u>
Net (Decrease) Increase in Cash		
	(1,372)	2,666
Cash and Cash Equivalents Beginning of the Year	4,598	1,932
Cash and Cash Equivalents End of Year	<u>\$ 3,226</u>	<u>\$ 4,598</u>
Reconciliation of Net Operating Revenues (Expenses)		
To Net Cash Provided by (Used in) Operating Activities		
Operating Loss	\$ (36,560)	\$ (36,282)
Adjustments to Reconcile Operating Loss to Net Cash		
Provided by (Used in) Operating Activities:		
Depreciation Expense	18,470	19,045
Provision for Bad Debts	8,591	6,897
Changes in Assets and Liabilities:		
Receivables, Net	(8,963)	(12,376)
Inventories	(1,723)	(480)
Other Assets	(65)	235
Malpractice Accrual	100	900
Accounts Payable	194	103
Accrued Liabilities	23	412
Deferred Revenue	438	169
Net cash Used in Operating Activities	<u>\$ (19,495)</u>	<u>\$ (21,377)</u>

Supplemental disclosure of cash flow information:

During fiscal 2005 and 2004, MUO entered into capital lease obligations of \$472 and \$1,751 respectively, for certain equipment, which additions are also excluded from the statement of cash flows.

**MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005**

(Dollars in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting and Reporting Principles

The accompanying financial statements consist of the Medical University of Ohio (MUO) (formerly known as Medical College of Ohio), Medical University of Ohio at Toledo Foundation (the Foundation) (formerly known as Medical College of Ohio at Toledo Foundation), and Medical College of Ohio Clinical Faculty, Inc (MCOCF) (formerly known as Associated Physicians of Medical College of Ohio). MUO, 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 the accrual basis in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared to incorporate all fund groups internally utilized by MUO.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, MUO 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 MUO's policy to use restricted resources first, then unrestricted resources as needed.

In 2004, MUO retroactively implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which required MUO to reflect the Foundation as a discretely presented component unit in its financial statements based on the significance of its relationship with MUO. 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 MUO's financial reporting entity for these differences.

The Foundation is a legally separate, tax-exempt component unit of MUO. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to MUO in support of its programs. The thirty-one member board of the Foundation is self-perpetuating and consists of graduates and friends of MUO. Although MUO 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 MUO by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of MUO, the Foundation is considered a component unit of MUO and is discretely presented in MUO's financial statements.

MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005

(Dollars in Thousands)

During the years ended June 30, 2005 and 2004, the Foundation distributed \$4,199 and \$5,252, respectively, to MUO 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.

Effective July 1, 2004, MCOCF changed from a for-profit organization to a nonprofit organization affiliated with MUO. MCOCF provides administrative support, billing and collection services for physician services at MUO. Because of the significance of its relationship with MUO, MCOCF is a discretely presented component unit in the 2005 financial statements of MUO. MCOCF reports under FASB Standards. 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 MCOCF's financial information in MUO's financial reporting entity for these differences. Complete financial statements for MCOCF can be obtained from Hortense Nichols, Financial Manager, at 3355 Glendale Avenue, 3rd floor, Toledo, Ohio 43614.

Patient accounts receivable and revenue

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

- **Medicare and Medicaid**

MUO is a provider of services under the Medicare and Medicaid programs. MUO 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. MUO receives payment for other Medicare outpatient services and certain inpatient costs on a reasonable cost basis.

- **Other Payors**

MUO has also entered into payment agreements with certain commercial carriers to provide health care services. The basis for payment to MUO 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 MUO'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

**MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005**

(Dollars in Thousands)

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. MUO 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.

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, 2005</u>	<u>Year Ended June 30, 2004</u>
Traditional charity care	\$ 6,032	\$ 4,825
Unpaid costs of traditional Medicaid programs	4,925	2,394
Unpaid costs of Other Welfare programs	<u>3,975</u>	<u>3,435</u>
 Total Charity and Uncompensated Care	 <u><u>\$ 14,932</u></u>	 <u><u>\$ 10,654</u></u>

Measurement Focus

Operating revenues and expenses generally result from providing service and producing and delivering goods in connection with MUO's principal ongoing operations. The principal operating revenues include hospital services and student tuition. MUO also recognizes as operating revenue grants classified as exchange transactions and auxiliary activities. Operating expenses include the hospital costs, educational costs, administrative expenses 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 carried at market value. Investment income includes realized and unrealized gains and losses on investments, interest income, and dividends.

MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005

(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. MUO capitalizes asset additions 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 fiscal year.

Grants and Contracts

MUO 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. MUO 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

MUO 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 UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005**

(Dollars in Thousands)

NOTE 2 - STATE SUPPORT

MUO 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 MUO's Statement of Net Assets.

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

NOTE 3 - CASH AND INVESTMENTS

Cash balances are combined into one pool for making daily cash and investment transactions.

At June 30, 2005 and 2004, the carrying amount of MUO's unrestricted cash and cash equivalents for all funds was \$3,032 and \$4,404, respectively. Items in transit and outstanding checks cause the difference in the carrying amount and the bank balances of \$7,114 and \$2,662 at June 30, 2005 and 2004, respectively. Of the bank balance, \$100 was covered by federal depository insurance and the remainder is uninsured but collateralized by pools of securities pledged by depository banks and held in the name of the respective banks.

The Board approved MUO's investment policy effective January 24, 2005. The policy establishes investment objectives, strategies and measures for evaluation. MUO's policy complies with the State of Ohio regulations provided by legislation. MUO adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, which requires certain additional disclosures related to the interest rate, credit, foreign currency and custodial risks associated with interest-bearing investments as of June 30, 2005. Currently, MUO has no formal policies related to these risk areas.

MUO's investment policy authorizes the following investments:

- Obligation of the US Treasury and other federal agencies
- Municipal and State bonds
- Certificate of deposit
- Repurchase agreements

**MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005**

(Dollars in Thousands)

- Mutual funds and mutual fund pools
- Money market funds
- Commercial paper
- Bankers acceptances
- Corporate bonds and stock
- Asset backed securities
- Mortgage pools and mortgage related securities
- Guaranteed investment contracts

The cost and fair values, exclusive of accrued interest, of investments at June 30, 2005, consisted of the following:

	2005		2004	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Government/Agency Obligations	\$ 26,669	\$ 26,750	\$ 17,840	\$ 17,793
Corporate Bonds	24,613	24,862	38,831	38,762
Bond Proceeds	43,617	43,756	-	-
Mutual Bond Fund	8,105	8,108	-	-
Mutual Fund Equity	12,000	11,973	-	-
	<u>\$ 115,004</u>	<u>\$ 115,449</u>	<u>\$ 56,671</u>	<u>\$ 56,555</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes interest rates.

As of June 30, 2005, MUO had the following interest-bearing investments and maturities.

MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005

(Dollars in Thousands)

INVESTMENT MATURITIES (IN YEARS)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 thru 5</u>	<u>6 thru 10</u>	<u>More Than 10</u>
U.S. Treasuries	\$ 14,631	\$ 101	\$ 11,579	\$ 2,951	\$ -
U.S. Agencies	12,093	198	7,204	3,069	1,622
Corporate bonds	24,863	76	7,228	5,582	11,977
Mutual bond fund	8,107	-	30	8,047	30
Total	\$ 59,694	\$ 375	\$ 26,041	\$ 19,649	\$ 13,629

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality information – as commonly expressed in terms of the credit ratings issued by the nationally recognized statistical rating organizations such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings – provides a current depiction of potential variable cash flows and credit risk.

The credit ratings of MUO's interest-bearing investments at June 30, 2005 are as follows:

<u>Credit Rating (Moody's Total)</u>	<u>Total</u>	<u>U.S Government Obligations</u>	<u>U.S. Agency Obligations</u>	<u>Corporate Bonds</u>	<u>Bond Mutual Funds</u>
Aaa	\$ 46,958	\$ 14,631	\$ 11,992	\$ 12,948	\$ 7,387
Aa	1,166	-	-	926	240
A	6,603	-	101	6,422	80
Baa	4,887	-	-	4,567	320
Ba	80	-	-	-	80
Total	\$ 59,694	\$ 14,631	\$ 12,093	\$ 24,863	\$ 8,107

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2005, MUO had no exposure to foreign currency risk.

**MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005**

(Dollars in Thousands)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MUO will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

NOTE 4 – ACCOUNTS AND LOANS RECEIVABLE

Accounts receivable and loans 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 \$3,174 and \$300 at June 30, 2005 and 2004, respectively.

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

	2005	2004
Patient	\$ 38,167	\$ 37,984
Tuition, Fees and Student Loans	4,900	5,066
Auxiliary Services	124	57
Grants and Contracts	3,279	2,603
Capital	-	73
Accrued Interest	572	686
Miscellaneous College	2,495	2,492
Miscellaneous Hospital	954	1,158
	\$ 50,491	\$ 50,119

**MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005**

(Dollars in Thousands)

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 was as follows:

	July 1, 2004 <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reallocations</u>	June 30, 2005 <u>Balance</u>
Capital assets, not being depreciated:					
Land	\$ 2,653	\$ -	\$ (300)	\$ -	\$ 2,353
Construction in Progress	<u>3,291</u>	<u>8,239</u>	<u>-</u>	<u>(8,286)</u>	<u>3,244</u>
Total capital assets, not being depreciated	5,944	8,239	(300)	(8,286)	5,597
Capital assets being depreciated:					
Land Improvements	4,769	-	-	356	5,124
Infrastructure	33,009	69	-	449	33,527
Building & Improvements	205,865	182	(47)	3,929	209,930
Equipment	<u>117,829</u>	<u>5,729</u>	<u>(5,015)</u>	<u>3,552</u>	<u>122,094</u>
Total capital assets being depreciated	361,472	5,980	(5,062)	8,286	370,676
Less: accumulated depreciation	<u>216,765</u>	<u>18,470</u>	<u>(4,643)</u>	<u>-</u>	<u>230,592</u>
Total capital assets being depreciated, net	<u>144,707</u>	<u>(12,490)</u>	<u>(419)</u>	<u>8,286</u>	<u>140,084</u>
Total capital assets, Net	<u>\$ 150,651</u>	<u>\$ (4,251)</u>	<u>\$ (719)</u>	<u>\$ -</u>	<u>\$ 145,681</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 6 – WORKERS' COMPENSATION

MUO participates in a State pool of agencies and universities that pays workers' compensation premiums into the State Insurance Fund on a pay-as-you-go basis (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 universities 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 Plan annually fund the worker's compensation liability based on rates set by the Bureau to collect the cash needed in subsequent

**MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005**

(Dollars in Thousands)

fiscal years to pay the worker's compensation claims of participating State agencies and universities.

NOTE 7 - RETIREMENT BENEFITS

MUO contributes to two cost-sharing multiple-employer defined benefit plans: (1) Public Employees Retirement System of Ohio (PERS), and (2) State Teachers Retirement System of Ohio (STRS). Both plans provide retirement, disability, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code (ORC). PERS and STRS issue stand-alone financial reports. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377 for PERS, and 275 East Broad Street, Columbus, Ohio, 43215-3371 or by calling (614) 227-4090 for STRS.

The funding policy for the above plans is as follows:

PERS: The ORC provides statutory authority for employee and employer contributions and administers three separate pension plans as described below:

Traditional Pension Plan – A cost sharing, multiple-employer defined benefit pension plan.

Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulated retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

Combined Plan – a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by PERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulated retirement assets in a manner similar to the Member-Directed Plan.

During 2005, PERS employees contributed 8.5% of their salary to the plan and MUO contributed 13.31% of covered payrolls to the plan. Law enforcement employees contributed 10.1% of their salary and MUO contributed 16.7% of covered payrolls. The total employer contributions to PERS for the years ended June 30, 2003, 2004, and 2005 were \$12,039, \$12,625 and \$13,086, respectively, which were equal to 100% of the required contributions for each year.

STRS: STRS is a statewide retirement plan for licensed teachers and other faculty members and provides a choice of three retirement plan options.

MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005

(Dollars in Thousands)

Defined Benefit Plan (DB Plan) – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated using 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years until 100% of final average salary is reached. For members with 35 or more years of Ohio contribution service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest as specified rates are matched by an equal amount from other STRS funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

Define Contribution Plan (DC Plan) – Benefits are established under Sections 3307.80 to 3307.89 of the ORC. For members who select the DC Plan all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to received the member’s account balance.

Combined Plan – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years 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.

The ORC provides statutory authority for employee and employer contributions. During 2004, STRS employees contributed 10.0% of their salary to the plan and MUO contributed 14.0% of covered payrolls to the plan. The total employer contributions to STRS for the years ended June 30, 2003, 2004, and 2005 were \$3,565, \$3,663 and \$3,535, respectively, which were equal to 100% of the required contributions for each year.

MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005

(Dollars in Thousands)

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement system (ARP) for academic and administrative university employees of public institutions of higher education who are currently covered by the State Teachers Retirement System or Public Employees Retirement System. This plan is a defined contribution plan under IRS section 401(a). The total employer contribution to ARP for the years ended June 30, 2003, 2004, and 2005, were \$1,085, \$1,030 and \$985, respectively.

Employees have 120 days from their employment date to select a retirement plan. A retiree of STRS or PERS is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for the DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

NOTE 8 – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in note 6, the Ohio Revised Code provides the statutory authority requiring MUO to fund postretirement health care through employer contributions to PERS and STRS.

PERS provides postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each

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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 2004 employer contribution rate for state employers was 13.31% of covered payroll; 4.0% was the portion that was used to fund health care for the year. The law enforcement employer rate for 2004 was 16.70% and 4.0% was used to fund health care.

OPEB's are advance-funded on an actuarially determined basis. Summary of assumptions are as follows:

Actuarial Review – The assumptions and calculations were based on the latest actuarial review performed as of December 31, 2003.

Funding Method – A entry age normal actuarial cost method of valuation is used in determining the present value of OPEBs. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assess Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

Investment Return – The investment assumption rate for 2003 was 8%.

Active Employee Total Payroll – An annual increase of 4%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%.

Health Care – Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

At year-end 2004, the number of active contribution participants in the Traditional and Combined Plans totaled 369,885. MUO contributed 13.31% for state employees of which 4% was used to fund health care and 16.7% for law enforcement employees of which 4% was used to fund health care. The total employer contributions to PERS for the year ended June 30, 2005 were \$3,932. The amount of \$10.5 billion represents the actuarial value of PERS' net assets available for OPEB's at December 31, 2003. The actuarial accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the PERS retirement board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures PERS' health care

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coverage to improve the financial solvency of the fund in response to increasing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

STRS provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physician fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the ORC, the STRS board has discretionary authority over how much, if any, of associated health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By Ohio law, the health care benefits are not guaranteed and 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 allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2004, and June 30, 2003, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the year ended June 30, 2004, the net health care costs paid by STRS were \$268,739. There were 112 eligible benefit recipients.

NOTE 9 - LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2005 was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Current</u> <u>Portion</u>
Series 2005 General Receipt Bonds	\$ -	\$ 50,000	\$ -	\$ 50,000	\$ -
Capital Lease Obligations	<u>8,730</u>	<u>472</u>	<u>2,903</u>	<u>6,299</u>	<u>2,494</u>
Total Long-Term Debt	<u>\$ 8,730</u>	<u>\$ 50,472</u>	<u>\$ 2,903</u>	<u>\$ 56,299</u>	<u>\$ 2,494</u>

On March 29, 2005 MUO issued Series 2005 General Receipt Bonds in the amount of \$50 million at a variable rate of interest. Substantially all of the bond proceeds of the Series 2005 Bonds will be used to finance the costs of several projects, which consists of the construction

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and equipping of certain major expansions, renovations, and improvements at MUO's campus in Toledo, including but not limited to an ambulatory care center, and orthopedics center, an outpatient surgical center, an upgrade to MUO's clinical information system to provide for a fully digital environment, and miscellaneous routine capital expenditures. The first construction project to be undertaken using bond proceeds will be the construction and equipping of an Outpatient Surgical Center, which is scheduled to open in early fiscal year 2007.

MUO entered into an interest rate swap agreement on March 29, 2005, effective April 1, 2005, which matures on July 1, 2030 and has a notional amount of \$33,465,000. Based on the swap agreements, MUO now pays a fixed rate of 3.564%. In return, the counterparties owe MUO the variable interest rate on the Series 2005 Bonds based on 67% of the London Interbank Offered Rate. Only the net difference in the interest payments is actually exchanged with the counterparties monthly. If the swap terminated June 30, 2005, MUO would be liable for a termination payment totaling \$2,245. The swap's fair value is estimated using the Second Method and Market Quotation. MUO will be exposed to variable rates only if the counterparties to the swap default or if MUO terminates the swap agreement.

The following table sets forth the principal amounts required to be paid by MUO during each of the five fiscal years subsequent to June 30, 2005, and subsequent periods thereafter for the payment of the principal on the outstanding Series 2005 Bonds.

<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$ -	\$ 350	\$ 350
-	1,431	1,431
-	1,459	1,459
-	1,430	1,430
860	1,429	2,289
8,615	6,580	15,195
10,290	5,249	15,539
12,290	3,660	15,950
<u>17,945</u>	<u>1,855</u>	<u>19,800</u>
<u>\$ 50,000</u>	<u>\$ 23,443</u>	<u>\$ 73,443</u>

MUO has master lease obligations with financial institutions and other lease obligations to finance a linear accelerator, water chiller, radiology imaging center and other equipment with various monthly payments and due dates at interest rates ranging from 2.98% to 4.95%. The initial cost of these assets approximated \$12.5 million, which has been recorded in 2002 through 2005. MUO has \$194 of remaining funds in escrow related to certain master lease obligations, which is included in restricted cash and cash equivalents.

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Minimum lease payments at June 30, 2005, by year and in the aggregate, under capital leases are as follows:

	Other Lease Obligations	Master Lease Purchase Obligations
2006	\$ 16	\$ 2,699
2007	9	2,102
2008	4	1,164
2009	-	724
	<hr/>	<hr/>
Net minimum lease payments	29	6,689
Less amounts representing interest	<hr/> (2) <hr/>	<hr/> (417) <hr/>
Present value of lease payments	<hr/> <u>\$ 27</u> <hr/>	<hr/> <u>\$ 6,272</u> <hr/>

Contracts have been entered into for capital construction projects in an amount approximating \$15,328. The estimated cost to complete construction in progress at June 30, 2005 is \$762, the majority of which will be funded by capital appropriations from the State of Ohio.

MUO leases certain facilities and data processing, patient care and other equipment under various non-cancelable operating lease agreements. Total operating lease expense was \$568 in 2005 and \$579 in 2004. At June 30, 2005, MUO was committed to future minimum operating lease payments of \$344 in 2006, \$344 in years 2007 through 2008, \$318 in 2009, and \$102 in 2010.

At the expiration of various patient care equipment leases, MUO 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 - MEDICAL PROFESSIONAL LIABILITY

MUO is self-insured for the first \$2,000 of loss per occurrence with an annual aggregate limit of \$4,000 for medical professional liability 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, MUO maintains a revocable 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, 2005. These investments are held in

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safekeeping by MUO's custodial bank's trust department. These securities are registered in the bank's name with internal bank records identifying MUO's ownership.

At June 30, 2005 and 2004, MCO has accrued \$4,000 discounted at 4% and \$3,900 discounted at 6%, respectively, for asserted and unasserted claims, based on MUO's experience and studies performed by a consulting actuary. With respect to pending malpractice claims and legal action where MUO is a defendant, it is the opinion of management that any potential liability in such actions will not materially affect the financial position of MUO. Settlements have not exceeded insurance coverage in each of the past three years.

	June 30, 2005	June 30, 2004
Medical Professional Liability at the Beginning of Year	\$ 3,900	\$ 3,000
Provision for Incurred Claims	217	922
Payments for Claims	(117)	(22)
Medical Professional Liability at the End of Year	\$ 4,000	\$ 3,900

In August 2005, MUO created a captive insurance company, Medical University of Ohio Assurance Company SPC, through a trust that is controlled by the Board of Trustees of MUO. The captive will provide an insurance vehicle for the insurance needs of MUO, its staff and affiliated physicians. The captive does not impact the presentation of the fiscal 2005 financial statements and will be blended in MUO's results for fiscal 2006.

**MEDICAL UNIVERSITY OF OHIO
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2005**

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NOTE 11 – OPERATING EXPENSES

Operating expenses by functional category for the years ended June 30, 2005, and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Patient Services	\$ 172,155	\$ 160,439
Instruction	51,133	45,442
Depreciation	18,470	19,045
Research	16,022	18,611
Operation and Maintenance of Plant	10,351	9,270
Provision for Doubtful Accounts	8,591	6,897
Institutional Support	8,421	11,775
Academic Support	3,130	3,067
Auxillary Enterprises	2,201	2,986
Scholarships and Fellowships	1,319	1,224
Public Service	1,110	1,200
Student Services	1,022	2,066
Total Operating Expenses	<u>\$ 293,925</u>	<u>\$ 282,022</u>

NOTE 12 – UNIVERSITY MEDICAL CENTER

The audited financial statements include the activity of the University Medical Center (the UMC) as of and for the year ended June 30, 2005. UMC is a nonprofit teaching hospital located in Toledo, Ohio. UMC is licensed to operate 258-bed acute and ambulatory care facility, a 25-bed child and adolescent psychiatric facility and a 36-bed rehabilitation facility. UMC is operated as part of MUO, a non-profit, state-supported medical school, which is a component unit of the State of Ohio.

UMC had 2005 total revenues of \$197,600 and 2005 total expenses and transfers to support MUO of \$193,900, leaving a net margin of \$3,700. At June 30, 2005, UMC had \$115,491 of net assets. In addition, approximately \$60,000 of the cash and investments of MUO are attributable to UMC.

Medical University of Ohio
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2005

AGENCY	CFDA #	AGENCY NUMBER	FY2005
STUDENT FINANCIAL AID			
Federal Work Study Program	84.033	PO33A033313	\$ 53,839.82
Federal Work Study Program	84.033	PO33A033313	(37,749.61)
Federal Work Study Program	84.033	PO33A033313	170,726.57
Federal Perkins Loan Program Federal Capital Contributions	84.038		93,701
Total Student Financial Aid			\$ 280,517.78
RESEARCH & DEVELOPMENT			
Bureau of Land Management	15.222	R0308276	825.09
Bureau of Land Management	15.222	AA040011	80,490.74
Military Medical Research and Development	12.420	DAMD170210530	33,226.12
Military Medical Research and Development	12.420	DAMD170210531	170,314.23
Military Medical Research and Development	12.420	DAMD17030573	34,544.98
Military Medical Research and Development	12.420	W81XWH0410062	69,419.98
Military Medical Research and Development	12.420	W8ASWH0410493	124,255.49
Department of Health and Human Services:			
National Cancer Institute			
National Cancer Institute	93.000	CN85147	(20.00)
National Cancer Institute	93.000	CN85166	17,133.19
National Cancer Institute	93.000	CN05109	2,236.64
National Cancer Institute	93.000	N01CN05121	126,774.61
National Cancer Institute	93.000	N01CN15125	17,446.97
National Cancer Institute	93.000	N01CN15121	127,712.74
National Cancer Institute	93.000	N01CN15111	241,537.64
National Cancer Institute	93.000	CN25103	75,313.79
National Cancer Institute	93.000	CN25106	86,168.79
National Cancer Institute	93.000	CN25117	171,078.43
National Cancer Institute	93.000	CN25126	80,290.47
National Cancer Institute	93.000	CN35116	205,474.54
National Cancer Institute	93.000	HHSN261200433000C	38,759.21
National Cancer Institute	93.000	261200433000C	147,168.00
National Cancer Institute	93.000	261200433000C	268,345.00
National Institutes of Health			
Cancer Research Manpower	93.398	CA07945005	7,445.89
Research Related to Deafness and Communication Disorders	93.173	DC005421-02	26,959.05
Digestive Diseases and Nutrition Research	93.848	DK066005501	97,546.98
Research Related to Deafness and Communication Disorders	93.173	DC0255008	(10,643.88)
Occupational Safety and Health Training Grants	93.262	R03OH00800001A1	55,593.89
Occupational Safety and Health Training Grants	93.262	OH00800002	19,888.15
Drug Abuse Research Programs	93.277	DA01555301A1	5,529.30
Drug Abuse Research Programs	93.277	KDA015553A	109,470.73
Drug Abuse Research Programs	93.279	DA1533615	(4,220.22)
Drug Abuse Research Programs	93.279	DA01533616	267,514.05
Drug Abuse Research Programs	93.279	DA01533617	84,866.18
Drug Abuse Research Programs	93.279	DA01832401A1	22,237.55
Drug Abuse Research Programs	93.279	DA0407514	(343.08)
Drug Abuse Research Programs	93.279	DA0407515	192,345.50
Comparative Medicine	93.306	RR01771801	(21,878.19)
Comparative Medicine	93.306	RR01771802	66,968.13
Nursing Research	93.361	NR0765002	(313.11)
Nursing Research	93.361	NR0765003	180,316.63
National Center for Research Resources	93.389	RR01939001	15,130.11
Cancer Cause and Prevention Research	93.393	CA8441205	(23,398.74)
Cancer Cause and Prevention Research	93.393	CA08441206	267,928.83
Cancer Cause and Prevention Research	93.393	CA10396401	145,921.12
Cancer Cause and Prevention Research	93.393	CA10396402	270,464.46
Cancer Cause and Prevention Research	93.393	CA106575-01	112,533.42
Cancer Cause and Prevention Research	93.393	CA10657502	87,842.05
Cancer Detection and Diagnosis Research	93.394	CA8514704	0.02
Cancer Detection and Diagnosis Research	93.394	CA08514705	5,949.23
Cancer Detection and Diagnosis Research	93.394	CA95806	-
Cancer Detection and Diagnosis Research	93.394	CA09580602	(19,790.60)
Cancer Detection and Diagnosis Research	93.394	CA09580603	159,063.09
Cancer Detection and Diagnosis Research	93.394	CA09580604	24.40
Cancer Detection and Diagnosis Research	93.394	CA103594-01A1	114,338.33
Cancer Detection and Diagnosis Research	93.394	CA95806	99,145.10

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AGENCY	CFDA #	AGENCY NUMBER	FY2005
Cancer Treatment Research	93.395	CA09052403	(1,583.83)
Cancer Treatment Research	93.395	CA09052404	187,410.65
Cancer Treatment Research	93.395	CA09052405	135,925.39
Cancer Treatment Research	93.395	CA09289003	3,400.60
Cancer Treatment Research	93.395	CA10962501	107,386.35
Cancer Biology Research	93.396	CA8018305A1	10,797.15
Cancer Biology Research	93.396	CA7984005	15,158.42
Cancer Biology Research	93.396	CA3456922	1.08
Cancer Biology Research	93.396	CA3456923	150,335.02
Cancer Biology Research	93.396	CA09814101A1	(1,421.94)
Cancer Biology Research	93.396	CA09814102	250,869.59
Cancer Research Manpower	93.398	CA078534-06	43,380.57
Cancer Control	93.399	CA9612902	(26.57)
Heart and Vascular Diseases Research	93.837	HL6427004	3,392.06
Heart and Vascular Diseases Research	93.837	HL6323804	91,997.83
Heart and Vascular Diseases Research	93.837	HL06529004	5,940.49
Heart and Vascular Diseases Research	93.837	HL2017627	249,520.30
Heart and Vascular Diseases Research	93.837	HL2017628	397,430.46
Heart and Vascular Diseases Research	93.837	HL6699803	94,155.06
Heart and Vascular Diseases Research	93.837	HL6727603	146,297.40
Heart and Vascular Diseases Research	93.837	HL06727604	187,385.71
Heart and Vascular Diseases Research	93.837	GL6796302	53,273.63
Heart and Vascular Diseases Research	93.837	HL06796303	318,006.23
Heart and Vascular Diseases Research	93.837	HL06899401A1	(1,650.06)
Heart and Vascular Diseases Research	93.837	HL06899402	166,006.61
Heart and Vascular Diseases Research	93.837	HL06899403	208,692.94
Heart and Vascular Diseases Research	93.837	HL07155601A1	900,349.08
Heart and Vascular Diseases Research	93.837	HL07155602	114,094.86
Heart and Vascular Diseases Research	93.837	HL07541401A1	264,239.52
Heart and Vascular Diseases Research	93.837	HL07541402	2,835.52
Heart and Vascular Diseases Research	93.837	HL3657316	(550.39)
Heart and Vascular Diseases Research	93.837	HL03657317	679,503.09
Heart and Vascular Diseases Research	93.837	HL03657318	793,795.01
Lung Diseases Research	93.838	HL06942503	12,263.41
Lung Diseases Research	93.838	HL06942504	227,959.92
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR4806002	(106.09)
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR4806003	10,157.74
Diabetes, Endocrinology and Metabolism Research	93.847	DK5425404	(2,340.50)
Diabetes, Endocrinology and Metabolism Research	93.847	DK5425405	51,017.69
Diabetes, Endocrinology and Metabolism Research	93.847	DK6086202	58,371.25
Diabetes, Endocrinology and Metabolism Research	93.847	DK06499201	323.32
Diabetes, Endocrinology and Metabolism Research	93.847	DK06499202	117,117.19
Digestive Diseases and Nutrition Research	93.848	DK06605502	28,247.96
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS047653-01	72,512.45
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS04765302	50,521.92
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.854	NS4064404	(2,164.15)
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.854	NS4064405	289,054.36
Allergy, Immunology and Transplantation Research	93.855	AI0435245	(45,343.60)
Allergy, Immunology and Transplantation Research	93.855	AI04352406	196,574.14
Allergy, Immunology and Transplantation Research	93.855	AI043524	4,205.41
Microbiology and Infectious Diseases Research	93.856	AI04568603	82,562.90
Microbiology and Infectious Diseases Research	93.856	GM5147102	(15,889.32)
Microbiology and Infectious Diseases Research	93.856	AI05147103	223,816.50
Microbiology and Infectious Diseases Research	93.856	AI05147104	68,664.37
Microbiology and Infectious Diseases Research	93.856	AI5147702	72,303.99
Microbiology and Infectious Diseases Research	93.856	AI5147702	139,218.51
Microbiology and Infectious Diseases Research	93.856	AI054716-01A2	182,322.75
Microbiology and Infectious Diseases Research	93.856	AI05757101A2	2,117.53
Microbiology and Infectious Diseases Research	93.856	AI06596001	1,037.59
Microbiology and Infectious Diseases Research	93.856	AI1914913	317.84
Microbiology and Infectious Diseases Research	93.856	AI011914919	412,701.28
Microbiology and Infectious Diseases Research	93.856	AI1914920	216,960.45
Biomedical Research and Research Training	93.859	GM02528031	173,763.33
Biomedical Research and Research Training	93.859	GM02528032	128,216.74
Biomedical Research and Research Training	93.859	GM06476704	3,067.69
Biomedical Research and Research Training	93.859	GM06476705	146,380.81
Biomedical Research and Research Training	93.859	GM06476706	70,881.96
Biomedical Research and Research Training	93.859	GM06476503	295,038.23
Genetics and Development Biology Research	93.862	GM5644805	(721.26)
Genetics and Development Biology Research	93.862	GM06476502	(4,227.30)
Population Research	93.864	HD02442514	(46,537.96)

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AGENCY	CFDA #	AGENCY NUMBER	FY2005
Child Health and Human Development Extramural Research	93.865	HD02442515	166,735.25
Child Health and Human Development Extramural Research	93.865	HD043171-02	51,942.74
Aging Research	93.866	AG015978-04	(2,058.92)
Aging Research	93.866	AG1597805	199,956.79
Center for Medical Rehabilitation Research	93.929	HD03979103	(2,466.63)
Center for Medical Rehabilitation Research	93.929	HD03979104	201,778.91
Center for Medical Rehabilitation Research	93.929	HD04025402	9,129.31
Diabetes, Endocrinology and Metabolism Research	93.847	DK4386711	(2,086.00)
Diabetes, Endocrinology and Metabolism Research	93.847	DK-4386712	78,651.84
Diabetes, Endocrinology and Metabolism Research	93.847	DK04386713	174,027.93
National Institutes of Health	93.263005	26300050907	(5,914.08)
National Institutes of Health	93.263005	26300050907	6,112.96
National Institutes of Health	93.263005	2630005090705	48.69
National Institutes of Health	93.000	19277404	382.82
National Institutes of Health	93.000	N01DK02400	(2,420.56)
Pass through:			
Department of Health and Human Services			
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS3716704	(2,256.17)
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	412567G	2,275.75
Heart and Vascular Diseases Research	93.837	HL6374701A2	33,215.97
Heart and Vascular Diseases Research	93.837	03MYO011	2,296.37
Oral Diseases and Disorders Research	93.121	DE0773419	85,655.47
Oral Diseases and Disorders Research	93.121	DE0773419	74,549.55
Oral Diseases and Disorders Research	93.121	DE0773418	(12.40)
Oral Diseases and Disorders Research	93.121	DE0773419	78,099.54
Microbiology and Infectious Diseases Research	93.856	AI5091002	73,206.86
Cancer Treatment Research	93.395	CA7658106	(1,145.02)
Cancer Treatment Research	93.395	CA7658107	35,880.61
Oral Diseases and Disorders Research	93.121	DE1475602	(4,731.64)
Oral Diseases and Disorders Research	93.121	DE1475603	116,977.07
Oral Diseases and Disorders Research	93.121	DE1475604	125.58
Microbiology and Infectious Diseases Research	93.856	N2003121	(2,177.01)
National Institutes of Health	93.000	C1131902	7,139.68
Microbiology and Infectious Diseases Research	93.856	1A101A1	15,861.20
Cancer Treatment Research	93.395	CA9854301	60.23
Cancer Treatment Research	93.395	CA9854302	17,043.66
Cancer Treatment Research	93.395	CA09567301A1	65,303.71
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS04437001A2	1,374.30
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS04437001A2	42,137.06
Allergy, Immunology and Transplantation Research	93.855	AI5049804	5,038.59
Cancer Cause and Prevention Research	93.393	CA07261304	6,978.02
Cancer Cause and Prevention Research	93.393	CA07261305	1,886.30
National Institutes of Health	93.000	051PS	156.26
Specially Selected Health Projects	93.888	6D1BTH03740101	21,314.13
Cancer Treatment Research	93.395	CA10284702	1,199.52
Allergy, Immunology and Transplantation Research	93.855	AI05049805	17,571.65
Cancer Control	93.399	2U10CA3541517	1,077.00
Microbiology and Infectious Diseases Research	93.856	A13723209	96,881.74
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS3343009	3,460.90
Research Related to Deafness and Communication Disorders	93.173	DC0325807	(3,356.85)
Cancer Cause and Prevention Research	93.393	CA7692305	(20,141.12)
Lung Diseases Research	93.838	N01HC95181	(4.00)
Lung Diseases Research	93.838	N01HC95181	(285.06)
Lung Diseases Research	93.838	N01HC9518105	156,643.19
Lung Diseases Research	93.838	N01HC9518106	192,352.47
Lung Diseases Research	93.838	1HC9518105	3,064.25
Department of Defense			
Military Medical Research and Development	12.420	2000106400	3,609.08
Total Research and Development			15,251,795.39

OTHER:

Department of Health and Human Services

Model State-Supported Area Health Education Centers	93.107	HP0302909	3,049.54
Model State-Supported Area Health Education Centers	93.107	U77HP030291000	563,878.13
Model State-Supported Area Health Education Centers	93.107	U77HP03029110	328,687.92
Grants for Training in Primary Care Medicine and Dentistry	93.884	HP0002004	(7,405.83)

**Medical University of Ohio
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005**

AGENCY	CFDA #	AGENCY NUMBER	FY2005
Grants for Training in Primary Care Medicine and Dentistry	93.884	HP0002005	131,685.19
Advanced Education Nursing Traineeships	93.358	HP0000404	(200.00)
Advanced Education Nursing Traineeships	93.358	A10HP000040500	22,050.00
Occupational Safety and Health Training Grants	93.263	CCT51884102	109.00
Occupational Safety and Health Training Grants	93.263	CCT51884103	(2,536.41)
Occupational Safety and Health Training Grants	93.263	OCCT52399901	58,423.58
Academic Administrative Units in Primary Care	93.984	HP0009603	63,166.34
Allied Health Special Projects	93.191	HP0085602	(5,476.55)
Allied Health Special Projects	93.191	D37HP0085603	127,658.79
Grants for Training in Primary Care Medicine and Dentistry	93.884	D58HP033690100	64,104.64
Drug Abuse National Research Service Awards	93.278	DA00604104	(98.74)
Drug Abuse National Research Service Awards	93.278	DA01414204	31,463.65
Drug Abuse National Research Service Awards	93.278	DA01414205	5,870.14
National Institutes of Health	93.000	030SP116544	9,295.08
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	HA23012040	57,134.56
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	H12HA230120500	382,669.76
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	HA0073202	434.57
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	HA007320300	332,198.83
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA007320400	86,857.36
National Science Foundation			
EDUCATION AND HUMAN RESOURCES	47.076	DUE0442779	11,216.92
Pass through:			
Biological Response to Environmental Health Hazards	93.113	44011285272	(1,592.48)
Biological Response to Environmental Health Hazards	93.113	5R25ES1070503	21,251.67
Geriatric Education Centers	93.969	HP7011305	1,140.00
Department of Health and Human Services	93.000	N10100701	28,403.54
Department of Health and Human Services	93.000	Y2005173	3,231.67
Special Education Grants for Infants and Families with Disabilities	84.181	4840011DD03	(1,322.08)
Special Education Grants for Infants and Families with Disabilities	84.181	4840011DD04	9,060.53
Special Education Grants for Infants and Families with Disabilities	84.181	4840011HB05	24,330.22
HIV Prevention Activities Health Department Based	93.940	220508	(5,798.93)
HIV Prevention Activities Health Department Based	93.940	220509	24,604.63
HIV Prevention Activities Health Department Based	93.940	S2005170	10,147.75
Maternal and Child Health Services Block Grant	93.994	S2005136	22,701.75
Block Grants for Community Mental Health Services	93.958	MCOCOE02	(107.75)
Block Grants for Community Mental Health Services	93.958	MCOCOE04	3,384.33
Block Grants for Community Mental Health Services	93.958	MCO4CCOE	210,665.27
Temporary Assistance for Needy Families	93.558	N10038401	(1,600.00)
National Family Caregiver Support	93.052	F2004188	33,387.22
Maternal and Child Health Services Block Grant	93.994	4840011AU04	8,536.51
Maternal and Child Health Services Block Grant	93.994	4840011AU05	147,160.65
Total Other			2,801,820.97
Community Mental Health Services-Federal	93.958		779,196.39
Total Expenditures of Federal Awards			\$ 19,113,330.53

MEDICAL UNIVERSITY OF OHIO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2005

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Medical University 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 State, 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 University 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 University 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 ending June 30, 2005, totaled \$18,785,172.

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 University of Ohio is responsible for administering the program, including the approving, disbursing, and collecting of the loans. Since July 1, 1993, Health Professions Student Loan funds have been awarded in the form of Primary Care Loans and Loans for Disadvantaged Students. As of June 30, 2005, outstanding loans under both programs totaled \$930,478.

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 University of Ohio is responsible for administering the program, including the approving, disbursing, and collecting of loans. As of June 30, 2005, outstanding Perkins loans totaled \$3,518,560.

REPORT OF INDEPENDENT AUDITORS 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 University of Ohio

We have audited the financial statements of the Medical University of Ohio (formerly known as Medical College of Ohio), a component unit of the State of Ohio, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. We did not audit the financial statements of the discretely presented component units. These financial statements were audited by other auditors whose report was furnished to us and our opinion, in so far as it relates to the amounts included for the Medical University of Ohio for the discretely presented component units are based solely on the report of the other auditors. 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

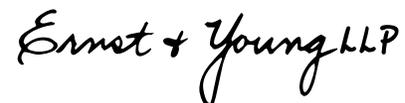
In planning and performing our audit, we considered the Medical University of Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical University 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 or other matters that are required to be disclosed under *Government Auditing Standards*.

We noted certain matters that we reported to management of Medical University of Ohio in a separate cover letter dated October 7, 2005.

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.



October 7, 2005

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Medical University of Ohio

Compliance

We have audited the compliance of the Medical University of Ohio (formerly known as 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, 2005. The Medical University 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 University of Ohio's management. Our responsibility is to express an opinion on the Medical University 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 University 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 University of Ohio's compliance with those requirements.

In our opinion, the Medical University 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, 2005.

Internal Control Over Compliance

The management of the Medical University 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 University of Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



October 7, 2005

MEDICAL UNIVERSITY OF OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2005

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 no
- (iii) Noncompliance material to financial statements noted? yes X no

Federal and State Awards Section

- (viii) Dollar threshold used to determine Type A programs: \$706,871
- (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 no
- (vi) Any audit findings disclosed that are required to be reported
in accordance with Circular A-133 (Section .510(a))? yes X no
- (vii) Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.958	Community Mental Health Services
Various	Student Financial Assistance Cluster

Part II - Schedule of Financial Statement Findings

None

Part III - Schedule of Federal Award Findings and Questioned Costs

None



**Auditor of State
Betty Montgomery**

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MEDICAL UNIVERSITY 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
DECEMBER 6, 2005**